TELECOM ITALIA S P A
Form 6-K
July 10, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15D-16

UNDER THE SECURITIES EXCHANGE ACT OF 1934

FOR THE MONTH OF APRIL 2012

Telecom Italia S.p.A.

(Translation of registrant s name into English)

Piazza degli Affari 2

20123 Milan, Italy

(Address of principal executive offices)

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

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

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

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information

to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934. YES ¨ NO x

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

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

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

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

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

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

- our ability to successfully achieve our debt reduction targets;

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

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

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

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

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

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

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

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

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

- the impact of fluctuations in currency exchange and interest rates;

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

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

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

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

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

Annual Report
2011

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This document has been translated into English solely for the convenience of the readers.

In the event of a discrepancy, the Italian language version prevails.

Board of Directors

At December 31, 2011, the board of directors of Telecom Italia is composed of the following 15 directors:

Executive Chairman	Franco Bernabè
Deputy Chairman	Aldo Minucci
Managing Director and Chief Operating Officer	Marco Patuano
Directors	César Alierta Izuel
	Tarak Ben Ammar
	Lucia Calvosa (independent)
	Elio Cosimo Catania (independent)
	Massimo Egidi (independent)
	Jean Paul Fitoussi (independent)
	Gabriele Galateri di Genola
	Julio Linares López
	Gaetano Micciché
	Renato Pagliaro
	Mauro Sentinelli (independent)
	Luigi Zingales (independent)
Secretary to the Board	Antonino Cusimano

Board of Statutory Auditors

The board of statutory auditors of Telecom Italia was elected by the shareholders meeting held on April 8, 2009 and will remain in office until the approval of the 2011 annual financial statements.

The board of statutory auditors is composed as follows:

Chairman	Enrico Maria Bignami
Acting Auditors	Gianluca Ponzellini
	Lorenzo Pozza

	Salvatore Spiniello
	Ferdinando Superti Furga
Alternate Auditors	Silvano Corbella
	Maurizio Lauri
	Vittorio Giacomo Mariani
	Ugo Rock

Letter to the Shareholders

To the Shareholders,

2011 was a difficult year for the global economy and, to an even greater extent, for the Italian economy, which became entangled in the sovereign debt crisis.

The increase in the cost of capital, resulting from the rise in interest rates, led to a downward revision of the present value of future cash flows used to determine the value of goodwill, which also had repercussions on Telecom Italia. Consequently, it proved necessary to write down a part of the goodwill which arose following the Olivetti/Telecom Italia operations of 1999 and 2003 and the acquisition of TIM s minority shares in 2005.

However, the writedowns did not affect business and operational results which, on the contrary, improved yet again. In 2011, Telecom Italia s market share in mobile telephone lines once more began to grow, gaining in the last two quarters of the year almost half a percentage point.

At the same time, there was less erosion of Telecom Italia s market share in the sphere of fixed telephone services.

In Brazil, the results exceeded all expectations, with an increase in revenues of 18% favoring a significant rise in operating profit, with a market share which, in terms of lines, reached 26.5% and which, during the last 12 months, registered an increase of almost 1.5 percentage points. Moreover, in 2011, we brought to a close the acquisition of Aes Atimus. Thanks to the Aes Atimus fiber optic network, re-christened TIM Fiber, it will be now possible to develop further the mobile network and, at the same time, offer fixed network services, Including ultra-broadband services, in the two most important areas of the country, which generate almost one quarter of Brazilian GDP.

In Argentina, too, the relaunch and consolidation of the Telecom Argentina Group continues and a very positive year closes with 26% higher revenues and a significant increase in operating profit. The number of lines rose by more than two million, growing the market share by more than one percentage point.

At the Group level, the deleverage process continued. This has made it possible to reduce consolidated debt year-over-year by 1 billion euros and over three years by more than 4 billion euros, amply fulfilling the objectives laid down in the 2008 business plan. It is particularly significant that the reduction in the level of debt has been achieved, despite the investments of almost 2 billion euros made for the acquisition of the frequencies for the LTE mobile networks and for the acquisition of Aes Atimus.

These investments are of strategic importance for the future, since they allow a further strengthening of our position in Brazil and, at the same time, make it possible to expand the range of services offered in Italy.

Despite these investments and future commitments to develop ultra-broadband networks, the Group s deleverage process is sustainable in terms of the Group s capacity to generate cash flow. Considering the sovereign debt crisis and the considerable increase of the spreads in the Italian debt, the Board of Directors has thus decided to reduce the amount of resources available for dividends in the three-year period, with the aim of safeguarding the Group s rating, that is, the rating issued by the agencies with regard to the sustainability of a company s level of debt. Notwithstanding this, we believe that the dividends established for the current year will reflect a level of remuneration in line with that offered by other large international telecommunications groups.

Reducing the level of debt is a fundamental step for our Group. We must continue to reduce the burden which is weighing heavily on the future prospects of the Group and is suffocating its ambitions with regard to future growth. The results achieved in this area over the last three years, in an extremely challenging economic and financial context, make us confident that we can also achieve the ambitious objectives we have set ourselves for the next three years.

The aim is to reach the year 2015 with a level of debt that can be regarded as normal , in other words, a level of debt which, from the point of view of our capacity to generate cash flow, is absolutely in line with, if not better than, that of other large international telecommunications groups.

In conjunction with the progress made on the debt front, we have achieved significant progress in terms of the relaunch of commercial activities and more efficient management of the processes and, more generally, growth strategies.

Our aims have not changed: we intend to continue our action to consolidate the domestic market, promote growth in Latin America and encourage continuous improvements in the efficiency of management and productive processes. In addition, we nurture a strong innovative drive with regard to future developments in the sector, which Telecom Italia must look at and invest in, as one of the world s leading international telecommunications companies.

We intend to achieve all of this with maximum respect for the professional and ethical values of a company that is socially aware, and able to play a crucial part, shouldering its responsibilities in helping to develop the countries where it operates, and when dealing with its partners and customers. The Group therefore conducts its affairs, and will continue to do so, in a correct, transparent way, open to confrontation and dialog with the institutions, organizations on behalf of society and competitors.

On this solid basis of ethical priorities, the Group is continuing along the path of relaunching it activities begun more than three years ago, a path which has brought much satisfaction, despite the presence of an overall negative economic scenario which does not appear likely to improve in the short term. We are confident that, with commitment and hard work on everybody s part, we shall succeed in restoring the capacity of Telecom Italia Group to create the value, which our shareholders expect.

Franco Bernabè

Key Operating and Financial Data   Telecom Italia Group

Highlights 2011

- In a macroeconomic and market climate marked by deceleration in higher growth economies and fears of a recession in mature ones, the Group reaches all its 2011 targets in terms of revenues and earnings and also a reduction in net financial debt.

- The enormous effort to improve efficiency, especially in the Domestic market, brings operating free cash flow to 5,767 million euros in 2011 notwithstanding the investment of 1.2 billion euros for the acquisition of LTE mobile frequencies in Italy. Excluding this investment, operating cash flow generated by the Group improves from last year to about 7 billion euros.

- The greater focus on investments, equal to about 6.1 billion euros, including LTE frequencies acquired in the last quarter, did not stand in the way of reducing adjusted net debt which falls by more than 1 billion euros compared to December 31, 2010 and totals 30.4 billion euros at the end of the year.

- The strengthening process continues in markets which have better development potential and will produce a growth in results for the Group. Thanks to the consolidation of Argentina and the strong advances made by Brazil, consolidated revenues gain 8.7% over the prior year (+2.7% in organic terms), reaching 30 billion euros.

- The change in earnings is also positive: EBITDA, although hurt by the negative trend of the domestic business (-3.9% compared to the prior year in organic terms) still grew over last year by 7.3% (stable in organic terms) thanks to the contribution of international operations.

- In 2011, operations in South America, in organic terms, account for 35% of sales and 16% of the operating cash flow (EBITDA-Capex) of the Group.

- The Domestic market continues to feature a declining business trend due to the difficult macroeconomic picture and is accentuated in the last quarter by financial pressure which particularly involves the countries of southern Europe. Nevertheless, the competitive repositioning begun last year and the positive change from data services and evolved handset sales in the mobile area lead progressively to a slowdown in the decline of revenues compared to the prior year; in the last quarter -2% (-5.7% for the first nine months of 2011).

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As for Goodwill allocated to Core Domestic, the results of the impairment test indicate an overall impairment charge of 7.3 billion euros, mainly due to the deterioration of the parameters of reference in the financial markets and a general decline in the macroeconomic scenario. Such Goodwill, which originated during the period 1999-2005 after acquisition operations and the shortening of the chain of control of the Company, is recalculated at 34.2 billion euros. As a result of the impairment test, the Goodwill of the Media Business Unit is also written down for 57 million euros. The Goodwill impairment charges have no financial consequences and therefore no effect on the direction of deleveraging already announced to the market.

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Such impairment charges are reflected in the negative EBIT of 603 million euros and the Loss attributable to owners of the Parent of 4,726 million euros. Organic EBIT is 6,808 million euros (+5.1% compared to 2010), while the Profit attributable to owners of the Parent, on a comparable basis excluding the impact of the goodwill impairment charge and other non-recurring items would be 2.6 billion euros in 2011, in line with that of 2010, also in comparable terms.

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The Parent, Telecom Italia S.p.A., reports a loss of 3,571 million euros. In comparable terms excluding the impact of the goodwill impairment charge and other non-recurring items the Profit would be 1.8 billion euros in 2011.

The performance of the main financial indicators for 2011

The trend of the key operating and financial indicators for the year and the fourth quarter of 2011 can be summarized as follows:

Consolidated Reported Revenues: in 2011 are 29,957 million euros with a positive change of 8.7% (+2,386 million euros). The increase is due to the Latin America operations which benefit from the entry of the Argentina Business Unit in the scope of consolidation for the full year, and the positive performance by the Brazil Business Unit (7,343 million euros, +1,144 million euros compared to 2010, or +18.5%). The change in consolidated Organic Revenues(1) in 2011 comes to +2.7%, displaying a trend of constant improvement during the year; consolidated Organic Revenues for the fourth quarter of 2011 in fact recorded a 5.0% increase compared to the fourth quarter of 2010.

More to the point:

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the organic reduction in Domestic Business Unit Revenues in 2011 is 4.8% (-2.1% in the fourth quarter of 2011); as for revenues by customer segment, 2011 records a reduction of 5.0% in the Consumer segment, a contraction of 6.9% in the Business segment and 5.4% in the Top Clients segment.

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Revenues in Brazil show organic growth of 18.2% compared to 2010 (+1,129 million euros); in the fourth quarter of 2011, organic revenue growth is 20.0% (+325 million euros).

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Revenues in Argentina increase 26.5% in organic terms compared to 2010 (+674 million euros); in particular, Revenues of the Mobile business are up 32.3% while the Fixed area expands by 15.0%. For the fourth quarter of 2011, organic revenue growth is 24.1% (+174 million euros).

Consolidated Reported EBITDA: grows 834 million euros (from 11,412 million euros in 2010 to 12,246 million euros in 2011); a positive contribution to this result is made by the entry of the Argentina Business Unit in the scope of consolidation for the entire year; for the fourth quarter of 2011, EBITDA increases 4.6% (+134 million euros). The consolidated Reported EBITDA margin falls 0.5 percentage points to 40.9% in 2011 (41.4% in 2010). The consolidated Organic EBITDA Margin is down 1.1 percentage points to 41.2% in 2011 (42.3% in 2010). Such performance is linked to the higher contribution to revenues by South America, where margins are lower than those of the Domestic Business, as well as the increase in sales of mobile handsets, aimed at a greater penetration of data services. In terms of the amount, organic EBITDA is 12,339 million euros (12,335 million euros in the prior year); in the fourth quarter of 2011, organic EBITDA is 3,105 million euros, up 3.3% compared to 3,006 million euros in the fourth quarter of 2010.

Consolidated Reported EBIT: is a negative 603 million euros in 2011 (a positive 5,818 million euros in 2010) and is penalized by the impact of the above impairment charges for a total of 7.4 billion euros relating to the Goodwill allocated to Core Domestic and Media.

Consolidated Organic EBIT: is 6,808 million euros in 2011 (+5.1% compared to 2010) and 1,756 million euros in the fourth quarter of 2011 (+5.9%). The consolidated Organic EBIT Margin is 22.7%, with an improvement of 0.5 percentage points compared to the prior year.

Finance income/expenses and Investment Results: show the balance of Finance income and expenses presenting an improvement of 76 million euros mainly in connection with the reduction in Net financial debt. At the same time, investment management and the equity valuation of associates display an overall decline of 411 million euros; the change is mainly due to the presence, in 2010, of the positive impact of the fair value adjustment of the stake held in the Sofora group prior to acquisition of control (266 million euros) and the negative effect of the equity valuation of associates (negative for 39 million euros in 2011 and positive for 99 million euros in the prior year).

Loss for the year attributable to owners of the Parent: is 4,726 million euros, with a reduction of 7,847 million euros compared to 2010 (profit of 3,121 million euros). In comparable terms, the result attributable to owners of the Parent is in line with 2010. In particular, comparable profit in 2011 would be 2.6 billion euros, calculated by excluding the impact of the goodwill impairment charge and other non-recurring items; the profit in 2010 would have been the same amount if calculated by excluding the positive impact connected with the acquisition of control of Sofora, the benefit of over 600 million euros from the recognition of deferred tax assets in Brazil and other non-recurring items.

Operating free cash flow: is 5,767 million euros in 2011 and 446 million euros lower than the prior year mainly owing to the acquisition of LTE (Long Term Evolution) frequencies for 1,223 million euros. Excluding the impact of the acquisition of LTE frequencies in 2011 and the payment made to the Revenue Agency relating to the Telecom Italia Sparkle case in 2010, operating free cash flow would record an improvement of 388 million euros. This is a confirmation of the Group s strong and growing capacity to generate cash flow, thanks to the staying power of Domestic and the positive contribution of Brazil and also the entry of the Argentina Business Unit in the scope of consolidation.

Adjusted net financial debt: is 30,414 million euros at December 31, 2011, with a reduction of 1,054 million euros compared to December 31, 2010 (31,468 million euros). This reduction is even more significant when considering that in the fourth quarter of 2011 an amount of 1,223 million euros was spent for the acquisition of LTE frequencies. Excluding this investment, net financial debt would have been more than 2 billion euros lower.

More to the point, cash generated by operating activities, together with the receipt of 464 million euros from the sale of the investments in EtecSA (Cuba) and Loquendo and the effects of the subscription by the market to the TIM Participações S.A. capital increase (about 240 million euros, net of the relative incidental expenses), more than guaranteed the cash requirements for the payment of dividends (1,326 million euros, of which 1,183 million euros was distributed to the market by the Parent), income taxes (1,381 million euros), acquisition of control of two companies in the AES Atimus group in Brazil (about 686 million euros) and purchases of shares which in 2011 enabled the Telecom Italia Group to increase its economic interest in the Telecom Argentina group from 16.2% to 22.7%.

Liquidity margin: at December 31, 2011 is 14.7 billion euros and consists of liquidity for 7.7 billion euros and long-term irrevocable credit lines for 7 billion euros (6 billion euros expiring in 2014 and 1 billion euros expiring in 2013), not subject to restrictions on their utilization. During 2011, three new bonds were issued on the European market for a total of 2.75 billion euros while about 5.3 billion euros of debt was repaid or repurchased. Given the particular context of the financial markets, the Telecom Italia Group has adopted a more prudent approach and at the end of 2011 the Group s liquidity margin is more than sufficient to meet its debt repayment obligations for the next 24 months.

The Telecom Italia Group consolidated financial statements for the year ended December 31, 2011 and the comparative figures for the prior year have been drawn up in accordance with international accounting standards issued by the International Accounting Standards Board and adopted by the European Union (IFRS).

The Telecom Italia Group, in addition to the conventional financial performance measures established by IFRS, uses certain alternative performance measures in order to present a better understanding of the trend of operations and financial condition. Specifically, these alternative performance measures refer to: EBITDA, EBIT, the organic change in revenues, EBITDA and EBIT and accounting and adjusted net financial debt. Further details on such measures are presented under Alternative performance measures .

Furthermore, the part entitled Business Outlook for the Year 2012 contains forward-looking statements in relation to the Group s intentions, beliefs or current expectations regarding financial performance and other aspects of the Group s operations and strategies. Readers of the Annual Report are reminded not to place undue reliance on forward-looking statements; actual results may differ significantly from forecasts owing to numerous factors, the majority of which are beyond the scope of the Group s control.

PRINCIPAL CHANGES IN THE SCOPE OF CONSOLIDATION

Companies entering the scope of consolidation:

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

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

- Sofora Telecom Argentina group: on October 13, 2010, the Sofora Telecom Argentina group entered the scope of consolidation following the increase, from 50% to 58%, of the stake held by the Telecom Italia Group in the share capital of Sofora Telecomunicaciones S.A., the controlling holding company of the Telecom Argentina group. During 2011, further shares were acquired which increased the economic interest in the Telecom Argentina group from 16.2% at December 31, 2010 to 22.7% at December 31, 2011.

Companies exiting the scope of consolidation:

- Loquendo Domestic: on September 30, 2011, Loquendo S.p.A. was sold and consequently exited the scope of consolidation.

- BBNed and Elettra: in 2010, Elettra (a company included in the Domestic Business Unit International Wholesale), sold on September 30, 2010, and the BBNed group (included in Other Operations), sold on October 5, 2010, exited the scope of consolidation.

(1)

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

Tables

Consolidated Operating and Financial Data

(millions of euros)	2011	2010	2009	2008	2007
Revenues	29,957	27,571	26,894	28,746	29,554
EBITDA (1)	12,246	11,412	11,115	11,090	11,295
EBIT before goodwill impairment loss (1)	6,761	5,864	5,499	5,437	5,738
Goodwill impairment loss	*(7,364)*	*(46)*	*(6)*	-	-
EBIT (1)	(603)	5,818	5,493	5,437	5,738
Profit (loss) before tax from continuing operations	(2,624)	4,132	3,339	2,894	4,120
Profit (loss) from continuing operations	(4,267)	3,582	2,218	2,217	2,459
Loss from Discontinued operations/Non-current assets held for sale	(13)	(7)	(622)	(39)	(99)
Profit (loss) for the year	(4,280)	3,575	1,596	2,178	2,360
Profit (loss) for the year attributable to owners of the Parent	(4,726)	3,121	1,581	2,177	2,353
Normalized profit (loss) for the year attributable to owners of the Parent	2,604	2,608	2,203	2,277	2,007
Capital expenditures	6,095	4,583	4,543	5,040	5,031

Consolidated Financial Position Data

(millions of euros)	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007
Total assets	83,859	89,040	86,267	86,223	88,593
Total equity	26,695	32,555	27,120	26,328	26,494
- attributable to owners of the Parent	22,791	28,819	25,952	25,598	25,431
- attributable to non-controlling interests	3,904	3,736	1,168	730	1,063
Total liabilities	57,164	56,485	59,147	59,895	62,099
Total equity and liabilities	83,859	89,040	86,267	86,223	88,593
Share capital	10,604	10,600	10,585	10,591	10,605
Accounting net financial debt (1)	30,819	32,087	34,747	34,039	35,701
Adjusted net financial debt (1)	30,414	31,468	33,949	34,526	35,873
Adjusted net invested capital (2)	57,109	64,023	61,069	60,854	62,367
Debt Ratio (Adjusted net financial debt/ Adjusted net invested capital)	53.3%	49.2%	55.6%	56.7%	57.5%

Consolidated Profit Ratios

	2011	2010	2009	2008	2007
EBITDA (1)/Revenues	40.9%	41.4%	41.3%	38.6%	38.2%
EBIT (1)/Revenues (ROS)	n.s.	21.1%	20.4%	18.9%	19.4%
Adjusted net financial debt /EBITDA (1)	2.5	2.8	3.1	3.1	3.2

(1)

Details are provided in the section Alternative Performance Measures .

(2)

Adjusted net invested capital = Total equity + Adjusted net financial debt.

Headcount, number in the Group at period-end (1)

(number)	12/31/2011	12/31/2010	12/31/2009	12/31/2008	12/31/2007
Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale)	84,154	84,200	71,384	75,320	79,238
Headcount relating to Discontinued operations/Non-current assets held for sale	-	-	2,205	2,505	4,191

Headcount, average number in the Group(1)

(equivalent number)	2011	2010	2009	2008	2007
Headcount (excluding headcount relating to Discontinued operations/Non-current assets held for sale	78,369	70,150	69,964	73,508	75,735
Headcount relating to Discontinued operations/Non-current assets held for sale	-	-	2,168	3,277	3,893

Financial Ratios

Telecom Italia S.p.A.

(euros)	2011	2010	2009
Share prices (December average)			
- Ordinary	0.83	0.98	1.08
- Savings	0.69	0.81	0.76
Dividends per share (2)			
- Ordinary	0.043	0.058	0.050
- Savings	0.054	0.069	0.061
Pay Out Ratio (2) (*)	51%	32%	54%
Market to Book Value (**)	0.74	0.76	0.83
Dividend Yield (based on December average) (2) (***)			
- Ordinary	5.21%	5.93%	4.63%
- Savings	7.79%	8.47%	8.03%

Telecom Italia Group

		2011	2010	2009
(euros)				
Basic earnings per share	ordinary shares	(0.24)	0.16	0.08
Basic earnings per share	savings shares	(0.24)	0.17	0.09

(1)

Headcount includes the number of persons with temp work contracts.

(2)

For the year 2011, the ratio was calculated on the basis of the proposed resolutions submitted to the shareholders meeting held on May 15, 2012. For all periods under comparison, the reference index was assumed to be the Parent s Normalized Earnings, calculated by excluding Non-recurring items, as detailed in the Note Significant non-recurring events and transactions in the separate financial statements of Telecom Italia S.p.A. at December 31, 2011.

(*)

Dividends paid in the following year/Profit for the year.

(**)

Capitalization/Equity of Telecom Italia S.p.A.

(***)

Dividends per share/Share prices.

2011 Consolidated Operating Performance

The main profit indicators in 2011 compared to 2010 are the following:

(millions of euros)	2011	2010	Change (a-b)		
	(a)	(b)	amount	%	% organic
Revenues	29,957	27,571	2,386	8.7	2.7
EBITDA	12,246	11,412	834	7.3	-
EBITDA margin	*40.9%*	*41.4%*	*(0.5)pp*		
Organic EBITDA margin	*41.2%*	*42.3%*	*(1.1)pp*		
Depreciation and amortization, Gains (losses) on disposals and Impairment reversals (losses) on non-current assets	(5,485)	(5,548)	63	1.1	
EBIT before goodwill impairment loss	6,761	5,864	897	15.3	
Goodwill impairment loss	(7,364)	(46)	(7,318)		
EBIT	(603)	5,818	(6,421)	°	5.1
EBIT margin	*n.s.*	*21.1%*	*n.s.*		
Organic EBIT margin	*22.7%*	*22.2%*	*0.5pp*		
Profit (loss) before tax from continuing operations	(2,624)	4,132	(6,756)	°	
Profit (loss) from continuing operations	(4,267)	3,582	(7,849)	°	
Profit (loss) from Discontinued operations/Non-current assets held for sale	(13)	(7)	(6)	°	
Profit (loss) for the year	(4,280)	3,575	(7,855)	°	
Profit (loss) for the year attributable to owners of the Parent	(4,726)	3,121	(7,847)	°	
Normalized profit (loss) for the year attributable to owners of the Parent	2,604	2,608	(4)	(0.2)	

Revenues

Revenues amount to 29,957 million euros in 2011, increasing 8.7% compared to 27,571 million euros in 2010 (+2,386 million euros). In terms of the organic change, consolidated revenues increased 2.7% (+785 million euros).

Specifically, the organic change in revenues is calculated by excluding:

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the effect of the change in the scope of consolidation (+1,703 million euros), principally in reference to the entry of the Argentina Business Unit since October 13, 2010;

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the effect of exchange differences (-74 million euros, due to the change in the exchange rates of the Brazil Business Unit [1] and of the Argentina Business Unit [1] for +15 million euros and -77 million euros, respectively, and other Group companies for -12 million euros);

•

other non-organic revenues, equal to 28 million euros in 2010, principally relating to the end, in the second quarter of 2010, of the 1001TIM loyalty program which had resulted in the recognition of revenues of 35 million euros from previously deferred bonus points that had not been used by the customer.

(1)

The average exchange rate used to translate the Brazilian real to euro (expressed in terms of units of local currency per 1 euro), is equal to 2.32669 in 2011 and 2.33215 in 2010. The average exchange rate used to translate Argentine pesos (expressed in terms of units of local currency per 1 euro) is equal to 5.74419 in 2011 and 5.18735 in 2010. The effect of the change in exchange rates is calculated by applying, to the period under comparison, the foreign currency translation rates used for the current period.

The breakdown of revenues by operating segment is the following:

(millions of euros)	2011		2010		Change		
		% of total		% of total	amount	%	% organic
Domestic	19,032	63.5	20,068	72.8	(1,036)	(5.2)	(4.8)
Core Domestic	*18,123*	*60.5*	*19,065*	*69.1*	*(942)*	*(4.9)*	*(4.8)*
International Wholesale	*1,393*	*4.6*	*1,569*	*5.7*	*(176)*	*(11.2)*	*(8.8)*
Brazil	7,343	24.5	6,199	22.5	1,144	18.5	18.2
Argentina (*)	3,220	10.7	798	2.9	2,422		26.5
Media, Olivetti and Other Operations	583	1.9	713	2.6	(130)		
Adjustments and Eliminations	*(221)*	*(0.6)*	*(207)*	*(0.8)*	*(14)*		
Total consolidated revenues	29,957	100.0	27,571	100.0	2,386	8.7	2.7

(*)

In the scope of consolidation since October 13, 2010.

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

The Domestic Business Unit (divided into Core Domestic and International Wholesale) reports a declining trend in organic Revenues of 4.8% compared to 2010; the decrease in revenues, notwithstanding greater tension in the macroeconomic and competitive scenario, is slowing down and improving and, in the fourth quarter of 2011, is equal to -2.1% (compared to -3.8% in the third, -6.0% in the second and -7.4% in the first). This is due to higher mobile revenues (particularly revenues from services and internet mobile devices), protection of the value of the customer base and development of ICT services in the fixed area.

Organic revenues from services (18,132 million euros in 2011) record a contraction of 5.2% and confirm the cited improving trend over the prior year (-3.2% in the fourth quarter of 2011, compared to -3.7% in the third, -6.2% in the second and -7.6% in the first). Organic revenues from services in the mobile area (-8.7% in 2011, -7.1% in the fourth quarter of 2011) are still feeling the efforts, but to a lesser degree, of competitively repositioning TIM s plans particularly as regards voice traffic, which is offset only in part by the positive trend in mobile internet revenues.

The fixed-line area, with a contraction in revenues from services of 466 million euros (-3.5%), displays a considerable improvement in the fourth quarter of 2011 (-1.9%). In particular, revenues from retail customers (-5.1%) show a reduction which is lower than that recorded in 2010 (-6.7%) and an improving trend during the course of the year (-4.0% in the fourth quarter of 2011).

As for handset sales, revenues total 900 million euros in 2011, indicating a recovery entirely driven by the mobile area which benefits from a greater sales push on handsets offering mobile internet connectivity.

As for the Brazil Business Unit, organic revenues grew 18.2% in 2011 compared to the prior year. Revenues from services confirm the positive trend (+13.1% compared to 2010), propelled by the growth of the customer base (over 64 million lines at December 31, 2011, up 25.6% over the prior year). Handset revenues also show a significant increase (+95.6% compared to 2010) boosted, like the domestic business, by the strategy focusing on smartphones and webphones as the lever for the growth of mobile data traffic revenues.

As for the Argentina Business Unit, organic revenues gained 26.5% compared to 2010 (+674 million euros); mobile business revenues (+564 million euros) jumped and recorded a growth of 32.3% while the fixed area grew 15.0% over the prior year.

An in-depth analysis of revenue performance by individual Business Unit is provided in the section The Business Units of the Telecom Italia Group .

EBITDA

EBITDA is 12,246 million euros, increasing 834 million euros (+7.3%) compared to the prior year; the EBITDA margin is 40.9% (41.4% in 2010). In organic terms, EBITDA is in line with the prior year and the EBITDA margin is down 1.1 percentage points (41.2% in 2011 vs. 42.3% in 2010) owing partly to a higher percentage of total revenues by South America where margins are lower than those of the Domestic Business as well as higher mobile handset sales, aimed at a greater penetration of data services.

Details of EBITDA and EBITDA margins by operating segment are as follows:

(millions of euros)	2011	% of total	2010	% of total	Change amount	Change %	Change % organic
Domestic	9,243	75.4	9,393	82.3	(150)	(1.6)	(3.9)
EBITDA margin	*48.6*		*46.8*		*1.8pp*		*0.5pp*
Brazil	1,990	16.3	1,801	15.8	189	10.5	10.7
EBITDA margin	*27.1*		*29.1*		*(2.0)pp*		*(1.9)pp*
Argentina (*)	1,035	8.5	245	2.1	790		*24.1*
EBITDA margin	*32.2*		*30.6*		*1.6pp*		*(0.7)pp*
Media, Olivetti and Other Operations	(22)	(0.2)	(27)	(0.2)	5		
Adjustments and Eliminations	-	-	-	-	-		
Total consolidated EBITDA	12,246	100.0	11,412	100.0	834	7.3	-
EBITDA margin	40.9		*41.4*		*(0.5)pp*		*(1.1)pp*

(*)

In the scope of consolidation since October 13, 2010.

The following chart summarizes the changes in organic EBITDA:

Specifically, the organic change in EBITDA is calculated by excluding:

- the effect of the change in the scope of consolidation (592 million euros, mainly referring to the consolidation of Argentina Business Unit);
- the effect of exchange differences (-23 million euros);
- (Revenues and income) / Costs and expenses as described below:

(millions of euros)	2011	2010	Change
Non-organic revenues due to end of bonus points program	-	(35)	35
Expenses for mobility under Law 223/91	12	258	(246)
Disputes and settlements	42	91	(49)
Other (income) expenses	39	40	(1)
Total net non-organic (Revenues and income) / Costs and expenses	93	354	(261)

EBITDA was particularly impacted by the change in the line items analyzed below:

•

Acquisition of goods and services: the increase of 1,476 million euros is largely due to the entry of the Argentina Business Unit in the scope of consolidation for the full year 2011 (+1,052 million euros, including a negative exchange rate effect for 34 million euros) and the surge in the sales and technical costs of the Brazil Business Unit the main cause of the overall increase of +879 million euros needed to support the growth of the customer base and sales. Countering these changes is the domestic business which benefits from cost cutting actions which contributed to a reduction in purchases of 365 million euros compared to 2010 (-5.1%).

•

Employee benefits expenses: record a net decrease of 104 million euros.

The change was influenced by:

–

the impact of +364 million euros, including the negative exchange rate effect of 11 million euros, due to the entry of the Argentina Business Unit in the scope of consolidation for the full year 2011 (+11,521 people compared to 2010);

–

the reduction of the Italian component of ordinary employee benefits expenses, mainly due to the reduction in the average headcount of the salaried workforce by 3,526 compared to 2010 (of whom -1,188 are under so-called solidarity contracts in Telecom Italia S.p.A. and Shared Service Center S.r.l.);

–

the reduction of 113 million euros owing to the actuarial effects relating to employee severance indemnities in connection both with the change in the economic parameters of reference (discount rate and inflation rate) and the new law concerning pensions (Law 214 of December 22, 2011) which extends the estimated period in which a person works;

–

lower expenses of 246 million euros in connection with the mobility procedure under Law 223/91. It should be recalled in particular that employee benefits expenses in 2010 included expenses for 258 million euros relating to the start of the mobility procedure under Law 223/91 by the Parent, Telecom Italia, SSC, TI Sparkle, Olivetti S.p.A. and Olivetti I-Jet. In 2011, the provisions were adjusted by another 12 million euros, of which 9 million euros is for the Parent, Telecom Italia, and 3 million euros for SSC.

•

Other operating expenses: grew 437 million euros compared to 2010, largely on account of the entry of the Argentina Business Unit in the scope of consolidation for the full year 2011 (+248 million euros, including a negative exchange rate effect of 8 million euros), the increase in the Brazil Business Unit (+159 million euros) and the Domestic Business Unit (+69 million euros). In particular:

–

writedowns and expenses in connection with credit management include mainly 397 million euros (317 million euros in 2010) referring to the Domestic Business Unit, 100 million euros (133 million euros in 2010) to the Brazil Business Unit and 29 million euros to the Argentina Business Unit;

–

provision charges recorded for pending disputes refer mainly to 60 million euros (18 million euros in 2010) of the Brazil Business Unit, 50 million euros (53 million euros in 2010) of the Domestic Business Unit, and 17 million euros of the Argentina Business Unit;

–

telecommunications operating fees and charges comprise 554 million euros (412 million euros in 2010) referring primarily to the Brazil Business Unit, to the Argentina Business Unit for 61 million euros and to the Domestic Business Unit for 58 million euros (56 million euros in 2010).

Details of the main line items which impacted EBITDA are presented in the following tables:

Acquisition of goods and services

(millions of euros)	2011	2010	Change
Purchases of goods	2,525	1,568	957
Portion of revenues to be paid to other operators and interconnection costs	4,232	4,275	(43)
Commercial and advertising costs	2,259	2,100	159
Power, maintenance and outsourced services	1,618	1,258	360
Rent and leases	647	594	53
Other expenses	1,578	1,588	(10)
Total acquisition of goods and services	12,859	11,383	1,476
% of Revenues	42.9	*41.3*	*1.6pp*

Employee benefits expenses

(millions of euros)	2011	2010	Change
Employee benefits expenses - Italy	3,081	3,571	(490)
Ordinary employee expenses and costs excluding actuarial (gains) losses	3,186	3,317	(131)
Actuarial (gains) losses relating to employee severance indemnities	(117)	(4)	(113)
Expenses for the mobility procedure under Law 231/1991	12	258	(246)
Employee benefits expenses Outside Italy	836	450	386
Total employee benefits expenses	3,917	4,021	(104)
% of Revenues	13.1	*14.6*	*(1.5)pp*

Average headcount of the salaried workforce

(equivalent number)	2011	2010	Change
Average salaried headcount Italy	53,561	57,087	(3,526)
Average salaried headcount Outside Italy [1]	24,808	13,063	11,745
Total average salaried headcount [2]	78,369	70,150	8,219

(1)

The increment in the average headcount of the salaried workforce is primarily attributable to the consolidation of the Argentina Business Unit for the full year 2011(15,232 average headcount 2011).

(2)

Includes the average headcount with temp work contracts: 87 in 2011 (75 in Italy and 12 outside Italy). In 2010 the headcount was 84 (68 in Italy and 16 outside Italy).

Headcount at year-end

(number)	12/31/2011	12/31/2010	Change
Headcount Italy	56,878	58,045	(1,167)
Headcount Outside Italy	27,276	26,155	1,121
Total [1]	84,154	84,200	(46)

(1)

Includes headcount with temp work contracts: 42 at December 31, 2011 and 71 at December 31, 2010.

Other income

(millions of euros)	2011	2010	Change
Late payment fees charged for telephone services	71	72	(1)
Recovery of employee benefit expenses, purchases and services rendered	36	47	(11)
Capital and operating grants	24	38	(14)
Damage compensation, penalties and sundry recoveries	36	18	18
Sundry income	132	80	52
Total	299	255	44

Other operating expenses

(millions of euros)	2011	2010	Change
Writedowns and expenses in connection with credit management	533	478	55
Provision charges	128	80	48
Telecommunications operating fees and charges	675	484	191
Indirect duties and taxes	349	200	149
Penalties, settlement compensation and administrative fines	41	105	(64)
Association dues and fees, donations, scholarships and traineeships	23	24	(1)
Sundry expenses	110	51	59
Total	1,859	1,422	437

Depreciation and amortization

Details are as follows:

(millions of euros)	2011	2010	Change
Amortization of intangible assets with a finite useful life	2,162	2,216	(54)
Depreciation of property, plant and equipment owned and leased	3,332	3,326	6
Total	5,494	5,542	(48)

The increase in amortization and depreciation charges is due to the entry of the Argentina Business Unit in the scope of consolidation (+390 million euros, including a negative exchange rate effect of 13 million euros) offset by the decrease in amortization and depreciation charges of the Domestic Business Unit (-329 million euros) and the Brazil Business Unit (-108 million euros, including the effect of the change in the real/euro exchange rate of +3 million euros).

Net gains (losses) on disposals of non-current assets

Net gains on disposals of non-current assets total 3 million euros. The gain of 35 million euros, net of the relative incidental expenses, realized on the sale of Loquendo at the end of September 2011 is offset by net losses from the disposal of tangible assets, mainly of the Parent, for the replacement and subsequent disposal of dedicated mobile telephony plant.

In 2010, net gains on disposals of non-current assets were recorded for 11 million euros and included the gain, net of the incidental expenses of 19 million euros, in connection with the completion of the transactions for the sale of Elettra by the Domestic Business Unit - International Wholesale.

Impairment reversals (losses) on non-current assets

Net impairment losses on non-current assets amount to 7,358 million euros in 2011 (63 million euros in 2010). The line item includes 7,307 million euros for the impairment charge on the goodwill allocated to the Core Domestic cash-generating unit in the Domestic Business Unit and 57 million euros for the impairment charge on the goodwill allocated to the Media Business Unit, which had already been written down for 46 million euros in 2010.

In particular, in preparing the annual financial statements, the Telecom Italia Group repeated the impairment test that had been carried out in the first half of 2011 which led to the recognition in the half-year condensed consolidated financial statements at June 30, 2011 of an impairment loss of 3,182 million euros on the Core Domestic cash-generating unit.

The macroeconomic and market climate was marked by a slowdown in the higher growth economies and fears of a recession in the mature ones which was more accentuated in the domestic market. Added to this was an escalation, in the second half of the year, of financial market pressures, with particular reference to the trend of interest rates. The test therefore took into account such deterioration of the financial markets in general terms, with reference to interest rates, while the worsening of expectations regarding the market prospects of the Business Unit in question were considered in specific terms.

Further details are provided in the Note Goodwill in the consolidated financial statements at December 31, 2011 of the Telecom Italia Group.

The line item also comprises other impairment charges on intangible and tangible assets.

EBIT

EBIT is a negative 603 million euros in 2011 (a positive 5,818 million euros in 2010) and is penalized by the impact of the impairment charge of 7,364 million euros on the goodwill allocated to the Domestic and Media Business Units. Organic EBIT, calculated by also excluding the above goodwill impairment charges, is 6,808 with a positive change of 333 million euros (+5.1%); the organic EBIT margin increased from 22.2% in 2010 to 22.7% in 2011.

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

- considering the effect of the change in the scope of consolidation (286 million euros, mainly in reference to the consolidation of the Argentina Business Unit);
- considering the effect of exchange differences (-12 million euros);
- excluding (Revenues and income)/Costs and expenses, with details as follows:

(millions of euros)	2011	2010	Change
Non-organic (Revenues and income)/Costs and expenses already described under EBITDA	93	354	(261)
Goodwill impairment charge	7,364	46	7,318
(Gains)/losses, Impairment (Reversals)/losses on non-current assets and investments	(46)	(17)	(29)
Total net non-organic (Revenues and income)/Costs and expenses	7,411	383	7,028

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

Details are as follows:

(millions of euros)	2011	2010	Change
EtecSA (Cuba)	-	84	(84)
Italtel Group	(38)	3	(41)
Other	(1)	12	(13)
Total	(39)	99	(138)

The Share of profits (losses) of associates and joint ventures accounted for using the equity method is a loss of 39 million euros in 2011 (profit of 99 million euros in 2010). In particular, the year 2011 was negatively affected by the writedown of the entire investment in the Italtel Group: the overall macroeconomic situation on the one hand and the specific prospects of future evolution of the company s business on the other, have led to believe, in fact, that the recovery of the entire amount of the associate is not probable.

The year 2010 included the positive impact relating to the investment in EtecSA (Cuba), including the share of results up to September 30, 2010 and the reversal of impairment losses (30 million euros) after agreements were reached at the end of 2010 for the sale of the investment which was subsequently finalized on January 31, 2011.

Other income (expenses) from investments

In 2011, Other income (expenses) from investments is an income balance of 16 million euros and includes 17 million euros for the net gain on the sale of the entire 27% investment in the Cuban operator EtecSA. That amount is in addition to the benefit from the impairment reversal of 30 million euros, recorded in 2010.

In 2010, Other income (expenses) from investments was an income balance of 289 million euros and specifically included the revaluation, net of the negative exchange rate effect, of 266 million euros on the investment interest already held in Sofora Telecomunicaciones (50%). In particular, as set forth in IFRS 3, following the acquisition of control of Sofora Telecomunicaciones, which took place on October 13, 2010, the investment interest previously held in the subsidiary, accounted for using the equity method, was remeasured at fair value at the acquisition date of control. The line item also included the net gain of 29 million euros realized on the settlement agreement reached between the Telecom Italia Group and the Bolivian government for the resolution of the dispute over the May 1, 2008 expropriation by that government of the investment held by the Group in Entel Bolivia.

Finance income (expenses)

Finance income (expenses) is an expense balance of 1,998 million euros (an expense balance of 2,074 million euros in 2010), with a positive change of 76 million euros largely arising from lower net debt exposure.

Income tax expense

Income tax expense is 1,643 million euros and posts an increase of 1,093 million euros compared to 2010 (550 million euros). In particular, income taxes in 2010 comprised a benefit of more than 600 million euros deriving mainly from the recognition of deferred tax assets by the Brazil Business Unit in connection with tax loss carryforwards which became recoverable on the basis of the prospects of earnings of the companies in the Business Unit. In addition to this effect, the increase in income taxes is also due to the higher taxable base of the Parent, Telecom Italia, the Brazil Business Unit as well as the consolidation of the Argentina Business Unit for the full year 2011.

Profit (loss) from Discontinued operations/Non-current assets held for sale

In 2011, the balance is a loss of 13 million euros and includes expenses incurred in connection with sales transactions of prior years. In 2010, the balance was a loss of 7 million euros and included the same type of transactions.

Profit (loss) for the year

The loss for the year can be analyzed as follows:

(millions of euros)	2011	2010
Profit (loss) for the year	(4,280)	3,575
Attributable to:		
Owners of the Parent:		
Profit (loss) from continuing operations	(4,713)	3,128
Profit (loss) from Discontinued operations/Non-current assets held for sale	(13)	(7)
Profit (loss) for the year attributable to owners of the Parent	(4,726)	3,121
Non-controlling interests:		
Profit (loss) from continuing operations	446	454
Profit (loss) from Discontinued operations/Non-current assets held for sale	-	-
Profit for the year attributable to Non-controlling interests	446	454

In comparable terms, the result for the year attributable to owners of the Parent is in line with that of 2010. Specifically, the comparable profit in 2011 would have been 2,604 million euros and is calculated by excluding the impact of the previously mentioned goodwill impairment charge and other non-recurring items; the profit in 2010 would have been basically the same (2,608 million euros) when calculated by excluding the positive impact of the acquisition of control of Sofora, the benefit of more than 600 million euros deriving from the recognition of deferred tax assets and other non-recurring items in Brazil.

Consolidated financial position performance

Financial position structure

(millions of euros)	12/31/2011 (a)	12/31/2010 (b)	Change (a-b)
Assets			
Non-current assets	67,304	73,062	(5,758)
Goodwill	*36,957*	*43,923*	*(6,966)*
Other intangible assets	*8,600*	*7,936*	*664*
Tangible assets	*15,948*	*16,415*	*(467)*
Other non-current assets	*5,799*	*4,788*	*1,011*
Current assets	16,555	15,589	966
Inventories, Trade and miscellaneous receivables and other current assets	*8,217*	*8,177*	*40*
Current income tax receivables	*155*	*132*	*23*
Securities other than investments, Financial receivables and other current financial assets, Cash and cash equivalents	*8,183*	7,280	*903*
Discontinued operations/Non-current assets held for sale	-	389	(389)
of a financial nature	-	-	-
of a non-financial nature	-	*389*	*(389)*
	83,859	89,040	(5,181)
Equity and liabilities			
Equity	26,695	32,555	(5,860)
Non-current liabilities	39,753	38,414	1,339
Current liabilities	17,411	18,071	(660)
Liabilities directly associated with Discontinued operations/Non-current assets held for sale	-	-	-
of a financial nature	-	-	-
of a non-financial nature	-	-	-
	83,859	89,040	(5,181)

Non-current assets

•

Goodwill: is 6,966 million euros lower due not only to the previously mentioned impairment charge of 7,364 million euros but also to the following variations:

–

increase of 556 million euros for the recognition of the provisional amount of goodwill following the acquisition of control and the subsequent consolidation of Tim Fiber RJ (formerly AES Communications Rio de Janeiro) and Tim Fiber SP (formerly Eletropaulo Telecomunicações) in the Brazil Business Unit;

–

increase of 16 million euros for the recognition of the provisional amount of goodwill following the acquisition of control and the subsequent consolidation of the 4GH group.

–

decrease of 10 million euros in connection with the sale of the subsidiary Loquendo on September 30, 2011;

–

change in the exchange rates of the Brazilian and Argentine companies.

As set forth in IFRS 3, within 12 months of the above acquisitions, the accounting transactions for the business combinations must be closed by the definitive allocation of the purchase prices paid. It should be noted that the price paid on October 13, 2010 for the acquisition of control of the Sofora Telecom Argentina group was definitively allocated during 2011. As a result, the goodwill of the Sofora Telecom Argentina group recorded provisionally in the consolidated financial statements at December 31, 2010 for 166 million euros was adjusted to 177 million euros to reflect the definitive fair value of the Sofora Telecom Argentina group at the acquisition date of relative control.

•

Other intangible assets: increased 664 million euros, from 7,936 million euros at the end of 2010 to 8,600 million euros at December 31, 2011, being the balance of the following:

–

additions (+3,066 million euros);

–

amortization charge for the year (-2,162 million euros);

–

disposals, exchange differences, changes in the scope of consolidation, reclassifications and other movements (for a net balance of -240 million euros).

•

Tangible assets: decreased 467 million euros from 16,415 million euros at the end of 2010 to 15,948 million euros at December 31, 2011, being the balance of the following:

–

additions (+3,029 million euros);

–

depreciation charge for the year (-3,332 million euros);

–

disposals, exchange differences, changes in the scope of consolidation, reclassifications and other movements (for a net balance of -164 million euros).

Discontinued operations/Non-current assets held for sale

At December 31, 2010, this line item included the entire investment held in EtecSA (Cuba) which was disposed of on January 31, 2011.

Consolidated equity

Consolidated equity amounts to 26,695 million euros (32,555 million euros at December 31, 2010), of which 22,791 million euros is attributable to owners of the Parent (28,819 million euros at December 31, 2010) and 3,904 million euros is attributable to Non-controlling interests (3,736 million euros at December 31, 2010).

In greater detail, the changes in equity are the following:

(millions of euros)	12/31/2011	12/31/2010
At the beginning of the year	32,555	27,120
Total comprehensive income (loss) for the year	(4,605)	4,568
Dividends declared by:	(1,302)	(1,164)
Telecom Italia S.p.A.	*(1,184)*	*(1,029)*
Other Group companies	*(118)*	*(135)*
Effect of capital transactions by Telecom Italia Media	-	47
Issue of equity instruments	7	32
Effect of increase in economic interest in Argentina BU	(210)	-
Effect of capital transactions by companies in the Brazil BU	240	-
Changes in scope of consolidation and other changes	10	1,952
At the end of the year	26,695	32,555

Cash flows

The following chart summarizes the main transactions which had an impact on the change in net financial debt during 2011:

Change in adjusted net financial debt

(millions of euros)	2011	2010	Change
EBITDA	12,246	11,412	834
Capital expenditures on an accrual basis	(6,095)	(4,583)	(1,512)
Change in net operating working capital:	(100)	(223)	123
Change in inventories	*(36)*	*96*	*(132)*
Change in trade receivables and net amounts due on construction contracts	*3*	*13*	*(10)*
Change in trade payables (*)	*(63)*	*(175)*	*112*
Other changes in operating receivables/payables	*(4)*	*(157)*	*153*
Change in provisions for employee benefits	(250)	73	(323)
Change in operating provisions and Other changes	(34)	(466)	432
Net operating free cash flow	5,767	6,213	(446)
% of Revenues	19.3	*22.5*	*(3.2)pp*
Sale of investments and other disposals flow	486	973	(487)
Financial investments flow	(925)	(56)	(869)
Tim Participaçoes, Telecom Italia Media and Telecom Italia S.p.A. (PAD) capital increases	240	67	173
Dividend payments	(1,326)	(1,093)	(233)
Finance expenses, income taxes and other net non-operating requirements flow	(3,188)	(3,623)	435
Reduction/(Increase) in adjusted net financial debt	1,054	2,481	(1,427)

(*)

Includes the change in trade payables for amounts due to fixed asset suppliers.

In addition to what has already been described with reference to EBITDA, net financial debt during 2011 has been particularly impacted by the following items:

Capital expenditures on an accrual basis

The breakdown of capital expenditures by operating segment is as follows:

(millions of euros)	2011	% of total	2010	% of total	Change
Domestic	4,200	68.9	3,106	67.8	1,094
Brazil	1,290	21.2	1,216	26.5	74
Argentina	556	9.1	188	4.1	368
Media, Olivetti and Other Operations	66	1.1	*76*	*1.7*	(10)
Adjustments and Eliminations	*(17)*	(0.3)	*(3)*	(0.1)	(14)
Total consolidated capital expenditures	6,095	100.0	4,583	100.0	1,512
% of Revenues	20.3		*16.6*		*3.7*

Capital expenditures total 6,095 million euros in 2011, increasing 1,512 million euros (+33%) compared to 2010. In particular, the increase is due to: investments made by the Domestic Business Unit for the acquisition of user rights for the 800 MHz, 1800 MHz and 2600 MHz frequencies to be used for broadband mobile communication services, for a total amount of 1,223 million euros, the consolidation of the Argentina Business Unit for the full year (+368 million euros, including the negative exchange rate effect of 18 million euros) and higher capital expenditures by the Brazil Business Unit (+74 million euros, including a positive exchange rate effect of 3 million euros). Further details on the aforementioned acquisition of the user rights to the frequencies are provided in the paragraph Principal changes in the regulatory framework of the Domestic Business Unit.

Sale of investments and other disposals flow

Sale of investments and other disposals flow totals 486 million euros and principally relates to:

- 411 million euros for the portion already received, net of related incidental expenses, on the sale of EtecSA (Cuba). The transaction specifically provides that the Telecom Italia Group will receive a total of 706 million U.S. dollars, of which 500 million U.S. dollars has already been paid by the buyer on January 31, 2011; the remaining amount will be paid by EtecSA in 36 monthly installments. The receivable is secured by specific guarantees;

- 53 million euros received, net of related incidental expenses and the net financial debt of the subsidiary, on the sale of the entire stake held in Loquendo on September 30, 2011.

Financial investments flow

- Acquisition of interests in the Sofora Telecom Argentina group

During 2011, the Telecom Italia Group increased the stakes held in Sofora Telecomunicaciones S.A., in Nortel Inversora S.A. (the controlling holding company of the Telecom Argentina group, which, in turn, is controlled by Sofora Telecomunicaciones) and in Telecom Argentina S.A. for a total investment of 211 million euros. Following these acquisitions, the economic interest of the Telecom Italia Group in Telecom Argentina went from 16.2% at December 31, 2010 to 22.7% at December 31, 2011.

In particular:

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on January 24, 2011, the Telecom Italia Group, through its subsidiary Telecom Italia International N.V., purchased 2,351,752 Nortel American Depositary Shares (ADS), representing *Preferidas B* shares, from Fintech Investment Ltd for 65.8 million U.S. dollars (approximately 48 million euros). The ADSs in question represent 117,587.6 *Preferidas B* shares (without voting rights). This share package was later conferred to the Argentina company Inversiones Milano S.A., later renamed Tierra Argentea S.A., a wholly-owned subsidiary of the Telecom Italia Group;

–

on March 9, 2011, Telecom Italia, through its subsidiary Telecom Italia International N.V., purchased a 10% stake for approximately 104 million euros in Sofora Telecomunicaciones S.A. from the local partner Werthein and by so doing increased its investment holding in Sofora from 58% to 68% of the company s share capital;

–

on October 27, 2011, Tierra Argentea S.A., a wholly-owned subsidiary of the Telecom Italia Group, purchased 14.48 million Telecom Argentina Class B shares at the price of 20.50 Argentine pesos per share. In the following months of November and December, the company purchased another 1.1 million shares of the same class. The equivalent amount of the transactions was equal in total to 319 million Argentine pesos (equal to about 56 million euros).

The transactions did not alter or modify either the governance rights of the Telecom Argentina group established by agreement between the shareholders signed by the Telecom Italia Group and Werthein group, which is still in force, or the commitments undertaken by the Telecom Italia Group with the Argentine antitrust authorities.

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Acquisition of control of the 4GH group

On July 27, 2011, Telecom Italia, after having received the National Antitrust Authority s (AGCM) approval, finalized the acquisition of a 71% stake in the company 4G Holding S.p.A., with a total impact on net financial debt of 27.4 million euros, for an outlay of about 8.6 million euros (including incidental expenses) and the consolidation of the financial debt of the acquired companies. The deal was carried out through the wholly-owned subsidiary of the Parent Telecom Italia, TLC Commercial Services S.r.l..

The acquisition of the 4GH group, with its approximate 200 points-of-sale located in the most important shopping centers in Italy, will make it possible for the Telecom Italia Group to build up its positioning in the retail distribution market specialized in the sale of telephony equipment on the domestic market.

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Acquisition of control of the companies Tim Fiber SP and Tim Fiber RJ

On October 31, 2011, two companies belonging to the AES Atimus group, telecommunications infrastructure operator in the states of San Paolo and Rio de Janeiro, were acquired from Companhia Brasiliana de Energia, through the subsidiary Tim Celular S.A. The total impact on net financial debt is 686 million euros, for an outlay of about 656 million euros (including incidental expenses) and the consolidation of the financial debt of the acquired group.

Capital increases

On October 27, 2011, the share capital increase of Tim Participações S.A. ended with a cash in for the Telecom Italia Group of 240 million euros, net of the relative incidental expenses. In particular, the capital was increased by means of the issue of 200,258,368 ordinary shares at the offering price of 8.60 reais each for a total of 1.7 billion reais (equal to about 700 million euros). Besides the 190,796,858 shares in the initial offering, there were 9,461,510 shares of the greenshoe option, completely exercised, granted by Tim Participações S.A. to Morgan Stanley S.A. and Morgan Stanley & Co. LLC, part of the placement consortium.

The Telecom Italia Group, through Telecom Italia International N.V. the parent of the holding company Tim Brasil Serviços e Participações S.A. subscribed to its entire share of the reserved capital increase in Tim Participações S.A. for 1.1 billion reais (equal to about 450 million euros), but was unable to subscribe to any of the shares issued following exercise of the greenshoe. Consequently, the percentage investment in Tim Participações S.A. fell to 66.68% from the previous 66.94%.

In 2010, capital increases amounted to a total of 67 million euros and of that amount 44 million euros referred to the Telecom Italia Media increase and 23 million euros to the Parent, Telecom Italia S.p.A., as part of the broad-based employee share ownership Plan.

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

Finance expenses, income taxes and other net non-operating requirements flow mainly includes the payment, during 2011, of net finance expenses (1,712 million euros), income taxes (1,381 million euros) and also the change in non-operating receivables and payables.

Net Financial Debt

Net financial debt is composed as follows:

(millions of euros)	12/31/2011 (a)	12/31/2010 (b)	Change (a-b)
Non-current financial liabilities			
Bonds	24,478	24,589	(111)
Amounts due to banks, other financial payables and liabilities	10,078	8,317	1,761
Finance lease liabilities	1,304	1,442	(138)
	35,860	34,348	1,512
Current financial liabilities (*)			
Bonds	3,895	4,989	(1,094)
Amounts due to banks, other financial payables and liabilities	1,951	1,661	290
Finance lease liabilities	245	232	13
	6,091	6,882	(791)
Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale	-	-	-
Total Gross financial debt	41,951	41,230	721
Non-current financial assets			
Securities other than investments	(12)	(13)	1
Financial receivables and other non-current financial assets	(2,937)	(1,850)	(1,087)
	(2,949)	(1,863)	(1,086)
Current financial assets			
Securities other than investments	(1,007)	(1,316)	309
Financial receivables and other current financial assets	(462)	(438)	(24)
Cash and cash equivalents	(6,714)	(5,526)	(1,188)
	(8,183)	(7,280)	(903)
Financial assets included in Discontinued operations/Non-current assets held for sale	-	-	-
Total financial assets	(11,132)	(9,143)	(1,989)
Accounting net financial debt	30,819	32,087	(1,268)
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(405)*	*(619)*	214
Adjusted net financial debt	30,414	31,468	(1,054)
Breakdown as follows:			
Total adjusted gross financial debt	39,382	39,383	(1)
Total adjusted financial assets	(8,968)	(7,915)	(1,053)
(*) of which current portion of medium/long-term debt:			
Bonds	*3,895*	*4,989*	*(1,094)*

Amounts due to banks, other financial payables and liabilities	*1,064*	*919*	*145*
Finance lease liabilities	*245*	*232*	*13*

The financial risk management policies of the Telecom Italia Group are directed towards diversifying market risks, hedging exchange rate risk in full and optimizing interest rate exposure by an appropriate diversification of the portfolio, which is also achieved by using carefully selected derivative financial instruments. Such instruments, it should be stressed, are not used for speculative purposes and all have an underlying.

Furthermore, in order to determine its exposure to interest rates, the Group defines an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that prefixed composition. Taking into account the Group s operating activities, the optimum mix of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, in a range of 65% - 75% for the fixed-rate component and 25% - 35% for the variable-rate component.

In managing market risks, the Group has adopted a Guideline policy for debt management using derivative instruments and mainly uses IRS and CCIRS derivative financial instruments.

The volatility of interest rates and exchange rates, featuring prominently in the financial markets since the fourth quarter of 2008, has significantly impacted the fair value measurement of derivative positions and the related financial assets and liabilities. Having said this and in order to present a more realistic analysis of net financial debt, starting from the actual figures at June 2009, in addition to the usual indicator (renamed Accounting net financial debt), a new indicator was also presented denominated Adjusted net financial debt which excludes effects that are purely accounting and non-monetary in nature deriving from the fair value measurement of derivatives and related financial assets and liabilities. The measurement of derivative financial instruments, which also has the objective of pre-setting the exchange rate and the interest rate of future variable contractual flows, does not, in fact, require an actual financial settlement.

Sales of receivables to factoring companies

The sales of receivables to factoring companies finalized during 2011 resulted in a positive effect on net financial debt at December 31, 2011 of 1,334 million euros (1,209 million euros at December 31, 2010).

Gross financial debt

Bonds

Bonds at December 31, 2011 are recorded for 28,373 million euros (29,578 million euros at December 31, 2010). Their nominal repayment amount is 26,975 million euros, decreasing 1,354 million euros compared to December 31, 2010 (28,329 million euros).

The change in bonds during 2011 is as follows:

(millions of original currency)	Currency	Amount	Issue date
New issues			
Telecom Italia S.p.A. 1,000 million euros 7% maturing 1/20/2017 (*)	Euro	1,000	10/20/2011
Telecom Italia S.p.A. 750 million euros 4.75% maturing 5/25/2018	Euro	750	5/25/2011
Telecom Italia S.p.A. 1,000 million euros 5.125% maturing 1/25/2016	Euro	1,000	1/25/2011

(*)

On October 20, 2011, bonds were issued for 750 million euros; subsequently, on November 3, 2011, the issue was reopened and increased for another 250 million euros.

(millions of original currency)	Currency	Amount	Repayment date
Repayments			
Telecom Italia Capital S.A. Floating Rate Notes 850 million U.S. dollars, 3-month USD LIBOR +0.61%	USD	850	7/18/2011
Telecom Italia Capital S.A. 750 million U.S. dollars 6.2%	USD	750	7/18/2011
Telecom Italia Finance S.A. 7.50% 1,791 million euros (1)	Euro	1,791	4/20/2011
Telecom Italia Capital S.A. Floating Rate Notes 400 million U.S. dollars, 3-month USD LIBOR +0.48%	USD	400	2/1/2011
Telecom Italia S.p.A. 4.5% 750 million euros	Euro	750	1/28/2011

(1)

Net of buybacks by the company for 209 million euros during the years 2009-2011.

As occurred in past years, during 2011, the Telecom Italia Group bought back bonds, with the aim of:

- giving investors a further possibility of monetizing their positions;
- partially repaying some debt securities before maturity, increasing the overall return on the Group s liquidity without inviting any additional risks.

In particular, the following bonds were repurchased:

(millions of original currency)	Currency	Amount	Buyback periods
Buybacks			
Telecom Italia Finance S.A. 1,791 million euros 7.50% maturing April 2011 (*)	Euro	93	January - March 2011
Telecom Italia Finance S.A. 801 million euros 7.25% maturing April 2012	Euro	199	January - September 2011
Telecom Italia Finance S.A. 759 million euros 6.875% maturing January 2013	Euro	91	November December 2011
Telecom Italia S.p.A. 1,222.5 million euros 6.25% maturing February 2012	Euro	27.5	December 2011
	Euro	5	December 2011

Telecom Italia S.p.A. 645 million euros 6.75%
maturing March 2013

(*)

Bonds had already been bought back for 116 million euros in the years 2009 and 2010. Therefore the total amount bought back is 209 million euros.

In reference to the Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, at December 31, 2011, the nominal amount is equal to 266 million euros and decreased by 39 million euros compared to December 31, 2010 (305 million euros).

Revolving credit facility and term loan

The following table shows the composition and the drawdown of the committed credit lines available at December 31, 2011. These are represented by the revolving credit facility for a total of 8 billion euros expiring August 2014, the syndicated revolving line for a total of 1.25 billion euros expiring February 2013 and the revolving credit line for a total of 200 million euros signed December 20, 2010 and expiring June 19, 2012 (renewable at the discretion of Telecom Italia, up to December 18, 2013):

(billions of euros)	12/31/2011		12/31/2010	
	Agreed	Drawn down	Agreed	Drawn down
Revolving Credit Facility expiring February 2013	1.25	0.25	1.25	--
Revolving Credit Facility expiring August 2014	8.0	2.0	8.0	1.5
Revolving Credit Facility expiring June 2012 (renewable to December 2013)	0.2	0.2	0.2	0.12
Total	9.45	2.45	9.45	1.62

On August 3, 2011, a bilateral stand-by credit line was secured for a period of five years (expiring August 3, 2016) for 100 million euros from Banca Regionale Europea, drawn down for the full amount.

Maturities of financial liabilities and average cost of debt

The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities due within 12 months) is 7.26 years.

The average cost of the Group s debt, considered as the cost for the year calculated on an annual basis and resulting from the ratio of debt-related expenses to average exposure, is about 5.6%.

For details of the maturities of financial liabilities in terms of expected nominal repayment amounts, as contractually agreed, reference should be made to the Notes Financial liabilities (current and non-current) and Financial risk management in the consolidated financial statements at December 31, 2011 of the Telecom Italia Group.

Current financial assets and liquidity margin

The Telecom Italia Group s available liquidity margin, calculated as the sum of Cash and cash equivalents and current Securities other than investments, amounts to 7,721 million euros at December 31, 2011 (6,842 million euros at December 31, 2010) which, together with its unused committed credit lines for 7 billion euros, allows the Group to amply meet its repayment obligations over the next 24 months.

In particular:

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Cash and cash equivalents amount to 6,714 million euros (5,526 million euros at December 31, 2010). The different technical forms of investing available cash at December 31, 2011, which include euro commercial paper for 220 million euros, can be analyzed as follows:

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Maturities: investments have a maximum maturity of three months;

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Counterpart risk: investments by the European companies are made with leading banking, financial and industrial institutions with high-credit-quality and at least an A- rating. Investments by the companies in South America are made with leading local counterparts;

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Country risk: investments are made mainly in major European financial markets.

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Securities other than investments amount to 1,007 million euros (1,316 million euros at December 31, 2010). Such forms of investment represent alternatives to the investment of liquidity with the aim of raising the return. These mainly consist of 864 million euros of Italian treasury bonds purchased by Telecom Italia S.p.A., which pursuant to Consob Communication DEM/11070007 of August 5, 2011 represent investments in Sovereign debt securities and have been made in accordance with the Guideline for investments of liquidity using financial instruments adopted by the Telecom Italia Group in July 2009, and also 142 million euros of bonds with different maturities, but all with an active market, that is, readily convertible into cash. For further details, reference should be made to the Note Financial risk management in the consolidated financial statements at December 31, 2011 of the Telecom Italia Group.

In the fourth quarter of 2011, adjusted net financial debt increased 466 million euros. The operating cash generated was absorbed by the payment of income taxes, the acquisition of the companies in the AES Atimus Group in Brazil and the acquisition of LTE frequencies in Italy.

Adjusted net financial debt

(millions of euros)	12/31/2011	9/30/2011	Change
Accounting net financial debt	30,819	30,250	569
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(405)*	*(302)*	*(103)*
Adjusted net financial debt	30,414	29,948	466
Breakdown as follows :			
Total adjusted gross financial debt	39,382	36,343	3,039
Total adjusted financial assets	(8,968)	(6,395)	(2,573)

Research and Development

As for Research and Development , this area is discussed in a specific paragraph of the Sustainability Section of this Report on Operations, under The Community in this Report on Operations.

Events Subsequent to December 31, 2011

With regard to subsequent events, reference should be made to the specific Note Events subsequent to December 31, 2011 in the consolidated financial statements at December 31, 2011 of the Telecom Italia Group.

Business Outlook for the Year 2012

As for the Telecom Italia Group s outlook for the current year, the objectives linked to the principal economic indicators, as outlined in the Business Plan 2012-2014, are, for the full year 2012:

- Revenues and EBITDA basically stable compared to 2011
- Adjusted net financial debt of about 27.5 billion euros

Principal risks and uncertainties

The business outlook for 2012 could be affected by risks and uncertainties caused by a multitude of factors, the majority of which are beyond the Group s control.

The following are the main risks and uncertainties concerning the Telecom Italia Group s activities in 2012.

Macroeconomic trend

Italy s exposure to the sovereign debt crisis overshadowing the Euro area may cause a new weakening of the Italian economy, after the slight recovery that in 2010 and in 2011 had followed the heightened downward swing produced by the global economic crisis that began at the end of 2008. The Italian economy is facing a restrictive fiscal policy (a mix of spending cuts and tax increases) aimed at putting into place a long-term plan to reduce the budget deficit with the objective of balancing the budget by 2013. Such restrictive fiscal policy pursues structural adjustments which guarantee the sustainability over the long term of public finances. Furthermore, the tight credit situation deriving from the growing problems of the banking sector in the Eurozone, contributes further to lowering the forecasts of growth for the next few years: the climate for investments remains difficult and the confidence of the consumer low.

The macroeconomic scenario in Brazil is expected to show steady growth, supported by high levels of domestic and foreign investments, high consumption, falling inflation and a steady rate of exchange. The overall economic equilibrium has permitted the Central Bank to cut interest rates as a precautionary measure, in case the economy is affected by the global recession. At the moment, the Brazilian macroeconomic context seems to be fairly stable, although it is expanding more slowly than in the past, but any worsening of the situation could have an adverse effect on the demand for telecommunications services.

The Argentine economy is expected to grow in 2012, although at a lower rate than in the previous years when the country recorded strong economic expansion. Private consumption should continue to be the primary driver of the economy, however, the effects of the fall in agriculture production, of growing external restrictions and of a more conservative tax approach could give rise to growth that is in some ways lower but more balanced. In this context, inflation will continue to represent a pivotal element.

Finally, the international landscape will represent a determining factor for economic growth, where the prices of raw materials and the evolution of the global financial markets exemplify the main critical elements.

Telecommunications market trend

The telecommunications sector is generally regarded as being less cyclical than other sectors, since, in the business segment, telecommunications services are perceived as an effective tool through which companies can improve productivity. In the residential segment, on the other hand, they are becoming a factor of increasing importance in the budgets of family expenditures. However, the recession has had a major impact on the growth prospects of our domestic market, and may continue to do so. In particular, the weakness of the economy may lead companies to adopt a more cautious approach when it comes to acquiring telecommunication services due to the overall reduction in expenditures (operating costs and investments) of industrial sectors, whereas, in the residential segment, the fall in consumption may implicate a further lowering of the prices of telecommunications services and a fall in the demand for our products and services.

The market of telecommunications in Brazil is primed for further growth, sustained by the development of the mobile area (both phone and data services) and broadband for fixed phone lines. In particular, the trend of replacing fixed services with mobile services, seen in recent years, is expected to continue.

On the Argentine market, growth is expected, driven by the evolution of both fixed and mobile broadband. However, the evolution of the Argentine telecommunications market may be influenced by the unfurling of the effects of number portability on mobile phones, and may lead to a rise in the level of competition.

As for the domestic market, the development of the Brazilian and Argentine telecommunications markets is influenced by the evolution of the macroeconomic context. As a result, if the macroeconomic figures were to be worse than anticipated, this could reflect negatively on the demand for telecommunications services.

Furthermore, on a global scale, the telecommunications sector is being subjected to growing pressure from lateral competition by operators in the IT, Media and Devices/Consumer Electronics sectors, and by OTT operators which offer content and services via the internet to people who do not have their own TLC network. Because of this, the evolution of the telecommunications markets in the main countries in which we operate (Italy, Brazil and Argentina) may be influenced by the development of the competitive scenario with regard to these players.

Financial risks

The Telecom Italia Group pursues a policy of managing financial risks (market risk, credit risk and liquidity risk) by the definition, at a central level, of guidelines for directing operations, the identification of the most suitable financial instruments to reach prefixed objectives, the monitoring of the results achieved and the exclusion of the use of financial instruments for speculative purposes.

Furthermore, the Group pursues the objective of achieving an adequate level of financial flexibility which is expressed by maintaining a treasury margin to cover refinancing requirements at least for the next 12-18 months with liquidity and committed syndicated credit lines.

The particular climate of the financial markets has persuaded the Telecom Italia Group to adopt a more conservative approach than the aforementioned policy and at the end of 2011 the Group has a liquidity margin able to amply meet debt repayment obligations for the next 24 months. Consequently, the Telecom Italia Group can wait for the most appropriate time to access the financial markets. Further details are provided in the Note Financial risk management to the consolidated financial statements at December 31, 2011 of the Telecom Italia Group.

Consolidated Financial Statements Telecom Italia Group

Separate Consolidated Income Statements

(millions of euros)	2011	2010	Change (a-b)	
	(a)	(b)	amount	%
Revenues	29,957	27,571	2,386	8.7
Other income	299	255	44	17.3
Total operating revenues and other income	30,256	27,826	2,430	8.7
Acquisition of goods and services	(12,859)	(11,383)	(1,476)	(13.0)
Employee benefits expenses	(3,917)	(4,021)	104	2.6
Other operating expenses	(1,859)	(1,422)	(437)	(30.7)
Changes in inventories	56	(135)	191	°
Internally generated assets	569	547	22	4.0
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	12,246	11,412	834	7.3
Depreciation and amortization	(5,494)	(5,542)	48	0.9
Gains (losses) on disposals of non-current assets	3	11	(8)	(72.7)
Impairment reversals (losses) on non-current assets	(7,358)	(63)	(7,295)	°
Operating profit (loss) (EBIT)	(603)	5,818	(6,421)	(110.4)
Share of profits (losses) of associates and joint ventures accounted for using the equity method	(39)	99	(138)	°
Other income (expenses) from investments	16	289	(273)	(94.5)
Finance income	2,464	3,081	(617)	(20.0)
Finance expenses	(4,462)	(5,155)	693	13.4
Profit (loss) before tax from continuing operations	(2,624)	4,132	(6,756)	(163.5)
Income tax expense	(1,643)	(550)	(1,093)	°
Profit (loss) from continuing operations	(4,267)	3,582	(7,849)	°
Profit (loss) from Discontinued operations/Non-current assets held for sale	(13)	(7)	(6)	°
Profit (loss) for the year	(4,280)	3,575	(7,855)	°
Attributable to:				

Owners of the Parent	(4,726)	3,121	(7,847)	°
Non-controlling interests	446	454	(8)	°

Consolidated Statements of Comprehensive Income

In accordance with IAS 1 *(Presentation of Financial Statements)*, the following statements of comprehensive income include the profit (loss) for the year as shown in the separate consolidated income statements and all non-owner changes in equity.

(millions of euros)		2011	2010
Profit (loss) for the year	(a)	(4,280)	3,575
Other components of the Statements of Comprehensive Income:			
Available-for-sale financial assets:			
Profit (loss) from fair value adjustments		5	(7)
Loss (profit) transferred to the Separate Consolidated Income Statement		2	5
Net fiscal impact		(4)	(1)
	(b)	3	(3)
Hedging instruments:			
Profit (loss) from fair value adjustments		523	767
Loss (profit) transferred to the Separate Consolidated Income Statement		(230)	(480)
Net fiscal impact		(83)	(77)
	(c)	210	210
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		(613)	659
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statement		75	18
Net fiscal impact		-	-
	(d)	(538)	677
Share of other profits (losses) of associates and joint ventures accounted for using the equity method:			
Profit (loss)		-	109
Loss (profit) transferred to the Separate Consolidated Income Statement		-	-
Net fiscal impact		-	-
	(e)	-	109
Total	(f=b+c+d+e)	(325)	993
Total profit (loss) for the year	(a+f)	(4,605)	4,568
Attributable to:			
Owners of the Parent		(4,825)	3,855
Non-controlling interests		220	713

Consolidated Statements of Financial Position

(millions of euros)		12/31/2011 (a)	12/31/2010 (b)	Change (a-b)
Assets				
Non-current assets				
Intangible assets				
Goodwill		36,957	43,923	(6,966)
Other intangible assets		8,600	7,936	664
		45,557	51,859	(6,302)
Tangible assets				
Property, plant and equipment owned		14,854	15,238	(384)
Assets held under finance leases		1,094	1,177	(83)
		15,948	16,415	(467)
Other non-current assets				
Investments in associates and joint ventures accounted for using the equity method		47	85	(38)
Other investments		38	43	(5)
Non-current financial assets		2,949	1,863	1,086
Miscellaneous receivables and other non-current assets		1,128	934	194
Deferred tax assets		1,637	1,863	(226)
		5,799	4,788	1,011
Total Non-current assets	(a)	67,304	73,062	(5,758)
Current assets				
Inventories		447	387	60
Trade and miscellaneous receivables and other current assets		7,770	7,790	(20)
Current income tax receivables		155	132	23
Current financial assets				
Securities other than investments, financial receivables and other current financial assets		1,469	1,754	(285)
Cash and cash equivalents		6,714	5,526	1,188
		8,183	7,280	903
Current assets sub-total		16,555	15,589	966
Discontinued operations/Non-current assets held for sale				
of a financial nature		-	-	-
of a non-financial nature		-	389	(389)
		-	389	(389)
Total Current assets	(b)	16,555	15,978	577
Total Assets	(a+b)	83,859	89,040	(5,181)

(millions of euros)		12/31/2011 (a)	12/31/2010 (b)	Change (a-b)
Equity and Liabilities				
Equity				
Equity attributable to owners of the Parent		22,791	28,819	(6,028)
Equity attributable to non-controlling interests		3,904	3,736	168
Total Equity	(c)	26,695	32,555	(5,860)
Non-current liabilities				
Non-current financial liabilities		35,860	34,348	1,512
Employee benefits		850	1,129	(279)
Deferred tax liabilities		1,056	991	65
Provisions		831	860	(29)
Miscellaneous payables and other non-current liabilities		1,156	1,086	70
Total Non-current liabilities	(d)	39,753	38,414	1,339
Current liabilities				
Current financial liabilities		6,091	6,882	(791)
Trade and miscellaneous payables and other current liabilities		10,984	10,954	30
Current income tax payables		336	235	101
Current liabilities sub-total		17,411	18,071	(660)
Liabilities directly associated with discontinued operations/non-current assets held for sale				
of a financial nature		-	-	-
of a non-financial nature		-	-	-
		-	-	-
Total Current Liabilities	(e)	17,411	18,071	(660)
Total Liabilities	(f=d+e)	57,164	56,485	679
Total Equity and Liabilities	(c+f)	83,859	89,040	(5,181)

Consolidated Statements of Cash Flows

(millions of euros)		2011	2010
Cash flows from operating activities:			
Profit (loss) from continuing operations		(4,267)	3,582
Adjustments for:			
Depreciation and amortization		5,494	5,542
Impairment losses (reversals) on non-current assets (including investments)		7,365	(116)
Net change in deferred tax assets and liabilities		189	(749)
Losses (gains) realized on disposals of non-current assets (including investments)		(18)	(41)
Share of losses (profits) of associates and joint ventures accounted for using the equity method		39	(99)
Change in employee benefits		(250)	73
Change in inventories		(36)	96
Change in trade receivables and net amounts due from customers on construction contracts		3	13
Change in trade payables		(164)	(278)
Net change in current income tax receivables/payables		90	(170)
Net change in miscellaneous receivables/payables and other assets/liabilities		67	(980)
Cash flows from (used in) operating activities	(a)	8,512	6,873
Cash flows from investing activities:			
Purchase of intangible assets on an accrual basis		(3,066)	(1,781)
Purchase of tangible assets on an accrual basis		(3,029)	(2,802)
Total purchase of intangible and tangible assets on an accrual basis		(6,095)	(4,583)
Change in amounts due to fixed asset suppliers		557	103
Total purchase of intangible and tangible assets on a cash basis		(5,538)	(4,480)
Acquisition of control of subsidiaries or other businesses, net of cash acquired		(668)	(4)
Net cash and cash equivalents arising from the acquisition of the control of the Sofora group - Argentina		-	392
Acquisitions/disposals of other investments		(1)	35
Change in financial receivables and other financial assets		(580)	502
Proceeds from sale that result in a loss of control of subsidiaries or other businesses, net of cash disposed of		51	180
Proceeds from sale/repayment of intangible, tangible and other non-current assets		435	56
Cash flows from (used in) investing activities	(b)	(6,301)	(3,319)
Cash flows from financing activities:			
Change in current financial liabilities and other		1,351	957
Proceeds from non-current financial liabilities (including current portion)		4,523	2,007
Repayments of non-current financial liabilities (including current portion)		(5,290)	(5,842)
		240	67

Share capital proceeds/reimbursements (including subsidiaries)			
Dividends paid		(1,326)	(1,093)
Changes in ownership interests in consolidated subsidiaries		(211)	-
Cash flows from (used in) financing activities	(c)	(713)	(3,904)
Cash flows from (used in) discontinued operations/non-current assets held for sale	(d)	-	-
Aggregate cash flows	(e=a+b+c+d)	1,498	(350)
Net cash and cash equivalents at beginning of the year	(f)	5,282	5,484
Net foreign exchange differences on net cash and cash equivalents	(g)	(110)	148
Net cash and cash equivalents at end of the year	(h=e+f+g)	6,670	5,282

Additional Cash Flow Information

(millions of euros)	2011	2010
Income taxes (paid) received	(1,381)	(1,392)
Interest expense paid	(3,044)	(3,079)
Interest income received	1,332	1,176
Dividends received	2	3

Analysis of Net Cash and Cash Equivalents

(millions of euros)	2011	2010
Net cash and cash equivalents at beginning of the year:		
Cash and cash equivalents from continuing operations	5,526	5,504
Bank overdrafts repayable on demand from continuing operations	(244)	(101)
Cash and cash equivalents from Discontinued operations/Non-current assets held for sale	-	81
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale	-	-
	5,282	5,484
Net cash and cash equivalents at end of the year:		
Cash and cash equivalents from continuing operations	6,714	5,526
Bank overdrafts repayable on demand from continuing operations	(44)	(244)
Cash and cash equivalents from Discontinued operations/Non-current assets held for sale	-	-
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale	-	-
	6,670	5,282

Highlights The Business Units of the Telecom Italia Group

The highlights of the Telecom Italia Group are presented in this Annual Report based on 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), the operations of the Telecom Italia Sparkle group (international wholesale) as well as the relative support activities;

- Brazil Business Unit: includes mobile (Tim Celular) and fixed (Intelig, Tim Fiber SP and Tim Fiber RJ) telephone operations in Brazil;

- Argentina Business Unit: comprises fixed (Telecom Argentina) and mobile (Telecom Personal in Argentina and Núcleo in Paraguay) telephone operations;

- Media Business Unit: includes telephone network operations and management;

- Olivetti Business Unit: includes manufacturing operations for digital printing systems, office products and Information Technology services;

- Other Operations: includes finance companies and other minor companies not strictly related to the core business of the Telecom Italia Group.

Information by operating segment is as follows:

	Revenues		EBITDA		EBIT		Capital expenditures		Headcount at year-end (number)	
(millions of euros)	2011	2010	2011	2010	2011	2010	2011	2010	12/31/2011	12/31/2010
Domestic	19,032	20,068	9,243	9,393	(1,945)	5,162	4,200	3,106	55,389	56,530
Brazil	7,343	6,199	1,990	1,801	986	685	1,290	1,216	10,539	10,114
Argentina (*)	3,220	798	1,035	245	509	110	556	188	16,350	15,650
Media	238	258	28	13	(87)	(92)	61	67	765	777
Olivetti	343	391	(35)	(19)	(41)	(24)	5	5	1,075	1,090

Other Operations	2	64	(15)	(21)	(15)	(38)	-	4	36	39
Adjustments and Eliminations	*(221)*	*(207)*	-	-	*(10)*	*15*	*(17)*	*(3)*	-	-
Consolidated Total	29,957	27,571	12,246	11,412	(603)	5,818	6,095	4,583	84,154	84,200

(*)

In the scope of consolidation since October 13, 2010.

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

	12/31/2011	12/31/2010	12/31/2009
DOMESTIC FIXED			
Fixed-line network connections in Italy at year-end (thousands)	16,745	17,609	18,525
Physical accesses (Consumer + Business) at year-end (thousands)	14,652	15,351	16,097
Broadband accesses in Italy at year-end (thousands)	9,089	9,058	8,741
of which retail accesses (thousands)	*7,125*	*7,175*	*7,000*
Network infrastructure in Italy:			
access network in copper (millions of km pair, distribution and connection)	112.2	111.7	110.5
access and carrier network in optical fiber (millions of km - fiber)	4.6	4.3	4.1
Network infrastructure abroad:			
European backbone (km of fiber)	55,000	55,000	55,000
Mediterranean (km of submarine cable)	7,500	7,000	7,000
South America (km of fiber)	30,000	30,000	30,000
Total traffic:			
Minutes of traffic on fixed-line network (billions)	108.9	121.5	134.4
Domestic traffic	93.3	104.1	115.6
International traffic	15.6	17.4	18.8
DOMESTIC MOBILE			
Number of lines at year-end (thousands)	32,227	31,018	30,856
Change in lines (%)	3.9	0.5	(11.3)
Churn rate (%) (1)	21.9	22.0	29.4
Total average outgoing traffic per month (millions of minutes)	3,633	3,305	2,982
Total average outgoing and incoming traffic per month (millions of minutes)	4,843	4,597	4,260
Average monthly revenues per line (in euros) (2)	17.4	19.7	20.0
BRAZIL			
Number of lines at year-end (thousands)	64,070	51,015	41,102
ARGENTINA (*)			
Number of fixed lines at year-end (thousands)	4,141	4,107	4,060
Number of mobile lines at year-end (thousands)	20,342	18,212	16,281
Broadband accesses at year-end (thousands)	1,550	1,380	1,214
MEDIA			
La7 audience share Free-to-Air (analog mode) (average during year, in %)	3.8	3.1	3.0
La7 audience share Free-to-Air (analog mode) (average of last month of the year, in %)	3.9	3.3	2.9

(1)

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

(2)

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

(*)

The operating data of the Argentina Business Unit for the year 2009 is presented only for illustration purposes. The Argentina Business Unit has been consolidated by the Telecom Italia Group since October 13, 2010.

The Business Units of the Telecom Italia Group

Domestic

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

The Structure of Business Unit

The Domestic Business Unit is organized as follows:

(*)

Principal companies: Telecom Italia S.p.A., Matrix S.p.A., 4GH group, Telecontact Center S.p.A., Path.Net S.p.A., Telenergia S.p.A., HR Services S.r.l. and Shared Service Center S.r.l..

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

•

Core Domestic: includes all telecommunications activities inherent to the Italian market. Revenues are broken down in the following tables according to the net contribution of each market segment to the CGU s results, excluding intrasegment transactions. The sales market segments defined on the basis of the customer centric organizational model are as follows:

—

Consumer: comprises the aggregate of voice and internet services and products managed and developed for persons and families in the fixed and mobile telecommunications markets, from public telephony to the web portal/services of the company Matrix;

—

Business: is constituted by the aggregate of voice, data, internet and ICT solutions services and products managed and developed for SMEs (small and medium enterprises) and SOHOs (Small Office Home Office) in the fixed and mobile telecommunications markets;

—

Top: comprises the aggregate of voice, data, internet and ICT solutions services and products managed and developed for Top, Public Sector, Large Account and Enterprise clientele in the fixed and mobile telecommunications markets;

—

National Wholesale: consists of the management and development of the portfolio of regulated and unregulated wholesale services for fixed and mobile telecommunications operators in the domestic market;

—

Other (Support Structures): includes:

—

Technology & IT: constitutes services related to the development, building and operation of network infrastructures, real estate properties and plant engineering, delivery processes and assurance regarding clientele services in addition to the development and operation of information services;

—

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

•

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

Main operating and financial data

Key results of the Domestic Business Unit in total and by customer/business segment in 2011 compared to 2010 are as follows:

Domestic Business Unit

(millions of euros)	2011	2010	Change		
			amount	%	% organic
Revenues	19,032	20,068	(1,036)	(5.2)	(4.8)
EBITDA	9,243	9,393	(150)	(1.6)	(3.9)
EBITDA margin	*48.6*	*46.8*		*1.8pp*	*0.5pp*
EBIT	(1,945)	5,162	(7,107)	°	(1.3)
EBIT margin	*n.s.*	*25.7*		*n.s.*	*1.0pp*

Capital expenditures	4,200	3,106	1,094	35.2	
Headcount at year-end (number)	55,389	56,530	1,141	(2.0)	

Core Domestic

(millions of euros)	2011	2010	Change		
			amount	%	% organic
Revenues	18,123	19,065	(942)	(4.9)	(4.8)
Consumer	*9,217*	*9,739*	*(522)*	*(5.4)*	*(5.0)*
Business	*3,267*	*3,509*	*(242)*	*(6.9)*	*(6.9)*
Top	*3,322*	*3,511*	*(189)*	*(5.4)*	*(5.4)*
National Wholesale	*2,103*	*2,076*	*27*	*1.3*	*1.0*
Other	*214*	*230*	*(16)*	*(7.0)*	*(5.3)*
EBITDA	9,009	9,104	(95)	(1.0)	(3.4)
EBITDA margin	*49.7*	*47.8*		*1.9pp*	*0.7pp*
EBIT	(2,088)	4,967	(7,055)	°	(0.5)
EBIT margin	*n.s.*	*26.1*		*n.s.*	*1.2pp*
Capital expenditures	4,124	3,027	1,097	36.2	
Headcount at year-end (number)	54,380	55,475	(1,095)	(2.0)	

International Wholesale

(millions of euros)	2011	2010	Change		
			amount	%	% organic
Revenues	1,393	1,569	(176)	(11.2)	(8.8)
of which third party	*960*	*1,099*	*(139)*	*(12.6)*	*(7.8)*
EBITDA	246	300	(54)	(18.0)	(17.7)
EBITDA margin	*17.7*	*19.1*		*(1.4)pp*	*(1.9)pp*
EBIT	143	194	(51)	(26.3)	(26.5)
EBIT margin	*10.3*	*12.4*		*(2.1)pp*	*(2.3)pp*
Capital expenditures	76	82	(6)	(7.3)	
Headcount at year-end (number)	1,009	1,055	(46)	(4.4)	

Revenues

In 2011, except for National Wholesale, all segments displayed a contraction in revenues but affirm a progressive recovery during the course of the year thanks to the growth of the mobile customer base, a reduction in the loss of fixed accesses and the effectiveness of the new offering policies both in terms of the slowdown in price reductions and the development of new services (Broadband and ICT). More to the point:

- Consumer: the Consumer segment reports a reduction in revenues of 522 million euros (-5.4%) compared to 2010. The decrease in organic revenues is 487 million euros (-5.0%) and confirms the trend of recovery already observed during the year compared to the same periods of 2010 (-0.4% in the fourth quarter of 2011, -4.0% in the third, -6.4% in the second and -9.2% in the first). It should be noted that organic revenues excluded 35 million euros of revenues of the second quarter of 2010 relating to the end of the 1001TIM loyalty program which had resulted in the recognition of revenues from previously deferred bonus points that had not been used by the customer. The organic shrinkage can be entirely traced to revenues from services (-607 million euros, or -6.4%). This contraction is attributable to traditional voice services, both mobile and fixed, that were only partly offset by higher mobile internet revenues (+81 million euros, or +17.8% compared to 2010 and +28 million euros, or +22.6% in the fourth quarter compared to the same period of the prior year).

- Business: in 2011, the Business segment shows a reduction in revenues of -242 million euros (-6.9%), and a trend of progressive recovery since the beginning of the year. This decline is mostly in reference to the mobile services and traditional fixed-line voice services, with the latter, in particular, attributable to an erosion of the customer base (-5.8% compared to 2010).

- Top: the reduction in revenues in 2011 by the Top segment is 189 million euros (-5.4%) compared to 2010. Such decline principally refers to revenues from services (-144 million euros, or -4.8%), due, in particular, to a contraction in fixed telephony and a reduction in per unit mobile voice revenues which is only partially compensated by the growth in fixed-line ICT.

- National Wholesale: the increase in the revenues of National Wholesale (+27 million euros, or +1.3%) is generated by the growth of the customer base of OLOs (Other Licensed Operators) regarding services for Local Loop Unbundling, Wholesale Line Rental and Bitstream.

International Wholesale Revenues

International Wholesale (the Telecom Italia Sparkle Group) reported revenues of 1,393 million euros in 2011, down 176 million euros (-11.2%, or -8.8% in organic terms) compared to 2010. Such decline is almost entirely due to voice services (-167 million euros, or -14.8%), which are penalized by strong price pressure caused by market competition and also measures to rationalize the sector based on a more selective approach in terms of the quality of the customer portfolio and traffic, however without any significant impact on the margin. Moreover, revenues in 2010 included 29 million euros generated by the subsidiary Elettra which was sold in September 2010.

Besides the summary by market segment reported above, sales information by technology (fixed and mobile) is also presented below as a continuation of the information presented in the annual and interim reports of the previous periods.

Revenues of the Business Unit by technology and market segment are reported below:

(millions of euros)	2011			2010			Change %		
Market segment	Total	Fixed(*)	Mobile(*)	Total	Fixed(*)	Mobile(*)	Total	Fixed(*)	Mobile(*)
Consumer	9,217	4,409	4,973	9,739	4,674	5,275	(5.4)	(5.7)	(5.7)
Business	3,267	2,182	1,126	3,509	2,336	1,220	(6.9)	(6.6)	(7.7)
Top	3,322	2,585	826	3,511	2,724	887	(5.4)	(5.1)	(6.9)
National Wholesale	2,103	3,028	154	2,076	2,934	234	1.3	3.2	(34.2)
Other	214	220	35	230	201	76	(7.0)	9.5	(53.9)
Total Core Domestic	18,123	12,424	7,114	19,065	12,869	7,692	(4.9)	(3.5)	(7.5)
International Wholesale	1,393	1,393		1,569	1,569		(11.2)	(11.2)	
Eliminations	*(484)*	*(276)*		*(566)*	*(322)*				
Total Domestic	19,032	13,541	7,114	20,068	14,116	7,692	(5.2)	(4.1)	(7.5)

(*)

The breakdown by fixed and mobile technology is presented gross of intersegment eliminations.

Fixed-line Telecommunications Revenues

Fixed-line telecommunications revenues amount to 13,541 million euros in 2011, decreasing 575 million euros compared to 2010 (-4.1%; -3.8% in organic terms, of which -3.5% relates to revenues from services). Such contraction is largely attributable to the reduction in retail accesses, which at December 31, 2011 total 14.7 million lines (-4.6% compared to December 31, 2010), but which is showing signs of slowing down - thanks to sales policies aimed at maintaining and recapturing customers even though the reference market features a general decline. As for broadband services, conversely, sales are basically steady due to a client portfolio that is more or less stable in a market environment that identifies with fierce competition. The total broadband portfolio is equal to 9.1 million accesses (+31,000 compared to December 31, 2010), of which 7.1 million are retail accesses, with a market share of 53%, down from 2010 (-1.8 percentage points), and 2.0 million wholesale accesses.

The following table shows the trend of revenues in the major areas of business:

	2011		2010		Change	
(millions of euros)		*% of total*		*% of total*	*amount*	*%*
Retail voice	5,681	*41.9*	6,133	*43.4*	(452)	(7.4)

Internet	1,688	*12.5*	1,751	*12.4*	(63)	(3.6)
Business data	1,617	*11.9*	1,655	*11.7*	(38)	(2.3)
Wholesale	4,155	*30.7*	4,171	*29.5*	(16)	(0.4)
Other	400	*3.0*	406	*3.0*	(6)	(1.5)
Total Fixed-line Telecommunications Revenues	13,541	*100.0*	14,116	*100.0*	(575)	(4.1)

Mobile Telecommunications Revenues

Although revenues in the mobile sector are still contracted, the sector displays a structural improvement in sales performance which confirms the merit of the repositioning strategy adopted for the mobile business: the customer base totals about 32.2 million lines and grew from the end of 2010 1.2 million mainly in light of higher acquisitions and stable churn rates (21.9% compared to 22.0% in 2010).

Mobile telecommunications revenues are 7,114 million euros in 2011, decreasing 578 million euros compared to 2010 (-7.5%, or -7.1% in organic terms), with a progressive and constant improving trend compared to the same period of 2010 (-2.2% in the fourth quarter of 2011; -6.5% in the third; -7.6% in the second and -12% in the first). Revenues from services show an organic change of -8.7% compared to

2010 (-7.1% in the fourth quarter of 2011 compared to the same period of 2010; -7.5% in the third; -8.7% in the second and -11.7% in the first).

The following table shows the trend of revenues in the major areas of business:

	2011		2010		Change	
(millions of euros)		*% of total*		*% of total*	*amount*	*%*
Outgoing voice	3,600	*50.6*	4,033	*52.4*	(433)	*(10.7)*
Incoming voice	1,117	*15.7*	1,358	*17.7*	(241)	*(17.7)*
VAS (value-added services)	2,038	*28.6*	2,045	*26.6*	(7)	*(0.3)*
Handsets	359	*5.1*	256	*3.3*	103	*40.2*
Total Mobile Telecommunications Revenues	7,114	*100.0*	7,692	*100.0*	(578)	*(7.5)*

EBITDA

EBITDA of the Domestic Business Unit is 9,243 million euros in 2011, down 150 million euros compared to 2010 (-1.6%). The EBITDA margin is 48.6% and an improvement compared to 2010 (+1.8 percentage points). The contraction in revenues impacted EBITDA and was offset in part by selective control over fixed costs which produced cost containment and reduction.

Organic EBITDA in 2011 is 9,351 million euros (-376 million euros, or -3.9% compared to 2010), with an organic EBITDA margin equal to 49.1%, an increase compared to 2010 (+0.5 percentage points).

In detail:

(millions of euros)	2011	2010	Change
Historical EBITDA	9,243	9,393	(150)
Exchange rate effect		(4)	4
Changes in the scope of consolidation		(8)	8
Non-organic (income) expenses	108	346	(238)
Non-organic revenues	-	*(35)*	*35*
Disputes and settlements (*)	*63*	*91*	*(28)*
Expenses for mobility under Law 223/91	*12*	*254*	*(242)*
Other (income) expenses	*33*	*36*	*(3)*
Comparable EBITDA	9,351	9,727	(376)

(*)

The amount at December 31, 2011 includes expenses of 21 million euros for compensation due on the early termination of the Competence Center contract with Telecom Italia Media.

With regard to the change in the main costs, the following is noted:

(millions of euros)	2011	2010	Change
Acquisition of goods and services	6,766	7,131	(365)
Employee benefits expenses	2,987	3,473	(486)
Other operating expenses	778	709	69

In particular:

- *acquisition of goods and services:* shrunk 365 million euros (-5.1%) compared to 2010. Such contraction is mainly due to a decrease in the amounts to be paid to other operators, owing principally to the reduction in mobile termination rates. The higher expense for certain items, such as energy and variable costs related to product/service sales, has been absorbed by efficiency measures applied to fixed operating costs;

- *employee benefits expenses:* fell 486 million euros compared to 2010, attributable mostly to the reduction in the average headcount of the salaried workforce (-3,529 compared to 2010, of whom -1,188 are under solidarity contracts at Telecom Italia S.p.A. and SSC - Shared Service Center S.r.l), as well as a reduction (110 million euros) deriving from the actuarial effects regarding employee severance indemnities in connection with the change in the economic parameters of reference (discount rate and inflation rate) and also the new law on pensions (Law 214 of December 22, 2011) which extends the estimated period in which a person works. It should be noted that employee benefits expenses in 2010 included a total of 254 million for the start by the Parent, Telecom Italia, SSC and Telecom Italia Sparkle of the mobility procedure under Law 223/91. In 2011, the provisions were adjusted by another 12 million euros, of which 9 million euros is for the Parent, Telecom Italia, and 3 million euros for SSC.

- *other operating expenses:* rose 69 million euros compared to 2010, mainly due to the increase in expenses and provision charges connected with credit management and credit risks, particularly on Business clientele. Details are as follows:

(millions of euros)	2011	2010	Change
Writedowns and expenses in connection with credit management	397	317	80
Provision charges	50	53	(3)
Telecommunications operating fees and charges	58	56	2
Indirect duties and taxes	108	122	(14)
Sundry expenses	165	161	4
Total	778	709	69

EBIT

EBIT is a negative 1,945 million euros in 2011, decreasing 7,107 million euros. EBIT particularly comprises the goodwill impairment charge of 7,307 million euros referring to the Core Domestic cash-generating unit, recorded on the basis of the results of the impairment test.

Organic EBIT, calculated by also excluding the above goodwill impairment charges, is 5,410 with a negative change of 74 million euros (-1.3%); the organic EBIT margin increased from 27.4% in 2010 to 28.4% in 2011.

In detail:

(millions of euros)	2011	2010	Change
Historical EBIT	(1,945)	5,162	(7,107)
Exchange rate effect		(2)	2
Differences in the scope of consolidation		(4)	4
Non-organic (income) expenses	7,355	328	7,027
Non-organic expenses already described under EBITDA	*108*	*346*	*(238)*
Core Domestic CGU goodwill impairment charge	*7,307*	*-*	*7,307*
Gains)/losses, impairment (Reversals)/losses on non-current assets and investments	*(60)*	*(18)*	*(42)*
Comparable EBIT	5,410	5,484	(74)

In particular, with reference to the goodwill impairment charge of the Core Domestic CGU, for 7,307 million euros, in preparing the annual financial statements the Telecom Italia Group repeated the impairment test that had been performed in the first half of 2011 which led to the recognition in the Half-year Financial Report at June 30, 2011 of an impairment loss of 3,182 million euros referring to the Core Domestic cash-generating unit. The macroeconomic and market climate was marked by a slowdown in the higher growth economies and fears of a recession in the mature ones which was more accentuated in the domestic market. Added to this was an escalation, in the second half of the year, of financial market pressures, with particular reference to the trend of interest rates. The measurement therefore took into account such deterioration of the financial markets in general terms, with reference to interest rates, while the worsening of expectations regarding the market prospects of the Business Unit in question were considered in specific terms.

Further details are provided in the Note Goodwill in the consolidated financial statements at December 31, 2011 of the Telecom Italia Group.

Capital expenditures

Capital expenditures total 4,200 million euros, up 1,094 million euros compared to 2010. The increase is due principally to the acquisition of the user rights for 800, 1800 and 2600 MHz LTE frequencies to be designated for broadband mobile communications for a total of 1,223 million euros. This follows the auction by the Ministry of Economic Development which took place in the second half of the year. The user rights, formally awarded by the Ministry on October 3, 2011, were assigned in February 2012.

The percentage of capital expenditures to revenues is 22.1%, excluding the acquisition of the above LTE frequencies, the ratio is 15.6%, basically in line with 2010 (15.5%).

Headcount

Headcount is 55,389 at December 31, 2011, with a reduction of 1,141 compared to December 31, 2010 and includes 4 persons with temp work contracts (8 at December 31, 2010).

Commercial developments

Mobile consumer

In 2011, sales actions in the mobile services market focused on the acquisition of new lines by pushing the plans of the Tutto Compreso Ricaricabile range. This was enhanced by the addition of the option offering unlimited calls to a TIM number of the customer s choice and the promotion Switch to TIM and Double your Top-ups for customers acquired through Mobile Number Portability (MNP).

Greater effort was devoted to the target of younger customers with the launch of the TIM Young rate plan (with plenty of free, exclusive content with special rates for new customers from October) and the new TIM Cloud service, offering customers the option of saving content (photos, films and music) on the Cloud and sharing it with friends.

With reference to the ethnic target, TIM strengthened its commercial hold on the market and continued to improve the TIMCard Etniche range with the new and highly competitive TIM Card International New rate plan.

High-value customers were also targeted, with the enhancement of the Tutto Compreso a canone/bundle mensile range, combined with hi-tech handsets, iPhones and other smartphones with dedicated solutions, rate plans and options (for example: the launch of the new TuttoSmartphone range, the introduction of the option of unlimited free traffic at a lower speed, once the bundle included in the rate plan has been exceeded, for all flat rate plans).

The range of rate plans for mobile internet navigation from a PC continues to gain leverage from TIM s Internet Pack range, to which new rate plans have been added: Internet Pack senza limiti starting in March and Internet Pack Premium con chiavetta a 42Mega starting in December. From March onwards, this latest Internet Pack will be supplied not only with the traditional internet stick, but also with the new 3G-WiFi modems.

The mobile internet plan for tablets has been improved by the Internet Senza Limiti rate plan, available for products on the TIM price list and for the Apple iPad, and can also be acquired through the Tutto Tablet installment formula. October saw the launch of the new Tablet Pack which offers customers the option of purchasing a year s internet traffic in advance.

The range of rate plans for internet navigation from mobile phones has been streamlined to ensure greater transparency for customers, with the re-launch of the TIMx Smartphone senza limiti rate plan (2.5 euro/week for 250 MB of internet access).

TIM also continued to develop seasonal promotions for internet applications; for the summer the Carta Vacanze, Summer Edition Internet Pack senza limiti and Promo internet estate rate plans were launched giving new TIM Smartphone owners free navigation throughout the summer. At Christmas, the TIMxSmartphone promotion offered 2 months free trial to new TIM Smartphone customers.

As for the development of new TIM services, July saw the launch of MobilePay, a single shared platform with other mobile operators allowing customers to pay for digital content and services with a phone credit. The platform was also enhanced by the addition of various kinds of digital content and services, especially in the sector of publications.

December saw the beginning of marketing of the new Biblet eBook Reader for reading books in digital format and accessing the digital bibletstore (more than 20,000 titles). The bibletstore was also made accessible to smartphones and tablets. During the year, partnerships were established with various leading Italian publishers to encourage people to adopt these innovative products and services by offering content in promotion (access to daily newspapers or the mobile site etc.) to people who had purchased innovative products (tablets, smartphones or internet sticks) or navigation offers.

Fixed line consumer

With regard to landline phone services, the streamlining process begun in 2010 continues. In July, Telecom Italia was one of the first operators in Europe, with regard to conventional rates for calls between fixed lines, to eliminate the distinction between full rates and reduced rates according to time bands, for both local and long-distance calls, thus permitting customers to benefit from a fixed price 24 hours a day 7 days a week.

Efforts continued to promote the Superinternet option successfully launched in April making it possible to satisfy the growing demand of broadband customers in terms of download and, more particularly, upload.

On November 7, 2011 Telecom Italia went ahead with marketing the new super-fast Fibra 100 Mega plans, based on the new-generation fiber optic network and already available in parts of Milan, Rome, Turin and Bari.

In December, there was a new addition to Telecom Italia s ADSL offering: Internet Play , aimed at young people who play online, which reduces the ping (communication delay) of the connection by up to 40%, ensuring faster response times and better performance when playing games online.

Telecom Italia s range of content was boosted by Cubomusica, a service that offers music in streaming online, with a catalog of more than 4.5 million tracks resulting from the partnership created with leading recording companies. The service was launched in February 2011 for ADSL customers with a free-trial offer. In October a new promotion was activated on the Tutto Senza Limiti plan, which includes Cubomusica GRATIS per 1 anno. During the same period, Cubomusica was also launched on the mobile market, for smartphones (Android and before long Apple).

Business

As regards the Business market, in the second half of 2011, various initiatives were launched with the aim of increasing commercial presence both in the fixed and mobile segments.

In the fixed line segment, promotions were introduced directed at both new customers and Telecom Italia customers which combine the removal of the connection fee and free broadband access for between three and six months. What s more, the range of premium phone-data bundle packages (the Tuttocompreso profiles) was expanded. These include unlimited calls towards the national fixed phone network, unlimited ADSL connectivity, free installation and top assistance services.

In the last quarter of 2011, a solution for small businesses was launched for managing voice services, and can be used either for PBX services on conventional lines or for VoIP. The solution, which has been integrated within the infrastructure of Telecom Italia s broadband service, is completely compatible with the customer s system. During 2012 this solution will be integrated with the Virtual PBX Cloud solutions.

In the mobile segment, the +50% packages were announced, summer promotions on all bundled packages which, for the same price, increase the customer s bundle of free minutes by 50%. The range of flexible packages (Flex profiles) was also extended, with proposals offering discounts on roaming rates.

In order to augment the penetration of large screen devices, the Tablet a zero promotion was launched, whereby customers who activate Internet in mobilità unlimited at a cost of 25 euros/month will receive a Samsung tablet or an Apple iPad, and the one-off payment may be eliminated (in the case of the smaller version of the Samsung tablet).

Another event marking the last quarter of the year, with the aim of developing the IT market and sustaining Telecom Italia s positioning as an IT provider, was the birth of IL MIO SITO, a complete service enabling users to create a professional website simply, independently and rapidly for their business or activity. The launch plan offers a domain on the internet, free e-mail, fax facilities and web hosting for the first year, and tools for creating and helping to develop the website.

Top clients and public sector

The last quarter of 2011 saw the launch of services aimed at making Telecom Italia s offering on the Top Client and Public Sector market even more comprehensive and competitive, positioning Telecom Italia as the Italian ICT market s Number One Infrastructure Provider.

Top clients

The product range of the fixed network was enhanced to provide a more flexible response to customers requirements with the creation of new 7Mb/sec ADSL Hyperway data access profiles, the availability of xDSL profiles based on IP and the provision of fiber optic GBE (GigabitEthernet) access in new areas.

With regard to mobile voice services, the range of top-up profiles was bolstered by the addition of the All Inclusive gamma exclusive plan, which includes smartphones, e-mail/internet traffic and new billing services which keep personal and professional traffic separate.

The evolution of the product range associated with tablets currently available on the market was ensured by bundles called Pack Exclusive per TOP, with internet traffic included. More than 50 business applications developed by 10 partners were launched, and can be supplied as part of the package according to the customer s requirements.

With regard to IaaS (Infrastructure As A Service) services, efforts were made to make the whole range more flexible. The line of the Nuvola ITHosting Evoluto package, the IT infrastructure service developed for large companies, was improved by the addition of solutions which respond to increasingly complex requirements, also creating Private Cloud services through the Data Center in a Box profile.

Ospit@ Virtuale is a Hosting service for medium-size businesses, with adaptable calculating capacity, storage and bandwidth, enhanced by the functions offered by a new management console that can take care of self-ordering, provisioning and all the consumption factors.

The evolution of Saas (Software As A Service) services has expanded the product range thanks to the introduction of new applications solutions: Nuvola It SIM Location, Nuvola It Your Way and Nuvola It Fast Start.

Nuvola It SIM Location is Telecom Italia s new package offering a hi-tech solution for locating, managing and certifying vehicular services through digital maps carried on board vehicles with GPS sat nav systems and GSM/GPRS networks for data transmission.

Nuvola It Your Way is a package which integrates the best technologies on the market for handling the logistics and transportation of goods. The solution is based on three main application modules: maintenance and technical assistance, enabling all the management and monitoring of the vehicle to be conducted remotely.

Nuvola It Fast Start is the ERP solution resulting from the collaboration between Telecom Italia and SAP Italia aimed at SMEs. The package offers an integrated solution and a user-friendly, intuitive interface that can be accessed from any channel, and can be implemented within a few weeks. The Fast Start program is the only management solution with an online configuring device: a simple, transparent tool which enables the customer to select processes which are useful for his/her own sector or business, and rapidly obtain a cost estimate.

Nuvola It IntoucHD, the HD videocommunication solution enabling users to organize virtual Intra-Company and Inter-Company meetings, also allows interoperability between different terminals of any kind and is aimed at companies in the TOP and Enterprise segments, and Nuvola It Message Cube, the Messaging & Collaboration package which integrates the functions of e-mail with hi-tech unified messaging, web collaboration and real-time collaboration services, saw a repositioning of prices based on different business profiles.

Public sector

During 2011, the Public Sector segment saw gradual consolidation taking place in the core TLC sector as a result of the activation of the new Consip agreement for fixed telephony and IP connectivity services. Some value-added services have also been introduced such as Telephony over IP, e-mail management and network security.

Within the sphere of mobile services, during the year, the size of the mobile phone segment was consolidated as a result of marketing the services included in the Consip Mobile 5 agreement.

Still in the sphere of mobile telephony, new value-added services were launched called Push Mail and Messaggistica which will enable upselling on an important scale on the Customer Base.

Within the sphere of vertical solutions, Telecom Italia enhanced its range in three specific areas:

- Territorio Digitale with the launch of Smart Services applied to different contexts (towns, buildings, hospitals and schools), with the aim of distributing innovative services (infotainment, videosurveillance, WiFi hot spots, remote teaching etc.) in specific areas, while optimizing energy consumption.

- Burocrazia Digitale with solutions for the automated management of the Sportello Unico delle Attività Produttive, for asset and property management, with workflow and management and of the real estate portfolio, for the simplification of the interfaces needed to navigate PA websites (Virtual Tour 2.0).

- Sanità Digitale with solutions for remotely monitoring clinical data (Nuvola It Home Doctor), managing patient health files, for archiving diagnostic data; managing medical offices.

Principal changes in the regulatory framework

Wholesale fixed markets

Wholesale access services

With Decision 578/10/CONS of November 11, 2010, AGCom set the new rates for wholesale access services to Telecom Italia s fixed network (unbundling, bitstream and WLR) and the calculation of the WACC, both applicable for the period May 1, 2010 December 31, 2012. The WACC applicable to Telecom Italia s wholesale access services was set at 9.36%.

In particular, for the unbundling charge, AGCom set the following values: 8.70 euros per month from May 1, 2010, 9.02 euros per month from January 1, 2011 and 9.28 euros per month from January 1, 2012.

For Wholesale Line Rental (WLR), which is offered only from TI telephone exchanges which do not offer unbundled services (Local Loop Unbundling), with decision 578/10/CONS of November 11, 2010,

AGCom set the new price effective for the period May 1, 2010 to December 31, 2012 on the basis of a Network Cap mechanism which replaced the previously applied retail minus approach. In observance of Decision 578/10/CONS, on April 11, 2011 Telecom Italia announced the 2011 pricing for the WLR service, indicating a monthly charge for a POTS line of 12.51 euros/month for residential customers and of 14.87 euros/month for business customers. From 2012, the WLR charge for both residential and business customers was set at 12.89 euros per month.

The price increases for unbundling and other wholesales services for the two years 2011-2012 were made conditional, however, on the verification by the Regulator of attainment of certain parameters measuring quality improvement and modernization of the Company s access network.

Following certification by an independent body, the outcome of AGCom s verification was favorable and Telecom Italia was authorized to put the wholesale price changes into effect.

Wholesale origination, termination and call transit

In April 2011, AGCom published the final regulation for setting the 2011 prices (Decision 229/11/CONS) of wholesale origination, local transit, termination on the Telecom Italia network and termination on the network of another operator (reverse), confirming the same price levels as 2010. Specifically concerning the termination service on the networks of alternative operators, AGCom decided to postpone to 2012 the application of the symmetric termination prices, equal to Telecom Italia s local telephone exchange rate SGU (Urban Group Stage), between alternative infrastructured operators and Telecom Italia itself. AGCom has also decided that beginning in 2013 Telecom Italia and other fixed line operators (OLOs) will offer only IP interconnection with a single symmetric rate, resulting from the BU-LRIC (Bottom-Up-Long Range Incremental Cost) model which will be developed in the next few months consistently with the EU Recommendation 2009/396/EC on termination rates.

In December 2011, the TAR of Lazio (Regional Administrative Court) upheld Telecom Italia s appeals against Decision 229/11/CONS and the previous Decision 179/10/CONS to annul the parts which set, respectively, asymmetric termination prices for alternative operators for the second half of 2010 and for 2011. Under the same ruling, the TAR of Lazio rejected the incidental appeal by the alternative operators against the imposition of symmetric termination prices to Telecom Italia s local exchange level (SGU) beginning January 1, 2012. The Regulator and alternative operators appealed the decision by the TAR of Lazio with the Council of State which will issue its ruling in the second quarter of 2012.

New Generation Networks

On September 23, 2010, with Decision 498/10/CONS, AGCom introduced the procedure for the regulation of access services to next generation networks. Subsequently, in January and May 2011 the Regulator submitted the new regulatory structure for next generation networks access to public consultation. With Decision 1/12/CONS of January 18, 2012, the Regulator announced its final decision which does not explicitly require the unbundling of fiber at Telecom Italia telephone exchanges. The obligation to supply an end-to-end service in dark fiber between the Telecom Italia center and the final customer s site was also confirmed, but with a significant attenuation of the scope compared to the proposal submitted for public consultation, introducing explicitly the principle of the reasonableness and proportionality of the service demands of alternative operators by reference to Telecom Italia s NGAN (Next Generation Access Network) investment plan. With regard to the pricing of the bitstream on fiber service, AGCom confirmed the restriction of the obligation to adhere to cost to the non-competitive NGAN geographical areas only and limited to 60 days the time which must pass between publication of the reference offer for bitstream on fiber services approved by the Regulator and subsequent provision by Telecom Italia of retail services. In February 2012, AGCom initiated three procedures concerning the completion of the NGAN regulations: 1) the cost model for the determination of prices for wholesale services received and supplied and definition of the areas of competition for the geographic differentiation of bitstream service selling prices; 2) evaluation of the imposition on all operators of obligations for symmetrical access to vertical fiber cabling and to the sections leading to the buildings; 3) evaluation of possible amendments to the regulation of the copper wire sub loop unbundling service in the light of the possible introduction of vectoring technology on FTTCab-VDSL accesses.

Wholesale mobile markets

Termination on the mobile network

In November 2011, the Regulator issued its final recommendation (Decision 621/11/CONS) on wholesale pricing for voice termination rates on the single national mobile networks. The new glide path, based on six-monthly rather than annual changes, starts from July 1, 2012 and ends on July 1, 2013, with the application of a termination price which is symmetrical for all mobile operators of 0.98 €cents/minute.

Voice termination on mobile network	Price from July 1, 2011	New glide pat		
Euro cent/min.		From July 1 2012	From January 1 2013	From July 1 2013
Termination on H3G network	6.3	3.5	1.7	0.98
Termination on TI, Vodafone & Wind networks	5.3	2.5	1.5	0.98

Retail fixed markets

Retail charge

Beginning July 1, 2011, a rate adjustment was made which consists of increasing the price of the RTG charge for Consumer clientele from 16.08 euros/month (including VAT) to 16.64 euros/month (including VAT). The last variation of the Consumer charge was made on February 1, 2009. In line with the new charge and with AGCom regulations concerning special economic treatment, the RTG charge was modified for the less affluent classes from 8.04 euros /month (including VAT) to 8.32 euros/month (including VAT). The ISDN charge and all the charges for Business connections have instead remained unchanged.

Local, national and fixed-to-mobile retail traffic

Beginning July 1, 2011, a new rate maneuver came into effect for national calls from the fixed line network which provides for a different breakdown of the plans according to the particular clientele segment. For the Consumer clientele, the Ora Gratis (free hour) for local calls and the Mezz Ora Gratis (free half hour) for long-distance calls was eliminated, while at the same time the pricing scheme was simplified by introducing a flat rate (no longer differentiated by the time frame). Specifically, the new prices are equal to 0.71 €cents/minute (including VAT) for local calls and 5.04 €cents/minute (including VAT) for long distance. For both types of traffic, the set-up charge for each call is unchanged at 7.94 €cents (including VAT). As regards the Business clientele, the Ora Gratis has been eliminated for all local calls (Mezz'Ora Gratis for long-distance calls had never been introduced for this type of clientele) while domestic traffic rates (local and long-distance) have remained unchanged (including the breakdown by time frame).

Ultra-Broadband offering

In order to guarantee the commercial start-up phase of Telecom Italia s retail optical fiber offering, in the transition period until completion of the regulation of NGANs, AGCom, with Decision 61/11/CONS concerning Telecom Italia s retail offering, has imposed the following conditions: (i) Telecom Italia may only offer the service in those cities in which NGAN services are already being offered by alternative operators (Milan, Rome, Turin, Naples, Genoa, Bari, Bologna); (ii) the number of customers that can be activated by Telecom Italia is set at a maximum of 40,000; (iii) the formulation of a wholesale offering for the resale of ultra-broadband services must be based on the retail minus principle.

International roaming

On July 6, 2011, the European Commission published the proposed Roaming III Regulation which will come into force on July 1, 2012. The Regulation proposes the extension of the maximum CAP until 2016 for retail prices and until 2022 for wholesale prices, for calls, SMSs and intra-EU roaming data services. The proposal was submitted for approval to the European Parliament and the Council of Ministers of the European Union on the basis of the so-called co-decision procedure. The Regulation is expected to be approved in the second quarter of 2012.

Long Term Evolution LTE frequencies

On December 7, 2010, the Stability Law 2011 was approved after which AGCom and the Department of Communications of the Ministry of Economic Development began the procedures for the assignment, by means of auctions, of the user rights for the radio frequencies intended for electronic mobile broadband communication services.

On June 10, 2011, AGCom published Decision 282/11/CONS containing the regulation on the procedures for the release of the user rights for the frequencies 800, 1800, 2000 and 2600 MHz. The Ministry of Economic Development, for its part, in the Gazzetta Ufficiale, Issue 75, of June 27, 2011, called for bids for the assignment of the user rights for the frequencies in the same 800, 1800, 2000 and 2600 MHz bands.

The minimum auction bids for the single frequency lots were as follows:

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

Telecom Italia was admitted by the Ministry of Economic Development to the presentation of the bids for the use of the frequencies.

The auction began on August 31, 2011 and ended on September 29, 2011; on October 3, 2011, the Ministry of Economic Development Communications Department after the outcome of the auction - informed Telecom Italia that it had been awarded two generic blocks of 2x5 MHz each in the 800 MHz spectrum, one generic block of 2x5MHz in the 1800 MHz spectrum and three generic blocks of 2x5MHz each in the 2600 MHz. The total cost was 1,223 million euros, including a discount of 38 million euros, in exchange for Telecom Italia s commitment to build over 50% of the new networks using equipment with eco-sustainable environmental features. Suitable guarantees were provided against this discount.

On November 3, 2011, Telecom Italia informed the Ministry that it had:

- paid 767 million euros as the fee for being awarding the above blocks of frequencies;
- set up a 5-year surety bond of 456 million euros following its request to pay the amount in installments.

On December 15, 2011, Telecom Italia asked the Ministry to authorize the start of trials for new services based on LTE technology in the 800, 1800 and 2600 MHz frequencies. Following the request tabled by Telecom Italia and the other mobile operators, the Ministry set up a meeting to monitor the release of the 800 and 2600 MHz frequencies by, respectively, the local television broadcasters and the Ministry of Defense.

The user rights, formally awarded by the Ministry on October 3, 2011, were assigned in February 2012.

AGCom fee

AGCom carried out inspections to verify Telecom Italia s and all the other telecommunications companies compliance with their obligations to pay the AGCom fee for the years 2006, 2007, 2008, 2009 and 2010. On March 1, 2011, with Decision 99/11/CONS, the Regulator communicated to Telecom Italia the findings of its inspections, asserting that the Company had not paid the correct amount of the fees for AGCom s operating costs for the years in question and listing the additional accounting items which, in its view, should have been included in the chargeable base for the computation of the fee. Telecom Italia has therefore received a demand from AGCom for payment of an amount of 26.6 million euros for fees not paid for the five-year period 2006-2010. Telecom Italia has challenged this demand before the TAR of Lazio and the court has ordered the suspension of the payment demand pending settlement of the case. The case was examined by the TAR at a hearing held on December 13, 2011; the court s judgment is expected to be delivered.

On March 3, 2011, Decision 599/10/CONS was published relating to the annual fee for the contribution towards AGCom s operating costs for 2011, in which AGCom raised the quota payable from 1.5 to 1.8 of 2009 communications sector revenues. On April 30, 2011 Telecom Italia made a conditional payment of an amount of 24.2 million euros, computed on a basis consistent with the Company s submission challenging Decision 99/11/CONS and at the same time challenged Decision 599/10/CONS before the TAR of Lazio with regard both to the increase in the fee percentage and the extension of the accounting items to be included in the chargeable base. This dispute was examined by the court at the December 13, 2011 hearing together with that concerning the challenge to Decision 99/11/CONS.

Mobile Number Portability (MNP)

On January 7, 2011, AGCom Decision 147/11/CIR was published concerning the Revision of the norms for mobile number portability approval of the regulations . Among other things the Decision provides that:

- MNP must be implemented by 8.30 am on the second working day following the day on which the customer s request was input to the recipient operator s system;

- the recipient operator must compensate the customer, on request from the latter, for any delay in the activation of portability of the number, with an indemnity of at least 2.5 euros per day for each working day of delay up to a maximum amount of 50 euros. The indemnity is not due for delays of up to two working days; for delays in excess of two working days the indemnity is computed for all the days of delay including the first two;

- the personal data of the customer requesting MNP must be handled by the donating operator with the maximum confidentiality and be used exclusively for the purposes of performing the service.

Calculation of the net cost of the Universal Service

With Decision 153/11/CIR of December 12, 2011 AGCom concluded the process of valuing the net cost of the Universal Service for 2004. In particular, the Regulator approved the application of the allocation mechanism and determined the net cost for 2004 in the aggregate amount of 25.9 million euros.

The contribution quota due by the other operators (Vodafone, Wind, Fastweb, Tele tu and BT Italia) amounts to 8.7 million euros.

Decision 153/11/CIR also authorizes the initiation of work on the verification of the net cost of the Universal Service for the year 2005 and requires Telecom Italia - by January 25, 2012 - to submit the new valuation of the 2005 net cost.

Competition

The market

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

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

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

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

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

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

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

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

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

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

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

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

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

Competition in Fixed Telecommunications

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

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

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

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

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

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

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

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

Competition in Mobile Telecommunications

The mobile market, while increasingly saturated and mature in its traditional component of voice services nevertheless continues to experience growth in the number of mobile lines, driven by the growth in multiSIM/multidevice customers and in non-human lines (at December 31, 2011, mobile lines in Italy numbered about 97 million with growth of about 3% over 2010 and with a penetration rate of approximately 159% of the population). Along with the phenomenon of a progressive contraction in traditional service components such as voice and messaging, significant growth was witnessed in the mobile broadband market which in the last few years was, and in the future will still be, the main opportunity for the strategic and commercial growth of the mobile telecom industry.

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

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

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

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

Brazil

The Telecom Italia Group operates in the mobile and fixed telecommunications sector in Brazil through the Tim Brasil group which offers services using UMTS and GSM technologies. Moreover, through the subsidiary Intelig Telecomunicações, the Tim Brasil group completes its services portfolio by offering fiber-optic data transmission using full IP technology such as DWDM and MPLS. At the end of October 2011, the Tim Brasil group acquired control of two companies in the AES Atimus group which have been renamed Tim Fiber RJ and Tim Fiber SP. The companies will offer residential broadband services.

The structure of the Business Unit

The Tim Brasil group is organized as follows:

Main operating and financial data

Key results of the Brazil Business Unit for 2011 compared to 2010 are presented in the following table:

	(millions of euros)		(millions of Brazilian reais)		Change		
	2011	2010	2011	2010	amount	%	% organic
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d	
Revenues	7,343	6,199	17,086	14,457	2,629	18.2	18.2
EBITDA	1,990	1,801	4,631	4,201	430	10.2	10.7
EBITDA margin	*27.1*	*29.1*	*27.1*	*29.1*		*(2.0)pp*	*(1.9)pp*
EBIT	986	685	2,294	1,597	697	43.6	44.8
EBIT margin	*13.4*	*11.0*	*13.4*	*11.0*		*2.4pp*	*2.5pp*
Capital expenditures	1,290	1,216	3,002	2,836	166	5.9	
Headcount at year-end (number)			10,539	10,114	425	4.2	

Revenues

Revenues total 17,086 million reais, increasing 2,629 million reais compared to 2010 (+18.2%). Service revenues in 2011 are 15,353 million reais, up from 13,571 million reais in 2010 (+13.1%). Revenues from the sale of products increased from 886 million reais in 2010 to 1,733 million reais in 2011 (+95.6%), reflecting the strategy to penetrate the market with high-value smartphones and webphones as leverage for the development of mobile data services.

The Average Revenues Per User (ARPU) for the year 2011 is 21.4 reais at December 2011 compared to 23.7 reais at December 2010 (-9.8%).

Total lines at December 31, 2011 number 64.1 million, growing 25.6% over December 31, 2010, corresponding to a 26.5% market share.

EBITDA

EBITDA in 2011 is 4,631 million reais, up 430 million reais compared to 2010 (+10.2%); the increase in the EBITDA margin associated with the growth of revenues is partnered by operating efficiencies achieved on the front of industrial costs, employee benefits expenses and trade receivables management.

The EBITDA margin is 27.1%, down 2 percentage points from 2010. This result is the consequence of the cited market penetration strategy focusing on smartphones and webphones, offset however by operating efficiencies in industrial costs and employee benefits expenses.

The organic change in EBITDA compared to 2010 is +448 million reais and the organic EBITDA margin is 27.2% (29.1% in 2010). Details are as follows:

(millions of Brazilian reais)	2011	2010	Change
Historical EBITDA	4,631	4,201	430
Other non-organic (income) expenses	18	-	18
Comparable EBITDA	4,649	4,201	448

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

	(millions of euros)		(millions of Brazilian reais)		
	2011 (a)	2010 (b)	2011 (c)	2010 (d)	Change (c-d)
Acquisition of goods and services	4,399	3,519	10,234	8,208	2,026
Employee benefits expenses	321	283	747	659	88
Other operating expenses	747	588	1,738	1,371	367
Change in inventories	(19)	76	(45)	178	(223)

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acquisition of goods and services: totals 10,234 million reais (8,208 million reais in 2010). The increase of 24.7% compared to 2010 (+2,026 million reais) can be analyzed as follows:

—

+1,259 million reais for purchases of raw materials, auxiliaries, consumables and merchandise (of which +985 million reais is product cost)

—

+220 million reais for external services costs,

—

+363 million reais for the portion of revenues to be paid to other TLC operators,

—

+184 million reais for rent and lease costs;

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employee benefits expenses amount to 747 million reais, increasing 88 million reais compared to 2010 (+13.4%). The average headcount grew from 8,727 in 2010 to 9,194 in 2011. The percentage of employee benefits expenses to revenues is 4.4%, decreasing 0.2 percentage points from 2010;

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other operating expenses: amount to 1,738 million reais, increasing 26.8% (1,371 million reais in 2010). Such expenses consist of the following:

(millions of Brazilian reais)	2011	2010	Change
Writedowns and expenses in connection with credit management	232	311	(79)
Provision charges	140	41	99
Telecommunications operating fees and charges	1,290	961	329
Indirect duties and taxes	33	26	7
Sundry expenses	43	32	11
Total	1,738	1,371	367

EBIT

EBIT is 2,294 million reais, increasing 697 million reais compared to 2010. This increase is due to a higher contribution by EBITDA and lower depreciation and amortization charges of 259 million reais (2,335 million reais in 2011, compared to 2,594 million reais in 2010). In particular, the decrease in depreciation and amortization is partly due to the revision of the useful life of software (+166 million reais) carried out in 2010 and partly to the reduced use of handset subsidies during 2011.

The organic change in EBIT is a positive 715 million reais compared to 2010, with an EBIT margin of 13.5% (11% in 2010). Details are as follows:

(millions of Brazilian reais)	2011	2010	Change
Historical EBIT	2,294	1,597	697
Other non-organic (income) expenses already described under EBITDA	18	-	18
Comparable EBIT	2,312	1,597	715

Capital expenditures

Capital expenditures stand at 3,002 million reais, increasing 166 million reais compared to 2010. The success of the new sales strategy has brought a gradual reduction in the portion of subscriber acquisition costs capitalized and an increase in the expenditures dedicated to network infrastructures so as to sustain the growth of voice and data traffic.

Headcount

Headcount is 10,539 at December 31, 2011, an increase of 425 compared to December 31, 2010 (10,114).

Commercial developments

In the Consumer segment, TIM has intensified marketing of the Infinity prepaid plan which distinguishes itself from competitors offerings principally because of its qualities of simplicity and convenience.

New refill options have been introduced for customers of Infinity Pre and Infinity Controle , such as the internet refill channel using a credit card. The refill amount can vary from 12 to 100 reais.

In the post-paid segment, TIM has continued with its strategy of promoting the Liberty plans, stimulating growth and consumption within its own community.

In the area of value-added services, TIM has launched a plan which increases the use of SMS by post-paid customers - Liberty Torpedo allowing subscribers to send an unlimited number of messages to any operator (on and off-net) at the flat charge of 9.90 reais per month. The plan introduces the concept of unlimited traffic for SMS and replaces the traditional pricing based on consumption.

TIM has also extended the internet navigation plan Liberty Web Light to more than 300 cities across the national territory in accordance with the government s digital development project Plano Nacional de Banda Larga . With this plan it is possible to use an unlimited connection with a mini-modem at a speed of 1 Mbps at a flat monthly charge of 35 reais.

To encourage data traffic, new plans have been promoted - Infinity Web (internet access plans using a mobile modem) aimed at customers with tablets and mini-modems (dongles). For unlimited internet use the daily charge is 1.99 reais.

TIM has signed an agreement with the bank Banco Itaú by means of which a co-branded credit card is offered exclusively to TIM customers in association with a loyalty points program.

In the Business market, TIM has launched the service known as MDM TIM which enables businesses to manage confidential information transmitted on a smartphone or tablet used by employees of the business. In this offering, TIM appears to be a pioneer and an innovator in the market.

Further, continuing with innovation, TIM has upgraded its own network to support the new internet Protocol IPv6 which will make it possible to sustain the growing demand for voice and data services.

With regard to product, TIM has strengthened its competitive position with an exclusive agreement with Apple for the sale of the iPad2 across the entire country with a basic offering of 199 reais per month, with payment by credit card deferred over 12 monthly installments.

On December 16, 2011, the promotion campaign began, with extensive recognition from publicity and the media, for the sale of the new iPhone 4S in nine Brazilian capital cities. iPhone 4S are on sale in the 16GB, 32GB and 64GB versions, at prices ranging from 1,899 reais to 2,499 reais.

In the market for fixed telephony services, TIM has launched Fixo ilimitado TIM , a voice service with a monthly charge of 39.90 reais giving unlimited national calls to fixed numbers. The customer can also call TIM mobile numbers within the same monthly charge using the long-distance code 41.

Competition

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

Argentina

The Telecom Italia Group operates in Argentina and Paraguay through the Sofora - Telecom Argentina group. Specifically, in Argentina it operates in fixed telecommunications through the company Telecom Argentina and in mobile telecommunications through the company Telecom Personal (with the Personal brand), and in Paraguay it operates in mobile telecommunications with the company Núcleo.

The structure of the Business Unit

At December 31, 2011, the Argentina Business Unit is organized as follows:

Main operating and financial data

The following table gives the main results reported by the Argentina Business Unit for the entire year 2011 and, for 2010, starting from the acquisition date of control of the Business Unit by the Telecom Italia Group (October 13, 2010). The amounts presented include the effects of the application of the purchase price method. Specifically, all the assets and liabilities of the Sofora group were measured for their recognition at fair value at the acquisition date. Such amounts, as established by IFRS 3, were adjusted by the definitive amounts determined during the course of 2011, within 12 months of the acquisition date. The income statement for the 12 months of 2011 thus includes the effects of such measurements and particularly the higher amortization and depreciation related thereto (equal to 858 Argentine pesos, about 149 million euros, in 2011). Such higher amortization and depreciation in 2010 only had an impact from October 13, 2010 and amounted to 221 million Argentine pesos (about 43 million euros).

	2011		Period from October 13, 2010 to December 31, 2010	
	(millions of euros)	(millions of Argentine pesos)	(millions of euros)	(millions of Argentine pesos)
Revenues	3,220	18,496	798	4,142
EBITDA	1,035	5,947	245	1,269
EBITDA margin	*32.2*	*32.2*	*30.6*	*30.6*
EBIT	509	2,925	110	568

EBIT margin	*15.8*	*15.8*	*13.7*	*13.7*
Capital expenditures	556	3,192	188	975
Headcount at year-end (number) (*)		16,350		15,650

(*)

Includes employees with temp work contracts: 1 at December 31, 2011 and 18 at December 31, 2010.

For a better understanding of the performance of the Argentina Business Unit, the following table presents the key results reported in 2011 compared to those for the full year 2010. The restated data for 2010 are provided solely for information purposes (illustrative and comparative) since they were included in the consolidated results of the Telecom Italia Group from the acquisition date of control only.

	(millions of euros)		(millions of Argentine pesos)			
	2011	2010	2011	2010	Change	
					amount	%
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d
Revenues	3,220	2,820	18,496	14,627	3,869	26.5
EBITDA	1,035	924	5,947	4,793	1,154	24.1
EBITDA margin	*32.2*	*32.8*	*32.2*	*32.8*		*(0.6)pp*
EBIT	509	553	2,925	2,868	57	2.0
EBIT margin	*15.8*	*19.6*	*15.8*	*19.6*		*(3.8)pp*
Capital expenditures	556	493	3,192	2,558	634	24.8
Headcount at year-end (number) (*)			16,350	15,650	700	4.5

(*)

Includes employees with temp work contracts: 1 at December 31, 2011 and 18 at December 31, 2010.

Revenues

Revenues in 2011 amount to 18,496 million pesos, increasing 3,869 million pesos (+26.5%) compared to 2010 (14,627 million pesos) thanks to the growth of the broadband and mobile customer bases, in addition to the relative ARPU.

The main source of revenues for the Argentina Business Unit is mobile telephony which accounted for 71% of consolidated revenues, with an increase of over 32% compared to 2010.

In particular, the trend of the main operating data of the Business Unit is reported in the following table:

	2011	2010	Change	
			amount	%
Fixed-line				
Lines at year-end (thousands)	4,141	4,107	34	0.8
ARPU - Average Revenue Per User (Argentine pesos)	45.7	42.8	2.9	6.8
Mobile				

Lines at year-end (thousands)	20,342	18,212	2,130	11.7
Telecom Personal lines (thousands)	*18,193*	*16,333*	*1,860*	*11.4*
% Postpaid lines (*)	*32%*	*30%*		*+2 pp*
MOU Telecom Personal (minutes/month)	*99*	*102*	*(3)*	*(2.9)*
*ARPU Telecom Personal (*Argentine pesos*)*	*51.4*	*44.4*	*7.0*	*15.8*
Núcleo mobile lines (thousands)(**)	*2,149*	*1,878*	*271*	*14.4*
% Postpaid lines (*)	*17%*	*15%*		*+2 pp*
Broadband				
Broadband accesses at year-end (thousands)	1,550	1,380	170	12.3
ARPU (Argentine pesos) (***)	87.0	76.1	10.9	14.3

(*)

Includes lines with a ceiling invoiced at the end of the month which can be topped-up with prepaid refills.

(**)

Includes WiMAX lines.

(***)

The calculation method was updated in order to exclude, from the customer base, the internet sticks sold to customers who already have ADSL access.

Fixed-line telephony service: the number of fixed lines at the end of 2011 increased slightly compared to the end of 2010, thanks mainly to the rate plans linked to internet services. Even though the fixed-line regulated services in Argentina continue to be influenced by the rate freeze imposed by the Emergency Economic Law of January 2002, ARPU grew by almost 7% compared to 2010 due to sales of plans which include minutes of traffic and value-added services.

Mobile telephony service: Telecom Personal mobile lines in Argentina increased by 1,860 thousand compared to the end of 2010, arriving at a total of 18,193 thousand lines at December 31, 2011, 32% of which were postpaid. At the same time, thanks to high-value customer acquisitions and clear leadership in the smartphone segment, ARPU gained about 16%, reaching 51.4 pesos (44.4 pesos in 2010). A large part of this growth can be traced to value-added services (including SMS text messaging) and the mobile internet service which, on the whole, accounts for approximately 48% of revenues from mobile telephony services in 2011.

In Paraguay, the Núcleo customer base grew about 14% compared to December 31, 2010 and at December 31, 2011 has 2,149 thousand lines, 17% of which were postpaid.

Broadband: Telecom Argentina s portfolio of total broadband lines at December 31, 2011 reached 1,550 thousand accesses, with an increase of 170 thousand accesses compared to the end of 2010 and representing about 12% growth. During 2011, the growth of internet access lines was accompanied by a price increase with a consequent rise in ARPU.

EBITDA

EBITDA is up 1,154 million pesos (+24.1%) reaching 5,947 million pesos in 2011. The EBITDA margin is 32.2%, down 0.6 percentage points compared to 2010, mainly due to higher costs for the acquisition of goods and services and employee benefits expenses.

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

	(millions of euros)		(millions of Argentine pesos)		
	2011	2010	2011	2010	Change
	(a)	(b)	(c)	(d)	(c-d)
Acquisition of goods and services	1,398	1,195	8,031	6,201	1,830
Employee benefits expenses	478	391	2,746	2,030	716
Other operating expenses	331	296	1,903	1,538	365
Change in inventories	(17)	19	(96)	97	(193)

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acquisition of goods and services: totals 8,031 million pesos (6,201 million pesos in 2010). The increase of 29.5% compared to the prior year (+1,830 million pesos) is mainly due to higher outside service costs for 932 million pesos and higher purchases of raw materials, auxiliaries, consumables and merchandise for 777 million pesos;

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employee benefits expenses: stand at 2,746 million pesos, increasing 716 million pesos compared to 2010 (+35.3%). The change comes from salary increases, as a result of periodical revisions in union agreements and largely connected to inflation. Moreover, an increase is recorded in the average number of employees in the mobile area. The percentage of employee benefits expenses to total revenues is 14.8%, increasing 0.9 percentage points over 2010;

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other operating expenses: amount to 1,903 million pesos, increasing 23.7% (1,538 million pesos in 2010). Such expenses consist of the following:

(millions of Argentine pesos)	2011 (a)	2010 (b)	Change (a-b)
Writedowns and expenses in connection with credit management	169	115	54
Telecommunications operating fees and charges	348	273	75
Indirect duties and taxes	1,286	1,064	222
Sundry expenses	100	86	14
Total	1,903	1,538	365

EBIT

EBIT rose by 57 million pesos (+2.0%) to 2,925 million pesos in 2011. It includes the effects of the application of the purchase price method which led to higher expenses, mainly for amortization and depreciation, for a total of 907 million pesos (about 158 million euros); such higher expenses had an effect on the 2010 results from October 13, 2010 only and amounted to 281 million pesos (about 54 million euros).

In the absence of such expenses, EBIT would have been higher by 683 million pesos (+21.7% compared to 2010), thanks to the higher contribution by EBITDA.

The EBIT margin is 15.8%, down 3.8 percentage points compared to 2010. Excluding the effects of the adoption of the purchase price method described above, the EBIT margin would have been 20.7% or 0.8 percentage points lower than the prior year.

Capital expenditures

Capital expenditures stand at 3,192 million pesos, increasing 24.8% over last year. Such amount includes 746 million pesos for the capitalization of subscriber acquisition costs for the subscription of binding 18 month contracts for mobile customers and 12 month contracts for broadband customers (551 million pesos in 2010).

With regard to the fixed network, capital expenditures have been directed to the expansion of the fiber optic infrastructure and the access network, the development of backhauling for mobile traffic, DWDM technology and expansion of the IP backbone in order to improve transmission capacity and increase the access speed offered to customers.

At the same time, Telecom Personal has principally invested in the 3G network to increase capacity and expand coverage as well as in the platforms to expand value-added services and in IT projects.

Capital expenditures by Núcleo are aimed mainly at the 3G access network.

Headcount

Headcount at December 31, 2011 is 16,350, an increase of 700 compared to December 31, 2010 (+4.5%). About 34% of the increase refers to the fixed-line sector and the remaining 66% to the mobile sector.

At December 31, 2011, the Argentina Business Unit had temp work contracts for 1 person (18 persons at December 31, 2010).

Commercial developments

Fixed-line telephony and broadband services

In the residential fixed-line telephony segment, Telecom Argentina concentrated its efforts on meeting customer access demand, seeking to control the fall in the minutes used because of a shift to mobile traffic while maintaining the growth of ARPU. At the local level, voice services featured promotions with the aim of eliminating the set-up charge and a demand for services which include access to broadband. With regard to national and international long-distance services, efforts continued to encourage people to acquire subscriber plans, and improve the customer ARPU. With regard to value-added services, there was an improvement in sales of the *Aladino 410* and *Aladino Deco* cordless phones.

The leadership of the "Arnet" brand benefited from an effective advertising campaign and a different offer for each segment at competitive prices.

In December 2011, with the launch of *Arnet 10 mega,* the range of available access speeds was extended, thus creating an alternative in terms of average speed.

Again with regard to value-added services, November 2011 saw the launch of *Arnet Play*, the first video streaming service for Telecom Argentina residential customers. The service offers added value in the sphere of broadband access with access to a vast library of content, through the customer s TV set or computer and with unlimited viewing, against payment of a fixed monthly charge. In addition, the customer can rent the latest in viewing and other special content. Another key value-added service introduced in 2011 is *Arnet Mobile* which supplies internet access through Personal s 3G network, making it possible to expand the service already offered to customers with a broadband connection.

In the Corporate segment, the strategy of supplying convergent solutions offering voice, data, internet, multimedia, ICT, data center and applications continued, both for the fixed-line and mobile phone services.

Mobile telephony services

In 2011, Personal continued its strategy as innovation leader by launching various products and promotions that will satisfy the various demands of customers with regard to communication. Offerings in 2011 featured the consolidation of third-generation coverage together with the development of value-added services, as a result of recent improvements in intelligent handsets and tablets.

Personal also continues to expand its range of *Todo Incluido* plans, which integrate voice, data and text messaging, along with *Personal Black*, the services platform which offers a subscription with an unlimited number of data services and a portfolio of ten intelligent handsets and tablets with special content at special prices.

With regard to Núcleo, the commercial offers launched in the last quarter of 2011 were much better suited to market requirements, a policy which improved customers perception of the operator. In particular, new packages were launched with a greater variety of services at more affordable prices, replacing previous packages with an unlimited number of services.

Competition

The telecommunications market in Argentina and Paraguay continues to show strong demand for new services and higher access speed in a fiercely competitive environment in the different business segments.

Specifically, in the mobile segment in Argentina, Personal is one of three operators offering services at the national level and competes with Claro (America Móvil group) and Movistar (Telefónica group). Competition is expected to intensify as a result of the introduction of number portability in 2012. The acquisition and retention of high-value customers will continue to be central to Personal s strategy which intends to lend support to mobile use through the launch of new products and services which not only make it possible to retain existing customers, but also to put Personal in the position of being the preferred operator in the mobile sector in Argentina.

In Paraguay, Núcleo, although operating in a market featuring strong competition, strengthened its market position. Its main competitor is Tigo (Millicom group).

As for the broadband segment, the Argentina Business Unit operates through the Arnet brand and its competitors are mainly ADSL Speedy (Telefónica group), the operator Fibertel (Clarín group), which offers broadband access services using cable modems, and Telecentro which offers triple play plans.

Media

The Media Business Unit operates in the business segments TI Media La7, MTV Group and Network Operator. In particular:

- TI Media La7: includes activities carried out by the company relating to the television broadcasters La7 and La7d and those relating to the Multimedia/Web (La7.it and La7.tv) area. Up to September 30, 2011, the activities relating to digital content for the Telecom Italia Group had also been included; this activity ended on October 1, 2011 following the early termination of the contract with Telecom Italia;

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

- Network operator (TIMB): includes activities conducted by Telecom Italia Media Broadcasting for the operation of the analog and digital broadcasting networks of La7 and MTV and the Digital Multiplex channels operated by the group, in addition to accessory services and radio and television broadcasting platforms offered to group companies and third parties.

The structure of the Business Unit

The Business Unit is organized as follows:

Main operating and financial data

Key results of the Media Business Unit in 2011 compared to 2010 are presented in the following table:

(millions of euros)	2011	2010	Change		
			amount	%	% organic
Revenues	238	258	(20)	(7.8)	(7.8)
EBITDA	28	13	15	115.4	(46.2)
EBITDA margin	*11.8*	*5.0*			

EBIT	(87)	(92)	5	5.4	(10.9)
EBIT margin	*n.s.*	*n.s.*			
Capital expenditures	61	67	(6)	(9.0)	
Headcount at year-end (number)	765	777	(12)	(1.5)	

Revenues

Revenues amount to 238 million euros in 2011, decreasing 20 million euros compared to 258 million euros in 2010. In greater detail:

- revenues of TI Media La7 in 2011, before infragroup eliminations, stand at 140 million euros, increasing 24 million euros (+21.0%) compared to 2010, thanks to the decisive increase in gross advertising revenues which in 2011 total 186 million euros +32.1% over the same period of 2010. Advertising revenues particularly benefitted from the excellent performance of channel La7 s daily average audience share which reached 3.8% in 2011 and also from channel La7d s net revenues for 2011 which totaled 6 million euros.

- MTV Group revenues come to 74 million euros, before intragroup eliminations, decreasing 24 million euros compared to 2010 (98 million euros). This reduction is due for 9 million euros to lower net advertising revenues and the remaining amount to the fall of other activities, particularly, lower revenues from external productions of Playmaker (-7 million euros), lower revenues by MTV Mobile (-2 million euros), following the recent contract revision at the end of 2010, and lower revenues by the satellite-music platform channels as a result of the renegotiation, to lower values, of the contract with Sky (-2 million euros).

- revenues from network operator activities, before intragroup eliminations, amount to 55 million euros, compared to 76 million euros in 2010, decreasing 21 million euros. This reduction is largely due to lower revenues from the customer Dahlia (-26 million euros) which ceased operations at the beginning of 2011. The reduction in the revenues of analog activities with the Group, in relation to the switch-off process, was offset by higher revenues from the lease of digital bandwidth on its Multiplexes.

EBITDA

EBITDA is a positive 28 million euros in 2011 and increased 15 million euros compared to 2010, thanks to income of 21 million euros as a result of compensation for the early termination of the Competence Center contract. Excluding such income, therefore in organic terms, EBITDA is 7 million euros, decreasing 6 million euros compared to the same period of 2010. In particular:

- EBITDA of TI Media La7, comes to -2 million euros in 2011 and, as described above, includes compensation income of 21 million euros; this is an improvement of 34 million euros compared to 2010 (-36 million euros); in organic terms, EBITDA amounts to -23 million euros. Such result is affected by the higher contribution of revenues as previously described, which more than offset the higher operating costs linked largely to the programming of channels La7 and La7d.

- EBITDA of the MTV group is 7 million euros, decreasing 5 million euros compared to 2010 (12 million euros). The reduction in EBITDA is due to the contraction in revenues due both to lower advertising and also to Mobile, Satellite and Playmaker activities, which were only partly compensated by the reduction in operating costs.

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EBITDA relating to network operator activities is 23 million euros and is 12 million euros lower than 2010. This result was influenced by the loss of Dahlia TV sales and compensated by a reduction in operating costs due to greater efficiency of network management.

EBIT

EBIT is a negative 87 million euros in 2011, showing an improvement of 5 million euros compared to 2010. In organic terms, EBIT recorded a reduction of 5 million euros (-10.9%) compared to 2010.

In detail:

(millions of euros)	2011	2010	Change
Historical EBIT	(87)	(92)	5
Non-organic (income) expenses	36	46	(10)
Non-organic expenses already described under EBITDA	*(21)*	-	*(21)*
Goodwill impairment charge	*57*	*46*	*11*
Comparable EBIT	(51)	(46)	(5)

The goodwill impairment loss of 57 million euros (46 million euros in 2010) was recognized following the results of the impairment test.

Capital expenditures

Capital expenditures total 61 million euros (67 million euros in 2010). Such expenditures refer to TI Media La7 (31 million euros), the MTV group (4 million euros) and the network operator (26 million euros). They mostly refer to the acquisition of television rights extending beyond one year (29 million euros) and purchases of infrastructures for the development and maintenance of the digital terrestrial network for 26 million euros principally in connection with Telecom Italia Media Broadcasting s digitalized operations in regions where analog television has been switched off.

Headcount

Headcount is 765 at December 31, 2011 (including 37 with temp work contracts), with a decrease of 12 compared to December 31, 2010 (777, including 44 with temp work contracts). Without considering the reduction in the temp work headcount (7 persons), the reduction of 5 people is due to the change both in the number of persons with fixed-term contracts -10 (TI Media La7 +1, MTV Group -11) and permanent contracts, 5 in total (TI Media La7 +15, network operator -1. MTV Group -9). In particular, the addition of 15 persons with permanent contracts at TI Media La7 is for the most part to settle some work relationships and bring External Relations inside the company.

Other information

Early termination of the Competence Center contract with Telecom Italia

On September 29, 2011, the Telecom Italia Media board of directors meeting passed a resolution to go forward with the early termination of the Competence Center contract with Telecom Italia.

The Contract was originally signed in 2007 for a three-year period and subsequently renewed at least until December 31, 2012. The purpose of the contract was the supply of editorial services by Telecom Italia Media to Telecom Italia covering the creation, design of programs, research and purchase of media content for the relative use on Telecom Italia s various TV platforms (IPTV, Cubovision, WEB, etc.). Telecom Italia Media received a minimum guaranteed payment, established on the basis of a forecast of strong customer expansion of the IPTV and OTTV platforms, as well as a variable price as Telecom Italia s relative sales increased.

The above growth forecasts were not met owing to a reduced market, in addition to modifications of the effective application of the regulatory framework of reference, accompanied by a strong push to reduce prices by the two main players of the pay TV platforms in Italy.

In view of the above, Telecom Italia decided on the in-house management of the editorial activities relating to the platforms which it manages. For these reasons, Telecom Italia made a proposal to Telecom Italia Media to early terminate the Contract, as from October 1, 2011, paying Telecom Italia Media compensation of 21 million euros. A fairness opinion on the compensation was issued by an independent external valuation expert, identified by common agreement of the parties.

Principal changes in the regulatory framework

Adoption of the new European framework for electronic communication services and networks and for the national use of local bandwidth

Law 217 of December 15, 2011 published in the Gazzetta Ufficiale on January 2, 2012 introduced the 2010 Community Law. This instrument, in addition to delegating to the government the task of adopting within three months the new framework for electronic communications services and networks (with the consequent revision of the Electronic Communications Code Legislative Decree 259/2003), provides that operators of local networks may host programs offering audiovisual media services at national level. This provision, which damages Telecom Italia Group Media s network operator, was challenged by Telecom Italia Media Broadcasting in the appeal against the new digital terrestrial regulation 353/11/CONS. It will be necessary to determine what legal measures should be used to protect the interests of Telecom Italia Media Broadcasting with regard to the ensuing enacting legislation.

In the context of the adoption of the European Directives 2009/140/CE and 2009/136/CE dealing with the new regulatory framework for electronic communications, the Ministry of Economic Development has released for consultation the outlines of two legislative decrees relating to the modification of the Electronic Communications Code and the Personal Data Protection Code. Telecom Italia Media participated in these consultations requesting the revision of the provision which excludes from trading the frequencies received free of charge and requesting a regulatory link in terms of administrative rights for network operator activities using digital terrestrial technology and fees for the concession of frequency rights of use.

National Digital Frequency Assignment Plan

The National Digital Frequency Assignment Plan (PNAFD) approved with Decision 300/10/CONS establishes 25 national networks, four of which in DVB-H, and introduces k-SFN technology for certain networks which otherwise would not have 80% coverage of the territory.

The PNAFD distinguishes between the so-called internal digital dividend, 5 DVB-T networks and one DVB-H network, to be assigned by means of a competitive beauty contest procedure, and the so-called external digital dividend, UHF channels 61-69, for mobile communications services.

With Decision 330/11/CONS, AGCom abolished the regional consultation meetings and initiated a process for the completion of the frequency plan with the detailed planning of the resources to be assigned to local broadcasters and to RAI in the areas which have not yet undergone digitalization.

Beauty Contest

With Decision 497/10/CONS, AGCom set the criteria for the competitive procedure for the assignment of the internal digital dividend by means of a beauty contest.

The Decision erroneously placed Telecom Italia Media on the same footing as RAI and Mediaset, the incumbent operators of terrestrial networks, forbidding the company, along with RAI and Mediaset, from participating for Lot A which is reserved for existing operators with at most one analog network and for new entrants among which AGCom included SKY Italia, admitted to the bidding process by the European Commission.

On July 6, 2011 the call for bids and the bid rules were published and on September 5, 2011 Telecom Italia Media Broadcasting, the Group s network operator, submitted three separate assignment requests, for lots B.1, B.2 and C.1. The Commission admitted the requests of:

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Europa 7 for Lot A.1

—

Dfree, H3G and Canale Italia for Lot A.2

—

Dfree and Canale Italia for Lot A.3

—

Rai, Mediaset and Telecom Italia Media Broadcasting for Lot B.1

—

Rai, Mediaset and Telecom Italia Media Broadcasting for Lot B.2

—

Telecom Italia Media Broadcasting for Lot C.1

On November 30, 2011, SKY Italia, admitted for Lot A.2, withdrew from the contest.

After acceptance in December 2011 of three parliamentary demands, the Government is committed to suspend the procedure for the assignment of TV frequencies by beauty contest and to identify a frequencies assignment procedure in the general collective interest in financial terms and in terms of the strengthening of pluralism in the information and television sector.

On January 20, 2012, TIMB received an official communication from the Ministry of Economic Development which suspends the beauty contest for 90 days and, at the same time, gives TIMB 60 days in which to submit any other observations in this sense.

On February, 1 2012, TIMB replied and asked that a round table be set up to compensate the Group for the damages suffered in the conversion process of the networks from analog to digital and to settle the dispute as a whole.

Principal appeals regarding digital frequencies

With the appeal filed on August 8, 2011, TI Media challenged the bid and bid rules relating to the beauty contest intimating the illegality of:

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barring TI Media from bidding for Lot A as if it were on the same footing as RAI and Mediaset;

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considering SKY as a new entry operator and, in contrast, subjecting Telecom Italia Media to the same restrictive measures as RAI and Mediaset, which are incumbents;

- the economic and technological restriction on Lot C.1, which for five years can be used only in DVB-H (outside the market) or in DVB-T2 (without any commercial attraction since the penetration of this technology in the market is presently inexistent and is not planned for at least five years from switch off);

- the assignment criteria for the points which tend to favor operators which have a dominant position (RAI and Mediaset);

- the absence of fixing asymmetrical measures regarding RAI (an enterprise in public ownership), whose participation in the bid changes the competitive situation.

On November 8, 2011 Telecom Italia Media Broadcasting filed an appeal for the annulment, subject to precautionary measures, of the admission of RAI to the beauty contest, challenging various elements which violate the bid rules including: i) reaching the maximum number of DVB-T networks which an operator may run by reference to the limit of 5 DVB-T networks set by the European Commission ii) failure to comply with various requirements of the bid process such as the obligatory corporate separation of publisher from operator of a digital terrestrial network. On January 11, 2012, in a closed session of the court, the date was set for the merit hearing for April 4, 2012.

Auditel

At the meeting of the board of directors of Auditel on November 28, 2011, Telecom Italia Media raised the following matters:

- the question of the underestimation of La7 audience size and of the consequent economic loss arising from inability to fully realize the corresponding potential in the market for advertising revenue;

- the failure to upgrade the company s corporate governance, a matter raised by the Communications Authority itself, so as to make Auditel effectively independent with respect to its two majority shareholders RAI and Mediaset.

If responses to these matters are not forthcoming within a reasonable time, presumably by the end of the first quarter of 2012, Telecom Italia Media will be compelled to take whatever steps are necessary to safeguard its interests.

Following SKY s formal complaint, AGCom fined Auditel for abuse of its dominant position.

According to AGCom, Auditel s seriously abusive actions were the following:

-

it impeded without justification the release of daily figures by channel and platform (in spite of the fact that the technical problems with this metric were resolved in June 2009);

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until January 2010 it impeded the release of daily figures for Other Digital Terrestrials on the grounds of opposition from one of the main shareholders, Mediaset, which only in January 2010 withdrew its reservations leading to the release of the data (there were no technical/statistical obstacles and the context and benefit to the major Auditel shareholders must be considered);

•

it erroneously attributed the measured audience data to the population not in possession of a TV receiver.

With regard to foreigners, however, AGCom concluded that the delay was not caused by Auditel but arose from problems such as privacy restrictions on access to personal data records.

The violations are considered serious and without mitigating circumstances and are quantified in 1,806,604 euros, taking as reference Auditel s sales revenues in 2009 (17.3 million euros) and in 2010 (17.2 million euros) and establishing a fine for each abusive action.

Olivetti

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

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

The structure of the Business Unit

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

Main operating and financial data

Key results of the Olivetti Business Unit in 2011 compared to 2010 are presented in the following table:

(millions of euros)	2011	2010	Change	
			amount	%
Revenues	343	391	(48)	(12.3)
EBITDA	(35)	(19)	(16)	(84.2)
EBITDA margin	*(10.2)*	*(4.9)*		
EBIT	(41)	(24)	(17)	(70.8)
EBIT margin	*(12.0)*	*(6.1)*		
Capital expenditures	5	5		
Headcount at year-end (number)	1,075	1,090	(15)	(1.4)

Revenues

Revenues amount to 343 million euros in 2011, decreasing 48 million euros compared to 2010, partly because of the negative exchange rate effect of 3 million euros. The market context is particularly depressed for the third consecutive year and the deterioration of the Italian and European macroeconomic picture had an adverse effect on 2011; this caused a decisive fall in ICT expenditures in Italy.

As far as Olivetti S.p.A. is concerned, this scenario led to a drastic reduction in sales to the Parent, Telecom Italia, (-23 million euros compared to 2010) and is reason in itself for an almost 50% decline in year-over-year revenues.

Sales in Italy in the indirect channel came to an abrupt stop in the last part of the year (-6 million euros compared to 2010) in parallel with the heightening of the crisis which particularly hard hit the SMEs and professional offices customer channel; conversely, the direct sales channel in Italy of large customers exceeded last year s figures (+4 million euros), in part thanks to the positive contribution of new service offers.

European sales recorded a good trend in the French and British affiliates, a drop in both the German affiliate (since January 2012, sales operations are conducted through a local agency) and in the Spanish affiliate which suffered in a macroeconomic contest that under certain aspects was worse than the Italian one. Revenues are basically stable in the international sales channel (sales to extra EU and extra Latin America customers). The gains made by South America in sales are significant. This market is recording strong growth such that expectations are for a strengthening of Olivetti s presence there.

EBITDA

EBITDA is a negative 35 million euros, with a negative change of 16 million euros compared to the prior year. In 2011, as a future increase of share capital, Telecom Italia S.p.A. conferred trademarks (12 million euros) and patents (4 million euros) to Olivetti S.p.A.. The result of this conferral was the resolution of contracts with Telecom Italia which covered the utilization of these rights, with a negative impact on EBITDA of 10 million euros. Added to this first effect are lower margins of 10 million euros associated with the decline in revenues, of which, about 4 million euros in particular is the effect of the ongoing contraction in the ink jet segment. The turnaround process currently in progress which has led to a repositioning of new product and service line offers, the entry into new markets and the reorganization of some sales channels has not yet compensated for the decline in ink jet products and the unfavorable macroeconomic scenario. The lower margins have been partially reabsorbed by a reduction in fixed costs for 4 million euros compared to the prior year.

At the organic level, EBITDA, calculated by taking into account expenses connected with the mobility procedure under Law 223/91 signed in 2010, shows a negative change of 19 million euros.

EBIT

EBIT is a negative 41 million euros, with a negative change of 17 million euros compared to 2010, owing to the reasons explained under EBITDA.

Capital expenditures

Capital expenditures amount to 5 million euros, unchanged compared to the prior year.

Headcount

Headcount at December 31, 2011 is 1,075 (984 in Italy and 91 outside Italy), a reduction of 15 compared to December 31, 2010 (1,090, of whom 1,001 in Italy and 89 outside Italy). During the period, 33 persons were added and 48 persons left, consistently with the professional remix focused on the new Olivetti sales offerings.

Commercial developments

During 2011, in response to the evolution of the ICT market and the new opportunities offered by Cloud Computing, Olivetti pursued its repositioning strategy as a solution provider by putting together an integrated hardware and software package, customized for the client and supported by an extensive assistance network. In particular, after launching in February 2011 the first OliPad 100 tablet, complete with applications for the consumer world and the business world, in September 2011, two new tablet models were launched: OliPad 110 and OliPad Smart again based on Android but with 10 and 7 screens.

For the Business market, the OliPad tablets, sold through the Olivetti and Telecom Italia sales network, offer a higher level of personalization according to a company s individual needs. They also give access to a rich offering of applications thanks to the Applications Warehouse, a veritable virtual warehouse of software applications that can be configured and customized that Olivetti has expressly dedicated to companies and the Public Administration. Just a few of the applications available are: digital catalogs and display guides for points-of-sale devoted to the fashion sector, sales force management applications and management of specific activities in the pharmaceutical sector. During the last few months, various commercial endeavors have been activated with large customers with the aim of employing the OliPad for automation projects: in the advanced stage is the project for accessing company applications by more than fifteen thousand people in the field in the transport sector, in addition to other important projects in pharmaceutics and utilities. In the banking and insurance sector, Olivetti, with Telecom Italia, supplied the biometric signature solution for 13,000 branches of the Intesa Sanpaolo group and commenced similar projects for important banks such as Cariparma, Credito Valtellinese, AXA MPS and others.

With regard to the Consumer market, OliPad tablets are marketed through the Telecom Italia sales network and at large retail consumer electronics chains.

Work is continuing on the important project begun in 2009 in collaboration with Telecom Italia for the supply of specialized payments/services terminals at authorized tobacco stores in Italy. In June 2011, in particular, Olivetti supplied the first 1000 new M210T terminals, developed in only 9 months, according to the technical specifications agreed with the final customer.

Furthermore, in 2011, Advalso s business grew by almost 50% thanks to the consolidation of traditional activities (technical front end) and also the focus on end-to-end caring activities.

Events subsequent to December 31, 2011

In order to benefit from potential synergies and consequent economies of scale, effective January 1, 2012, under the rationalization project of the customer care activities offered to the Telecom Italia customer , Olivetti finalized the operation for the integration of the customer care offer by transferring contact center operations from Advalso S.p.A. to Telecontact Center S.p.A. (a Telecom Italia subsidiary).

The operation which aims at the unitary management under the control of Telecontact Center of the call center activities conducted in the Telecom Italia Group, allows:

- Advalso to focus on the activities connected with the development and performance of services and advanced technical assistance solutions, in end-to-end logic consistently with the evolution of the Olivetti offer;

- Telecontact Center to add other activities to its contact center operations that Advalso will bring since it is able to take advantage of potential synergies with returns, both business and operating, linked principally to the complementary nature of the offer and synergies able to generate additional income and possible system efficiencies.

The business segment to be contributed is Advalso s Contact Center Division ; at December 31, 2011 the division had a workforce of 249 employees.

Review of Operating and Financial Performance Telecom Italia S.p.A.

(millions of euros)	2011	2010	Change (a-b)		
	(a)	(b)	amount	%	% organic
Revenues	18,045	18,985	(940)	(5.0)	(5.1)
EBITDA	9,000	9,089	(89)	(1.0)	(3.3)
EBITDA margin	*49.9%*	*47.9%*	*2.0 pp*		
Organic EBITDA margin	*50.5%*	*49.5%*	*1.0 pp*		
Depreciation and amortization, Gains (losses) on disposals and Impairment reversals (losses) on non-current assets	(3,806)	(4,120)	314		
EBIT BEFORE GOODWILL IMPAIRMENT LOSS	5,194	4,969	225	4.5	
Goodwill impairment loss	(5,376)	-	(5,376)		
EBIT	(182)	4,969	(5,151)	°	(0.3)
EBIT margin	*n.s.*	*26.2%*	*n.s.*		
Organic EBIT margin	*29.3%*	*27.9%*	*1.4 pp*		
Profit (loss) before tax	(2,378)	4,610	(6,988)		
Profit (loss) for the year	(3,571)	3,513	(7,084)		
Capital expenditures	4,122	3,018	1,104		
Net financial debt	36,402	36,586	(184)		
Headcount at year-end (number)	47,801	49,636	(1,835)		

Operating Performance

Revenues

Revenues amount to 18,045 million euros, decreasing 940 million euros (-5.0%) compared to 2010; in organic terms, revenues fell by 5.1% compared to 2010. It should be noted that organic revenues excluded 35 million euros of revenues of the second quarter of 2010 relating to the end of the 1001TIM loyalty program which had resulted in the recognition of revenues from previously deferred bonus points that had not been used by the customer.

The trend in revenues shows the following changes in the sales segments compared to 2010:

- a contraction in revenues in the Consumer segment (9,168 million euros, decreasing 5.4% compared to 2010, or -519 million euros), due to the reduction in services (-681 million euros), compensated in part by the increase in sales (+120 million euros). The reduction in revenues from services is entirely attributable to the contraction of revenues from traditional voice services, particularly fixed voice (-104 million euros, or -8.1%) and outgoing Mobile voice (-336 million euros, or -11.5%). As far as internet services are concerned, revenues increased compared to 2010 due to the continuous growth of mobile broadband services (+71 million euros), which offsets the slowdown recorded in fixed broadband services (-38 million euros);

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a reduction in revenues in the Business segment (3,267 million euros, decreasing 6.9%, or -242 million euros compared to 2010). This reduction is mainly due to fixed telephony services (-150 million euros) while mobile browsing services have basically remained stable (+2 million euros);

•

a shrinkage in revenues in the Top segment (3,308 million euros, decreasing 5.4% compared to 2010, or -188 million euros). The voice and data areas were penalized the most by the difficulties in the overall economic scenario, recording a decline of 9.6% (-92 million euros) and 6.8% (-11 million euros), respectively. The mobile area also recorded a contraction in revenues (-6%, or -48 million euros);

- an increase in revenues in the National Wholesale segment (+28 million euros, or +1.3%), generated by the growth of the customer base of OLOs on services for Local Loop Unbundling, Wholesale Line Rental and Bitstream.

EBITDA

EBITDA is 9,000 million euros, decreasing 89 million euros (-1%) compared to 2010. The organic change in EBITDA is a negative 3.3% (-315 million euros). The EBITDA margin grew from 47.9% in 2010 to 49.9%; at the organic level, the EBITDA margin is 50.5% (49.5% in 2010).

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

(millions of euros)	2011	2010	Change
Non-organic revenues	-	(35)	35
Expenses for mobility agreements under Law 223/91	9	245	(236)
Disputes and settlements	63	91	(28)
Other (income) expenses	33	30	3
Total non-organic (income) expenses	105	331	(226)

At the EBITDA level, the negative effects described under the comments on revenues are partly offset by the reduction in operating costs which are analyzed below.

Acquisition of goods and services

Acquisition of goods and services stands at 6,324 million euros, decreasing 327 million euros (-4.9%) compared to 2010 (6,651 million euros). The change is attributable to a reduction in the portion of revenues to be paid to other operators mainly as a result of the reduction in mobile termination prices.

The increase recorded by certain expense items (purchases of goods related to the sale of products and energy) has largely been compensated by the benefits arising from efficiency measures applied to fixed operating costs.

(millions of euros)	2011	2010	Change
Purchases of goods	1,088	895	193
Portion of revenues to paid to other operators and interconnection costs	1,730	2,055	(325)
Commercial and advertising costs	883	982	(99)
Consulting and professional services	163	155	8
Power, maintenance and outsourced services	982	942	40
Rent and leases	788	843	(55)
Other expenses	690	779	(89)
Total acquisition of goods and services	6,324	6,651	(327)

% of Revenues	*35.0*	*35.0*	-

Employee benefits expenses

Details are as follows:

(millions of euros)	2011	2010	Change
Ordinary employee expenses and costs excluding actuarial (gains) losses	2,731	2,879	(148)
Actuarial (gains) losses relating to employee severance indemnities	(102)	(3)	(99)
Expenses for mobility under Law 223/91	9	245	(236)
Total employee benefits expenses	2,638	3,121	(483)

The reduction of 483 million euros in the employee benefits expenses is due to the following factors:

- a reduction in the ordinary component mainly due to a lower average headcount of the salaried workforce, which went from 50,076 in 2010 to 46,206 in 2011, with a reduction of -3,870 (of whom -880 are under so-called solidarity contracts);

- a reduction (99 million euros) deriving from the actuarial effects regarding employee severance indemnities in connection with the change in the economic parameters of reference (discount rate and inflation rate) and also the new law on pensions (Law 214 of December 22, 2011) which extends the estimated period in which a person works;

- lower accruals for mobility expenses. In fact, in 2010, expenses were accrued for 245 million euros for the start of the mobility procedure under Law 223/91 which followed the August 4, 2010 agreement with the unions. In 2011, the provision was adjusted by an additional 9 million euros.

Headcount at December 31, 2011 is 47,801 with a reduction of 1,835 compared to December 31, 2010.

Other operating expenses

Details are as follow:

(millions of euros)	2011	2010	Change
Writedowns and expenses in connection with credit management	359	310	49
Provision charges	48	52	(4)
Telecommunications operating fees and charges	57	53	4
Indirect duties and taxes	80	92	(12)
Penalties, settlement compensation and administrative fines	59	105	(46)
Association dues and fees, donations, scholarships and traineeships	20	22	(2)
Sundry expenses	82	32	50
Total	705	666	39

Other operating expenses increased by 39 million euros compared to 2010. Specifically, other operating expenses show higher writedowns and expenses in connection with credit management (mainly referring to business customers as a result of a progressive deterioration in the macroeconomic picture), and a reduction in indirect duties and taxes and settlement compensation which more than offset the increase in sundry expenses.

Depreciation and amortization

Depreciation and amortization charges are 3,793 million euros (4,107 million euros in 2010), decreasing 314 million euros and referring to tangible assets for 184 million euros and intangible assets for 130 million euros. The reduction in depreciation is largely on account of the decrease in depreciable assets owing in part to the reduction of capital expenditures in recent years, especially for rentals (-49 million euros of depreciation) and the underground network (-108 million euros). The decrease in the amortization charge of intangible assets is mainly due to a lower amount of amortizable assets referring to the development of software applications.

Gains on disposals of non-current assets

Gains on disposals of non-current assets are a negative 9 million euros. They include losses for 26 million euros, principally in connection with the disposal of tangible assets, particularly for the replacement and subsequent disposal of dedicated mobile telephony plant, as well as gains for 17 million euros referring mostly to the contribution of some trademarks and patents to the subsidiary Olivetti S.p.A.

Impairment (reversals) losses on non-current assets

Net impairment losses on non-current assets amount to 5,380 million euros in 2011 (9 million euros in 2010). The line item includes 5,376 million euros for the impairment charge on goodwill referring to domestic activities.

In particular, in preparing the annual financial statements, Telecom Italia S.p.A. repeated the impairment test that had been performed in the first half of 2011. The macroeconomic and market climate was marked by a slowdown in the higher growth economies and fears of a recession in the mature ones. Added to this was an escalation, in the second half of the year, of financial market pressures, with particular reference to the trend in interest rates. The measurement therefore took into account such deterioration of the financial markets and also the worsening of the prospects of the reference market of the company.

Further details are provided in the Note Goodwill in the separate financial statements of Telecom Italia S.p.A. at December 31, 2011.

The line item also includes 4 million euros referring to the writedown of network materials that are no longer usable and telephone systems in the process of being replaced with new technologically advanced materials.

EBIT

EBIT is a negative 182 million euros, down from 5,151 million euros compared to 2010 as a result of the impact of the above goodwill impairment charge. The organic change in EBIT is a negative 0.3% (-16 million euros); at the organic level, the EBIT margin is 29.3% (27.9% in 2010). Non-organic income and expenses excluded from the calculation of organic EBIT are as follows:

(millions of euros)	2011	2010	Change
Non-organic expenses already described under EBITDA	105	331	(226)
Gain on the sale of trademarks and patents	(15)	-	(15)
Goodwill impairment charge	5,376	-	5,376
Total Non-organic (revenues and income) /costs and expenses	5,466	331	5,135

Income (expenses) from investments

Details are as follows:

(millions of euros)	2011	2010	Change
Dividends	254	2,357	(2,103)
Other income and gains on disposals of investments	41	1	40
Impairment losses on financial assets	(442)	(562)	120
Total	(147)	1,796	(1,943)

Specifically:

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in 2011, dividends mainly refer to Telecom Italia Sparkle (250 million euros) and in 2010 this item comprised dividends from Telecom Italia International for 2,000 million euros and Telecom Italia Deutschland Holding for 345 million euros;

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gains on the sale of investments relate to the gain, net of incidental expenses, arising from the sale of the subsidiary Loquendo S.p.A. on September 30, 2011;

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impairment losses are mainly in respect of the writedowns of the investments in Matrix (130 million euros), Telecom Italia Media (45 million euros) and Telecom Italia Sparkle (199 million euros), Olivetti (36 million euros) and Telecom Italia Deutschland Holding GMBH (13 million euros), on the basis of the results of the impairment test. In 2010, impairment losses mainly included those in respect of the investments in Telecom Italia Deutschland Holding (352 million euros, following the reduction in the equity of the company after the distribution of reserves), Telecom Italia Media (162 million euros, on the basis of the results of the impairment test), Olivetti (18 million euros), Tiglio 1 (13 million euros) and SSC (10 million euros).

Finance income (expenses)

The balance of financial income (expenses), which shows an improvement of 106 million euros largely because of lower net debt exposure, is an expense of 2,049 million euros (an expense balance of 2,155 million euros in 2010).

Income tax expense

Income tax expense is 1,193 million euros and posts an increase of 96 million euros compared to 2010 mainly due to the increase in the taxable base.

Profit (loss) for the year

The Parent, Telecom Italia S.p.A., reports a loss of 3,571 million euros in 2011. Excluding non-recurring items and the above goodwill impairment charges, the net result for the year would have been a profit of 1,765 million euros.

Consolidated financial position performance

Financial position structure

(millions of euros)	2011 (a)	2010 (b)	Change (a-b)
Assets			
Non-current assets	64,043	68,717	(4,674)
Goodwill	34,627	40,013	(5,386)
Other intangible assets	4,865	3,970	895
Tangible assets	10,817	11,401	(584)
Other non-current assets	12,852	12,415	437
Deferred tax assets	882	918	(36)
Current assets	8,110	9,909	(1,799)
Inventories, Trade and miscellaneous receivables and other current assets	5,172	5,385	(213)
Current income tax receivables	-	-	-
Current financial assets	2,938	4,524	(1,586)
	72,153	78,626	(6,473)
Equity and liabilities			
Equity	20,537	25,564	(5,027)
Non-current liabilities	36,736	39,283	(2,547)
Current liabilities	14,880	13,779	1,101
	72,153	78,626	(6,473)

Non-current assets

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Goodwill: decreased 5,386 million euros, of which 5,376 million euros refers to the above goodwill impairment charge of Telecom Italia S.p.A. and 10 million euros to the sale of Loquendo in September 2011;

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Other intangible assets: increased 895 million euros being the balance of the following:

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additions (+2,350 million euros),

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amortization charge for the year (-1,466 million euros),

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capitalization of borrowing costs (+12 million euros),

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disposals, reclassifications and other movements (-1 million euros).

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Tangible assets: decreased 584 million euros being the balance of the following:

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additions (+1,771 million euros),

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depreciation charge for the period (-2,327 million euros),

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disposals, reclassifications and other movements (-28 million euros).

Equity

Equity amounts to 20,537 million euros, decreasing 5,027 million euros compared to December 31, 2010 (25,564 million euros). The changes in equity during 2011 and 2010 are reported in the following table:

(millions of euros)	2011	2010
At the beginning of the year	25,564	23,068
Total profit (loss) for the year	(3,571)	3,513
Dividends declared	(1,190)	(1,035)
Issue of equity instruments and other changes	7	42
Movements in the reserve for available-for-sale financial assets and derivative hedging instruments	(273)	(24)
At the end of the year	20,537	25,564

Cash flows

The following chart summarizes the main transactions which had an impact on the change in net financial debt during 2011:

Change in net financial debt

(millions of euros)	2011	2010	Change
EBITDA	9,000	9,089	(89)
Capital expenditures on an accrual basis	(4,122)	(3,018)	(1,104)
Change in net operating working capital:	(99)	(237)	138
Change in inventories	*(13)*	*56*	*(69)*
Change in trade receivables and net amounts due on construction contracts	*132*	*292*	*(160)*
Change in trade payables (*)	*(142)*	*(588)*	*446*
Other changes in operating receivables/payables	*(76)*	*3*	*(79)*
Change in provisions for employees benefits	(221)	57	(278)
Change in operating provisions and Other changes	(61)	(390)	329
Net operating free cash flow	4,497	5,501	(1,004)
% of Revenues	*24,9*	*29,0*	
Sale of investments and other disposals flow	60	(37)	97
Financial investments flow	(42)	(199)	157
Dividends flow	(936)	1,323	(2,259)
Issue of equity instruments	-	23	(23)
Financial expenses, income taxes and other net non-operating requirements flow	(3,395)	(3,502)	(107)
Reduction (Increase) in net financial debt	184	3,109	(2,925)

(*)

Includes the change in trade payables for amounts due to fixed asset suppliers.

The reduction in net operating free cash flow in 2011 compared to 2010 (-1,004 million euros) is due to higher requirements for capital expenditures (mainly in connection with the acquisition of LTE frequency rights); such change is partially compensated by the improvement in working capital.

In addition to what has already been described with reference to EBITDA, net financial debt in 2011 has been particularly impacted by the following:

Capital expenditures flow

Capital expenditures total 4,122 million euros (3,018 million euros in 2010), up 1,104 million euros (36.6%), due to the acquisition of user rights for the 800 MHz, 1800 MHz and 2600 MHz frequencies to be used for broadband mobile communication services, for a total of 1,223 million euros. This follows the auction by the Ministry of Economic Development which took place in the second half of the year. The user rights, formally awarded by the Ministry on October 3, 2011, were assigned in February 2012.

Sale of investments and other disposals flow

Sale of investments and other disposals flow amounts to 60 million euros and principally relates to the collection of the consideration on the sale of the investment in Loquendo (equal to 55 million euros).

Financial investments flow

Financial investments flow amounts to 42 million euros for payments made to subsidiaries and associates for share capital increases or replenishments of share capital and/or the coverage of losses (of which 15 million euros is in favor of TLC Commercial Services and 10 million euros in favor of SSC).

Dividends flow

Dividends paid amount to 1,190 million. Dividends collected from Group companies total 254 million euros and particularly include the dividends collected from Telecom Italia Sparkle (250 million euros), Loquendo (2 million euros) and Pathnet (1 million euros).

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

Finance expenses, income taxes and other net non-operating requirements flow mainly includes the payment, during 2011, of income taxes (1,010 million euros), net finance expenses and the change in non-operating receivables and payables.

Net financial debt

Net financial debt is 36,402 million euros, decreasing 184 million euros compared to 36,586 million euros at the end of 2010.

In addition to the usual indicator (renamed Accounting net financial debt), another indicator is also presented denominated Adjusted net financial debt which excludes effects that are purely accounting and non-monetary in nature deriving from the fair value measurement of derivatives and related financial assets and liabilities.

The composition is the following:

Net financial debt

(millions of euros)	12/31/2011 (a)	12/31/2010 (b)	Change (a-b)
Non-current financial liabilities			
Bonds	13,131	16,406	(3,275)
Amounts due to banks, other financial payables and liabilities	20,510	19,312	1,198
Finance lease liabilities	1,300	1,436	(136)
	34,941	37,154	(2,213)
Current financial liabilities [1]			
Bonds	5,327	3,067	2,260
Amounts due to banks, other financial payables and liabilities	1,723	2,777	(1,054)
Finance lease liabilities	240	212	28
	7,290	6,056	1,234
Gross financial debt	42,231	43,210	(979)
Non-current financial assets			
Financial receivables and other non-current financial assets	(2,891)	(2,100)	(791)
	(2,891)	(2,100)	(791)
Current financial assets			
Securities other than investments	(864)	(1,159)	295
Financial receivables and other current financial assets	(479)	(602)	123
Cash and cash equivalents	(1,595)	(2,763)	1,168
	(2,938)	(4,524)	1,586
Total financial assets	(5,829)	(6,624)	795
Accounting net financial debt	36,402	36,586	(184)
Reversal of fair value measurement of derivatives and related financial assets/liabilities	(1,519)	(1,046)	(473)
Adjusted net financial debt	34,883	35,540	(657)
Breakdown as follows:			
Total adjusted gross financial debt	38,713	40,915	(2,202)
Total adjusted financial assets	(3,830)	(5,375)	1,545
[1] of which current portion of medium/long-term debt:			
Bonds	*5,327*	*3,067*	*2,260*
Amounts due to banks, other financial payables and liabilities	*681*	*1,459*	*(778)*
Finance lease liabilities	*240*	*212*	*28*

The non-current portion of gross financial debt is 34,941 million euros (37,154 million euros at the end of 2010) and represents 83% of total gross financial debt.

In keeping with the Group s objectives in terms of debt composition and in accordance with the adopted Guideline policy for debt management using derivative instruments , Telecom Italia S.p.A., in securing loans both from third parties and intercompanies, uses IRS and CCIRS derivative financial instruments to hedge its liabilities.

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

Sales of receivables to factoring companies

The sales of receivables to factoring companies finalized in 2011 resulted in a positive effect on net financial debt at December 31, 2011 of 1,291 million euros (1,178 million euros at December 31, 2010).

Bonds

Bonds at December 31, 2011 total 18,458 million euros (19,473 million euros at December 31, 2010). Their nominal repayment amount is 17,589 million euros (of which 15,089 is due to third parties and 2,500 million euros to the subsidiary Telecom Italia Finance S.A.), decreasing 1,034 million euros compared to December 31, 2010 (18,623 million euros).

The change in bonds during 2011 is as follows:

(millions of original currency)	Currency	Amount	
New issues			Issue date
Telecom Italia S.p.A. 1,000 million euros 7% maturing 1/20/2017 (*)	Euro	1,000	10/20/2011
Telecom Italia S.p.A. 750 million euros 4.75% maturing 5/25/2018	Euro	750	5/25/2011
Telecom Italia S.p.A. 1,000 million euros 5.125% maturing 1/25/2016	Euro	1,000	1/25/2011
Repayments			Repayment date
Telecom Italia S.p.A. 4.5%750 million euros	Euro	750	1/28/2011

(*)

On October 20, 2011, bonds were issued for 750 million euros; subsequently, on November 3, 2011, the issue was reopened and increased for another 250 million euros

In 2011, Telecom Italia S.p.A. bought back the following bonds:

(millions of original currency)	Currency	Amount	Buyback periods
Buybacks			
Telecom Italia S.p.A. 1,222.5 million euros 6.25% maturing February 2012	Euro	27.5	December 2011
Telecom Italia S.p.A. 645 million euros 6.75% maturing March 2013	Euro	5	December 2011

In reference to the Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, at December 31, 2011, the nominal amount is equal to 266 million euros and decreased by 39 million euros compared to December 31, 2010 (305 million euros).

Revolving Credit Facility and Term Loan

The following table shows the composition and the drawdown of the committed credit lines available at December 31, 2011. These are represented by the revolving credit facility for a total of 8 billion euros expiring August 2014, the syndicated revolving line for a total of 1.25 billion euros expiring February 2013 and the revolving credit line for a total of 200 million euros signed December 20, 2010 and expiring June 19, 2012 (renewable at the discretion of Telecom Italia up to December 18, 2013):

(billions of euros)	12/31/2011		12/31/2010	
	Agreed	Drawn down	Agreed	Drawn down
Revolving Credit Facility expiring February 2013	1.25	0.25	1.25	--
Revolving Credit Facility expiring August 2014	8.0	2.0	8.0	1.5
Revolving Credit Facility expiring June 2012 (renewable to December 2013)	0.2	0.2	0.2	0.12
Total	9.45	2.45	9.45	1.62

On August 3, 2011, a bilateral stand-by credit line was secured for a period of five years (expiring August 3, 2016) for 100 million euros from Banca Regionale Europea, drawn down for the full amount.

Maturities of financial liabilities

The average maturity of non-current financial liabilities is 7.16 years.

For details of the maturities of financial liabilities in terms of expected nominal repayment amounts, as contractually agreed, reference should be made to the Notes Net financial debt and Financial Risk Management in the separate financial statements of Telecom Italia S.p.A. at December 31, 2011.

Financial assets

Financial assets total 5,829 million euros (6,624 million euros at December 31, 2010) of which 890 million euros refers to financial receivables from Group companies.

Moreover, 2,938 million euros (4,524 million euros at December 31, 2010) is classified as current financial assets. This level of current assets, together with unused committed credit lines of 7 billion euros, allows the Company to amply meet its repayment obligations.

In particular:

•

Cash and cash equivalents amount to 1,595 million euros (2,763 million euros at December 31, 2010). The different technical forms of investing available cash at December 31, 2011 can be analyzed as follows:

—

Maturities: investments have a maximum maturity of three months;

—

Counterpart risk: investments by the European companies are made with leading banking, financial and industrial institutions with high-credit-quality and at least an A- rating;

—

Country risk: investments are made mainly in major European financial markets.

•

Securities other than investments amount to 864 million euros (1,159 million euros at December 31, 2010): these consist of Italian treasury bonds purchased by Telecom Italia S.p.A.. These bonds, which pursuant to Consob Communication DEM/11070007 of August 5, 2011 represent investments in Sovereign debt securities , have been made in accordance with the Guideline for investments of liquidity using financial instruments adopted by the Telecom Italia Group in July 2009. Such forms of investment represent alternatives to the investment of liquidity with the aim of raising the return. For further details, reference should be made to the Note Financial risk management in the separate financial statements of Telecom Italia S.p.A. at December 31, 2011.

Financial Statements Telecom Italia S.p.A.

Separate Income Statements

(millions of euros)	Year 2011	Year 2010	Change (amount)	%
Revenues	18,045	18,985	(940)	(5.0)
Other income	247	210	37	17.6
Total operating revenues and other income	18,292	19,195	(903)	(4.7)
Acquisition of goods and services	(6,324)	(6,651)	327	4.9
Employee benefits expenses	(2,638)	(3,121)	483	15.5
Other operating expenses	(705)	(666)	(39)	(5.9)
Changes in inventories	13	(56)	69	°
Internally generated assets	362	388	(26)	(6.7)
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	9,000	9,089	(89)	(1.0)
Depreciation and amortization	(3,793)	(4,107)	314	7.6
Gains (losses) on disposals of non-current assets	(9)	(4)	(5)	°
Impairment reversals (losses) on non-current assets	(5,380)	(9)	(5,371)	°

Operating profit (loss) (EBIT)	(182)	4,969	(5,151)	°
Income (expenses) from investments	(147)	1,796	(1,943)	°
Finance income	2,538	2,819	(281)	(10.0)
Finance expenses	(4,587)	(4,974)	387	7.8
Profit (loss) before tax	(2,378)	4,610	(6,988)	°
Income tax expense	(1,193)	(1,097)	(96)	(8.8)
Profit (loss) for the year	(3,571)	3,513	(7,084)	°

Statements of Comprehensive Income

In accordance with IAS 1 (Presentation of Financial Statements), which came into effect on January 1, 2009, the following statements of comprehensive income include the profit (loss) for the year as shown in the separate consolidated income statements and all non-owner changes in equity.

(millions of euros)		Year 2011	Year 2010
Profit (loss) for the year	(a)	(3,571)	3,513
Other components of the Statements of Comprehensive Income:			
Available-for-sale assets:			
Profit (loss) from fair value adjustments		9	(1)
Net fiscal impact		(4)	(1)
	(b)	5	(2)
Hedging instruments:			
Profit (loss) from fair value adjustments		(506)	(1)
Loss (profit) transferred to the Separate Income Statement		122	(29)
Net fiscal impact		106	8
	(c)	(278)	(22)
Total	(d=b+c)	(273)	(24)
Total profit (loss) for the year	(a+d)	(3,844)	3,489

Statements of Financial Position

(millions of euros)		12/31/2011 (a)	12/31/2010 (b)	Change (a-b)
Assets				
Non-current assets				
Intangible assets				
Goodwill		34,627	40,013	(5,386)
Intangible assets with a finite useful life		4,865	3,970	895
		39,492	43,983	(4,491)
Tangible assets				
Property, plant and equipment owned		9,726	10,224	(498)
Assets held under finance leases		1,091	1,177	(86)
		10,817	11,401	(584)
Other non-current assets				
Investments		9,416	9,803	(387)
Non-current financial assets		2,891	2,100	791
Miscellaneous receivables and other non-current assets		545	512	33
Deferred tax assets		882	918	(36)
		13,734	13,333	401
Total Non-current assets	(a)	64,043	68,717	(4,674)
Current assets				
Inventories		125	112	13
Trade and miscellaneous receivables and other current assets		5,047	5,273	(226)
Current income tax receivables		-	-	-
Current financial assets				
Securities other than investments, financial receivables and other current financial assets		*1,343*	*1,761*	*(418)*
Cash and cash equivalents		1,595	2,763	(1,168)
		2,938	4,524	(1,586)
Total Current assets	(b)	8,110	9,909	(1,799)
Total Assets	(a+b)	72,153	78,626	(6,473)
Equity and Liabilities				
Equity				
Share capital issued		10,694	10,689	5
Less: treasury shares		(21)	(21)	-
Share capital		10,673	10,668	5
Paid-in capital		1,704	1,697	7
Other reserves and retained earnings, including profit (loss) for the year		8,160	13,199	(5,039)
Total Equity	(c)	20,537	25,564	(5,027)
Non-current liabilities				
Non-current financial liabilities		34,941	37,154	(2,213)
Employee benefits		741	968	(227)
Deferred tax liabilities		1	1	-
Provisions		468	485	(17)
Miscellaneous payables and other non-current liabilities		585	675	(90)

Total Non-current liabilities	(d)	36,736	39,283	(2,547)
Current liabilities				
Current financial liabilities		7,290	6,056	1,234
Trade and miscellaneous payables and other current liabilities		7,527	7,689	(162)
Current income tax payables		63	34	29
Total Current liabilities	(e)	14,880	13,779	1,101
Total Liabilities	(f=d+e)	51,616	53,062	(1,446)
Total Equity and Liabilities	(c+f)	72,153	78,626	(6,473)

Statements of Cash Flows

(millions of euros)		Year 2011	Year 2010
Cash flows from operating activities:			
Profit (loss) for the year		(3,571)	3,513
Adjustments for:			
Depreciation and amortization		3,793	4,107
Impairment losses (reversals) on non-current assets (including investments)		5,829	648
Net change in deferred tax assets and liabilities		138	11
Losses (gains) realized on disposals of non-current assets (including investments)		(31)	4
Change in employee benefits		(222)	57
Change in inventories		(13)	55
Change in trade receivables and net amounts due from customers on construction contracts		132	292
Change in trade payables		(196)	(474)
Net change in current income tax receivables/payables		29	(231)
Net change in miscellaneous receivables/payables and other assets/liabilities		(124)	(408)
Cash flows from (used in) operating activities	(a)	5,764	7,574
Cash flows from investing activities:			
Purchase of intangible assets on an accrual basis		*(2,351)*	*(1,230)*
Purchase of tangible assets on an accrual basis		*(1,771)*	*(1,788)*
Total purchase of intangible and tangible assets on an accrual basis		(4,122)	(3,018)
Change in amounts due to fixed asset suppliers		*510*	*(113)*
Total purchase of intangible and tangible assets on a cash basis		(3,612)	(3,131)
Acquisitions of control of subsidiaries or other businesses, net of cash acquired		-	-
Acquisitions/disposals of other investments		(42)	(200)
Change in financial receivables and other financial assets		(313)	184
Proceeds from sale/reimborsements of intangible, tangible and other non-current assets		60	(29)
Cash flows from (used in) investing activities	(b)	(3,907)	(3,176)
Cash flows from financing activities:			
Change in current financial liabilities and other		788	260
Proceeds from non-current financial liabilities (including current portion)		4,083	1,879
Repayments of non-current financial liabilities (including current portion)		(6,391)	(6,859)
Share capital proceeds/reimbursements		-	23
Dividends paid		(1,190)	(1,034)
Cash flows from (used in) financing activities	(c)	(2,710)	(5,731)
Aggregate cash flows	(d=a+b+c)	(853)	(1,333)
Net cash and cash equivalents at beginning of the year	(e)	2,136	3,469
Net cash and cash equivalents at end of the year	(f=d+e)	1,283	2,136

Additional Cash Flow Information

(millions of euros)	Year 2011	Year 2010
Income taxes (paid) received	(1,010)	(1,321)
Interest expense paid	(3,311)	(3,438)
Interest income received	1,440	1,462
Dividends received	254	2,357

Analysis of Net Cash and Cash Equivalents

(millions of euros)	Year 2011	Year 2010
Net cash and cash equivalents at beginning of the year:		
Cash and cash equivalents	2,763	4,236
Bank overdrafts repayable on demand	(627)	(767)
	2,136	3,469
Net cash and cash equivalents at the end of the year:		
Cash and cash equivalents	1,594	2,763
Bank overdrafts repayable on demand	(311)	(627)
	1,283	2,136

Reconciliation of Consolidated Equity

(millions of euros)	Profit (loss) for the year		Equity at 12/31	
	2011	2010	2011	2010
Equity and profit (loss) for the year of Telecom Italia S.p.A.	(3,571)	3,513	20,537	25,564
Equity and result for the year of consolidated companies, net of the share attributable to Non-controlling interests	1,118	1,274	19,728	19,026
Consolidation adjustments on the equity and profit (loss) for the year attributable to owners of the Parent:				
elimination of carrying amount of consolidated investments	-	-	(31,899)	(31,433)
impairment losses of consolidated companies included in the results of parent companies	779	519	11,091	10,931
elimination of goodwill recognized in Parent financial statements	5,376	-	(34,627)	(40,013)
recognition of positive differences arising from purchase of investments, of which:				
goodwill	(7,307)	-	36,651	43,774
allocation of the purchase price to the net assets acquired and the liabilities assumed in the business combinations	(26)	276	322	268
effect of elimination of carrying amount of Parent s shares held by Telecom Italia Finance	1	1	(103)	(121)
valuation of investments using the equity method, net of dividends	(39)	99	22	123
intragroup dividends	(936)	(2,645)	-	-
adjustments of losses (gains) on disposals of investments	(119)	46	-	-
elimination of internal profits included in tangible and intangible assets	4	2	(23)	(40)
measurement of hedging derivatives, from Group s view	44	4	801	383
other adjustments	(50)	32	291	357
Equity and profit (loss) for the year attributable to owners of the Parent	(4,726)	3,121	22,791	28,819
Equity and result for the year attributable to Non-controlling interests	446	454	3,904	3,736
Equity and profit (loss) for the year in the consolidated financial statements	(4,280)	3,575	26,695	32,555

Corporate Boards at December 31, 2011

Board of Directors

The ordinary session of the shareholders meeting held on April 12, 2011 appointed the new board of directors of the Company composed of 15 directors who will remain in office for three years until the approval of the financial statements for the year ended December 31, 2013.

On April 13, 2011, the board of directors appointed Franco Bernabè Executive Chairman, Aldo Minucci Deputy Chairman and Marco Patuano Managing Director and Chief Operating Officer.

On August 4, 2011, the board of directors coopted the director Lucia Calvosa to replace the director Ferdinando Falco Beccalli, who resigned on June 6, 2011.

On December 1, 2011, the board of directors coopted the director Massimo Egidi to replace the director Francesco Profumo, who resigned on November 16, 2011.

At December 31, 2011, the board of directors is therefore composed of 15 members, as follows:

Executive Chairman	Franco Bernabè
Deputy Chairman	Aldo Minucci
Managing Director and Chief Operating Officer	Marco Patuano
Directors	César Alierta Izuel
	Tarak Ben Ammar
	Lucia Calvosa (independent)
	Elio Cosimo Catania (independent)
	Massimo Egidi (independent)
	Jean Paul Fitoussi (independent)
	Gabriele Galateri di Genola
	Julio Linares López
	Gaetano Micciché
	Renato Pagliaro
	Mauro Sentinelli (independent)
	Luigi Zingales (independent)
Secretary to the Board	Antonino Cusimano

All the board members are domiciled for the positions they hold in Telecom Italia at the registered offices of the Company in Milan, Piazza degli Affari 2.

On April 13, 2011, the board of directors also appointed the members of the board Committees, which are now composed as follows:

- Executive Committee Executive Chairman, Deputy Chairman, Managing Director, Directors Elio Cosimo Catania, Julio Linares López, Renato Pagliaro and Mauro Sentinelli (*);

- Committee for Internal Control and Corporate Governance Directors Elio Cosimo Catania (Chairman of the Committee), Jean Paul Fitoussi, Lucia Calvosa (**), Mauro Sentinelli and Luigi Zingales;

- Nomination and Remuneration Committee - Directors Elio Cosimo Catania (Chairman of the Committee), Jean Paul Fitoussi, Gabriele Galateri di Genola and Massimo Egidi (***).

In addition to the responsibilities of the internal Committees which remain those established by the Company s Self-regulatory Code, the following duties were also attributed to:

- the Executive Committee: responsibility for expressing a preliminary opinion on the transactions submitted for approval to the board of directors pursuant to point 3.2 of the Self-regulatory Code, that is, on the transactions which, by their nature, strategic importance, size or commitments which they may involve, have a significant impact on the operations of the Company and the Group;

- the Committee for Internal Control and Corporate Governance: responsibility over matters regarding transactions with related parties according to the specific Procedure on this subject and the task of high-level oversight regarding corporate social responsibility;

- the Nomination and Remuneration Committee: responsibility over matters regarding the executive management succession and replacement process, as well as the task of formulating the proposal for allocating the total compensation established by the shareholders meeting among the entire board of directors.

(*)

The Committee had also included the director Ferdinando Falco Beccalli.

(**)

On September 29, 2011, the board of directors, having taken note of the resignation of the director Francesco Profumo, appointed the director Lucia Calvosa to replace him. The Committee continues to be composed of only independent directors.

(***)

On January 19, 2012, the board of directors appointed the director Massimo Egidi to replace the director Francesco Profumo.

Board of Statutory Auditors

The board of statutory auditors of Telecom Italia was elected by the shareholders meeting held on April 8, 2009 and will remain in office until the approval of the 2011 annual financial statements.

The board of statutory auditors is composed as follows:

Chairman	Enrico Maria Bignami
Acting Auditors	Gianluca Ponzellini
	Lorenzo Pozza
	Salvatore Spiniello
	Ferdinando Superti Furga
Alternate Auditors	Silvano Corbella
	Maurizio Lauri
	Vittorio Giacomo Mariani
	Ugo Rock

Independent Auditors

The shareholders meeting held on April 29, 2010 appointed the audit firm of PricewaterhouseCoopers S.p.A. to audit the Telecom Italia financial statements for the nine-year period 2010-2018.

Manager responsible for preparing the Company s financial reports

Andrea Mangoni (Head of the Group Administration, Finance and Control & International Development Function) is the manager responsible for preparing Telecom Italia s financial reports.

Macro-Organization Chart of the Telecom Italia Group at December 31, 2011

Under General Disposition no. 557 dated February 8, 2012, the following report to the deputy chairman Aldo Minucci, as from the same date:

- Audit entrusted to Federico Maurizio d'Andrea;
- Compliance entrusted to the Group Compliance Officer *Francesca Petralia;*
- IT & Security Compliance entrusted to *Roberto Mazzilli.*

Information for Investors

Telecom Italia S.p.A. Share Capital at December 31, 2011

Share capital (in euros)	10,693,628,019.25 euros
Number of ordinary shares (par value 0.55 euros each)	13,416,839,374
Number of savings shares (par value 0.55 euros each)	6,026,120,661
Number of Telecom Italia S.p.A. ordinary treasury shares	37,672,014
Number of Telecom Italia S.p.A. ordinary shares held by Telecom Italia Finance S.A.	124,544,373
Percentage of ordinary treasury shares held by the Group to total share capital	0.83%
Market capitalization (based on December 2011 average prices)	15,242 million euros

On August 2, 2011, under the broad-based employees share ownership Plan reserved for employees of Telecom Italia and the companies which it controls with headquarters in Italy, share capital was increased with the grant of 8,876,296 bonus ordinary shares, for a total par value of 4,881,962.80 euros, drawing from the specific profit reserve set up on April 12, 2011 by the ordinary session of the shareholders meeting.

Shareholders

Composition of Telecom Italia S.p.A. shareholders according to the Shareholders Book at December 31, 2011, supplemented by communications received and other available sources of information (ordinary shares):

The shareholders of Telco (Generali Group: 30.58%; Mediobanca S.p.A.: 11.62%; Intesa Sanpaolo S.p.A.: 11.62%; Telefónica S.A.: 46.18%) signed a Shareholders Agreement, relevant for Telecom Italia pursuant to Legislative Decree 58/1998, art. 122.

The description of the basic contents of the agreement is contained in the Report on the Corporate Governance and Share Ownership Structure, posted on the website: telecomitalia.com.

Major Holdings in Share Capital

At December 31, 2011, taking into account the results in the Shareholders Book, communications sent to Consob and the Company pursuant to Legislative Decree 58 dated February 24, 1998, art. 120 and other sources of information, the principal shareholders of Telecom Italia S.p.A. s ordinary share capital are as follows:

Holder	Type of ownership	Percentage of ownership
Telco S.p.A.	Direct	22.39%
Findim Group S.A.	Direct	4.99%

Furthermore, the following companies, as investment advisory firms, notified Consob that they are in possession of Telecom Italia S.p.A. ordinary shares:

- Blackrock Inc.: on May 20, 2010, for a quantity of ordinary shares which at December 31, 2011 is equal to 2.89% of total Telecom Italia S.p.A. ordinary shares;
- Alliance Bernstein LP: on November 14, 2008, for a quantity of ordinary shares which at December 31, 2011 is equal to 2.06% of total Telecom Italia S.p.A. ordinary shares.

Common Representatives

- The special meeting of the savings shareholders held on May 28, 2010 elected Emanuele Rimini as the common representative for three financial years (up to the approval of the financial statements for the year ended December 31, 2012).
- By decree of March 26, 2009, the Milan Court appointed Francesco Pensato as the common representative of the bondholders for the Telecom Italia S.p.A. Euro 1,250,000,000 5.375 per cent. Notes due 2019 (with a mandate for the three-year period 2009-2011).
- By decree of March 7, 2011, the Milan Court appointed Enrico Cotta Ramusino as the common representative of the bondholders for the Telecom Italia S.p.A. 2002-2022 bonds at variable rates, open special series, reserved for subscription by employees of the Telecom Italia Group, in service or retired (with a mandate for the three-year period 2011-2013).

Annual Report on the Corporate Governance and Share Ownership Structure

The annual Report on the Corporate Governance and Share Ownership Structure is posted on the Company s website at the following address: www.telecomitalia.com; section Corporate, channel Governance.

Shareholders meeting

The shareholders meeting is convened after the limit of 120 days, as permitted by art. 2364, paragraph 2 of the Italian Civil Code, in relation to the needs of consolidation.

Performance of the Stocks of the Major Companies in the Telecom Italia Group

Relative performance by Telecom Italia S.p.A.
1/1/2011 12/31/2011 vs. FTSE Italia All-Share and DJ Stoxx TLC Index(*)

(*) Chart based on Telecom Italia ord. price of EUR 0.9915 at 1/3/2011 - Stock market prices. Source: Reuters.

Relative performance by Telecom Italia Media S.p.A.
1/1/2011   12/31/2011 vs. FTSE - Italia All-Share and DJ Stoxx Media Index(*)

(*) Chart based on Telecom Italia Media ord. price of EUR 0.238 at 1/3/2011 - Stock market prices. Source: Reuters.

Relative performance by Tim Participações S.A.
1/1/2011   12/31/2011 vs. BOVESPA and ITEL Index (in Brazilian reais)(*)

(*) Chart based on Tim Participações ord. price BRL 6.7059 at 1/3/2011 - Stock market prices. Source: Reuters.

Relative performance by Telecom Argentina S.A. (Class B ordinary shares)
1/1/2011 12/31/2011 vs. MERVAL Index (in Argentine pesos) (*)

(*) Chart based on Telecom Argentina Class B price ARS 19.44 at 1/3/2011 - Stock market prices. . Source: Reuters.

Telecom Italia S.p.A. ordinary and savings shares, Tim Participações S.A. ordinary shares, Telecom Argentina S.A. Class B ordinary shares and Nortel Inversora S.A. Class B preferred shares are listed on the New York Stock Exchange (NYSE). The shares are listed through American Depositary Shares (ADS) representing, respectively, 10 Telecom Italia S.p.A. ordinary shares and 10 savings shares, 5 Tim Participações S.A. ordinary shares, 5 Telecom Argentina S.A. Class B ordinary shares and 0.05 Nortel Inversora S.A. Class B preferred shares.

Rating at December 31, 2011

	Rating	Outlook
STANDARD & POOR'S	BBB	Negative
MOODY'S	Baa2	Negative
FITCH RATINGS	BBB	Negative

In October, Standard & Poor s and Fitch Ratings also downgraded the Outlook to Negative .

The downgrade of the Outlook from Stable to Negative principally reflects the rating agencies fear of the impact on business from a possible slowdown in the macroeconomic scenario in Italy, associated in part with the introduction of austerity measures by the government.

Related Party Transactions

In accordance with art. 5, paragraph 8 of Consob Regulation 17221 of March 12, 2010 concerning related party transactions and the subsequent Consob Resolution 17389 of June 23, 2010, there were no significant transactions entered into in 2011 as defined by art. 4, paragraph 1, letter a) of the aforementioned regulation or other transactions with related parties which had a major impact on the financial position or on the results of the Telecom Italia Group or Telecom Italia S.p.A..

Furthermore, there were no changes or developments regarding the related party transactions described in the 2010 report on operations which had a significant effect on the financial position or on the results of the Telecom Italia Group or Telecom Italia S.p.A. in 2011.

Transactions with related parties, when not dictated by specific laws, are usually conducted at arm s length. Furthermore, the transactions are subject to an internal procedure (adopted by resolution of the Board of Directors on November 4, 2010, pursuant to the Regulation adopted by Consob with Resolution 17221/2010, which can be consulted on the Company s website at the following address: www.telecomitalia.com., section Governance, channel governance system), which defines procedures and timing for verification and monitoring.

The information on related parties required by Consob Communication DEM/6064293 of July 28, 2006 is presented in the financial statements themselves and in the Note Related party transactions in the consolidated financial statements of the Telecom Italia Group and the separate financial statements of Telecom Italia S.p.A. at December 31, 2011.

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

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

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

The program for industrial cooperation has already generated slightly more than 1.3 billion euros during the three years 2008-2010, confirming the initial value assigned to the project announced to the market in March 2008. The quota of the synergies benefitting Telecom Italia is equal to 55%.

Such collaboration will also continue during the next three years 2011-2013, with the aim of further synergies of a value comparable to that already achieved in the previous three years in part due to the ongoing extension of the activities now in progress and in part due to ever greater attention to innovative services and the alignment of technological platforms as well as the continuous improvement in their respective domestic performance by sharing best practices.

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

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

Endnotes

Net of capital expenditures requirements

Sustainability Section

Introduction

For the past 15 years, Telecom Italia has been publishing a Sustainability Report in which it analyses the Company's performance in respect of the stakeholders with whom it interacts on a daily basis.

As a demonstration of the importance attached to this subject, as of 2003, information and indicators regarding sustainability have been incorporated into the Report on operations, thus confirming the Group's intention to present financial and non-financial data together.

References and Governance

The Telecom Italia Group operates with the conviction that business activities must be conducted in a way that considers the expectations of stakeholders, in accordance with the principles established by internationally recognised standards. In defining and implementing its sustainability strategies and programmes, the Group makes reference to the guidelines issued by the main international Corporate Responsibility guidance and standardisation organisations.

In 2002, Telecom Italia signed up to the principles of the main point of reference at the global level, that is, the Global Compact, which was launched in 2000 by the UN to promote the protection of the environment, respect for human rights and working standards, and anti-corruption practices.

The Sustainability Management System also takes into account the principal reference regulations and international standards:

•

European Commission directives, recommendations and communications;

•

the OCSE guidelines directed at multinational enterprises;

•

ISO9000 and ISO14000 quality and environmental management system certifications;

•

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

•

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

•

AA1000 AccountAbility Principles Standard (APS 2008) drawn up by AccountAbility, an international organisation which promotes collaboration between stakeholders, and lays down standards and guidelines on matters of sustainability. The APS 2008 standard establishes the principles a company must respect in order to define itself as accountable;

•

ISO26000 guidelines presented at the end of the year for private and public organisations of all sizes.

Since 2009, the Committee for Internal Control and Corporate Governance has been supervising sustainability activities in general, including projects conducted by the Telecom Italia Foundation, to ensure they are consistent with the Group's ethical values.

Placement in the indexes

Sustainability indexes are stock indexes in which securities are selected not only on the basis of economic-financial parameters but also in the light of social and environmental criteria. The selection process is carried out by specialised agencies that assess companies on the basis of publicly available information or questionnaires, taking account of opinions expressed by the media and stakeholders. Inclusion in these indexes is of strategic importance to companies because of the positive effects on their reputation and because, in addition to the pension funds and ethical funds, an ever increasing number of investors favour sustainable companies, considering them to be less risky and more promising in the medium to long term.

Taking part in the process of evaluation is, moreover, a timely moment for reflection within the company on the results achieved. The suggestions of the rating agencies at the end of the process are taken into consideration when planning improvement actions in the future.

In 2011, for the eighth year in a row, Telecom Italia has been confirmed in both categories of the Dow Jones Sustainability indexes:

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the Dow Jones Sustainability World Index (DJSI World), which includes 341 components;

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the Dow Jones Sustainability Europe index (DJSI Europe), consisting of 172 European components, and the respective Eurozone index, consisting of 97 components in the Euro area.

Since the inception of the Financial Times Stock Exchange for Good (FTSE4Good) series, Telecom Italia has been present in all the major indexes:

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FTSE4Good Global (719 components);

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FTSE4Good Europe (284 components);

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FTSE4Good Environmental Leaders Europe, which includes 40 components selected from the FTSE4Good Europe on the basis of the results achieved on matters of environmental protection.

Telecom Italia is also included in the following indexes:

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Advanced Sustainable Performance Index (ASPI) Eurozone, consisting of 120 components;

•

Ethibel Sustainability Indexes (ESI):

–

Excellence Europe, comprising 199 components;

–

Excellence Euro, consisting of 114 components;

–

Excellence Global, comprising 121 components.

•

MSCI ESG Indexes:

–

MSCI WORLD ESG INDEX, consisting of 795 components;

–

MSCI WORLD formerly USA ESG INDEX, consisting of 482 components;

–

MSCI EAFE ESG INDEX, consisting of 433 components;

–

MSCI EUROPE ESG INDEX, consisting of 227 components.

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ECPI Indexes:

–

ECPI Ethical Global Equity, consisting of 300 components;

–

ECPI Ethical Euro Equity, consisting of 150 components;

–

ECPI Ethical EMU Equity, consisting of 150 components.

•

AXIA Sustainable Index (ASI), consisting of 40 components.

Tim Participações had its position confirmed in the ISE (Índice de Sustentabilidade Empresarial) index managed by BM&F Bovespa (the São Paolo stock exchange), together with the Brazilian Environment Ministry and other financial and sustainability organisations. The index consists of 38 components that have achieved the highest sustainability scores, selected on the basis of a questionnaire submitted to the 182 most traded companies on the BM&F Bovespa.

Communication of non-financial performance

In the context of the Alliance between the European Commission and companies launched in March 2006 with the aim of turning Europe into a centre of excellence in CSR, a Sustainability and non-financial performance evaluation" laboratory has been set up, of which Telecom Italia has been a co-leader.

Following a widespread consultation process involving companies, investors, academics, representatives of the European Commission and stakeholders in Italy and abroad, the laboratory launched an advanced non-financial performance communication model based on six priority areas (human capital, customer relations, community, innovation, environment and corporate governance) in which companies and investors are both interested. Therefore, the high quality reporting of non-financial information by companies on these subjects would be valued by the financial markets and taken into consideration in the assessment of investments. For further information, see the website launched by the laboratory, investorvalue.org.

During 2011, the laboratory's work continued in the context of a collaborative venture project launched by CSR Europe and EABIS (European Academy for Business in Society), in which Telecom Italia plays a leading role together with other big companies and international organisations.

The project has the dual purpose of:

- identifying a small number of sustainability key performance indicators shared with the financial community (analysts, asset managers, banks and funds);
- sharing the best practice used by companies to measure and manage non-financial performance.

For further information, see the sustainability section of the telecomitalia.com website and the Enterprise 2020/Priority topics 2011 2013 section of the csreurope.org website.

Reporting

Scope and criteria

In accordance with the principle of materiality, and unless otherwise stated (see the Human Resources chapter), the sustainability report covers only subsidiaries with revenue greater than 300,000 Euro and more than 40 employees which are included in the Telecom Italia s Financial Statements, (excluding discontinued companies and non-current assets held for sale).

The Business Units referred to in the tables, unless otherwise stated, are:

- Domestic: telecommunication services and infrastructure and other associated activities carried out in Italy

- Brazil: services and activities of Tim Brasil

- Argentina: services and activities of the Telecom Argentina Group

- Media: activities of the Media Group

- Olivetti: activities of the Olivetti Group

In accordance with the triple bottom line(*) approach, the company's economic and financial data has to be analysed and represented together with the environmental and social results. Only an overall analysis of company performance including all three dimensions can provide stakeholders with comprehensive information and allow their interests to be balanced in a way that guarantees the success and survival of the company in the medium and long term. For this reason, the Group has included sustainability data in the Consolidated Financial Statements since 2003, pre-empting the implementation of European Directive 51/2003, which was transposed in Italy by Legislative Decree No. 32 of February 2, 2007.

The Sustainability Report is based on a multi-stakeholder approach involving the joint analysis of actions taken in respect of the main stakeholders with whom the Company interacts. It is drawn up on the basis of a system of around 200 Key Performance Indicators (KPIs) relating to all the areas in which the Company has a major impact and measuring its capacity to respond as well as the degree to which it has achieved the established objectives. The KPIs are defined on the basis of:

- the analysis of the Global Reporting Initiative (GRI), an international organisation which has developed universally applicable guidelines for drawing up sustainability reports that facilitate comparisons between companies;

- the demands of stakeholders;
- the questionnaires sent out by the leading rating agencies for the purpose of admission to the stock market sustainability indexes;
- the experience gained over the 15 years during which the Company has performed this activity.

The KPIs are managed on the CPM system, a dedicated application used also for the management of financial data.

The AA1000 standard

The Sustainability Report is based on the AA1000 AccountAbility Principles Standard (APS) 2008, adopted as of the 2009 Financial Statements, and set out below:

- inclusivity: identification of the stakeholders and their expectations, and the development of strategies of involvement aimed at improving the Company's sustainability performance;
- materiality: identification of the important issues for the organisation and its stakeholders;
- responsiveness: a description of the initiatives carried out by the Company to meet the expectations of stakeholders.

The adherence of Telecom Italia's financial statements to the AA1000 standard is verified by the PricewaterhouseCoopers auditing company.

Economic value generated and distributed

The economic value generated and distributed to stakeholders is shown below[1]. Since 2008, the method of presentation recommended by the Global Reporting Initiative (GRI) has been adopted, with appropriate adaptation.

Telecom Italia Group economic value generated and distributed

(million euros)	2011	2010
Direct economic value generated		
a) Total revenue and operating income	30,256	27,826
b) Interest payable and dividends paid	196	117
c) Net gains (losses) on disposals of non-current assets	3	11
d) Direct economic value generated (a+b+c)	30,455	27,954
Economic value distributed		
e) Operating costs	13,744	12,193
f) Employee costs	3,917	4,021
g) Shareholders and providers of capital	3,305	3,206
h) Taxes and duties	1,814	1,458
i) Economic value distributed (e+f+g+h)	22,780	20,878
Economic value retained (d-i)	7,675	7,076

(million euros)	2011	2010
Wages and salaries	2,788	2,615
Social security costs	993	931
Provisions for employees severance and retirement	(77)	52
Other expenses	213	423
Employee costs	3,917	4,021

(million euros)	2011	2010
Acquisition of external goods and services	12,842	11,371
Other operating costs[*]	1,527	1,234
Change in inventories	(56)	135
Internally generated assets	(569)	(547)
Operating costs	13,744	12,193

(*)

Mainly includes write-downs and charges connected to the management of non-financial credits of 533 million euros (478 million euros in 2010), accruals for risks of 128 million euros (80 million euros in 2010), and contributions and fees for the performance of Tlc activities of 675 million euros (484 million euros in 2010) net of Other taxes and duties of 349 million euros (200 million euros in 2010) included in the item Taxes and duties .

(million euros)	2011	2010
Dividends distributed	1,257	1,064
Interest payable	2,048	2,142

Shareholders and providers of capital	3,305	3,206

(million euros)	2011	2010
Income taxes	1,465	1,258
Indirect taxes and duties	349	200
Taxes and duties	1,814	1,458
regarding Italian activities	1,177	1,240
regarding activities abroad	637	218

Customers

Customer satisfaction

Customer listening at Telecom Italia

Telecom Italia has developed a customer listening model which enables the assessment of both service quality and customer experience resulting from the possible different type of contacts with Telecom Italia: these range from the most recent contacts (e.g. the activation of an ADSL line, a request for information or the reporting of a fault) to the overall customer perception built over time. The results are used to continuously improving our performance with the aim of providing products and services that are ever more responsive to customer needs.

In 2011, the listening system was extended and structured into 6 areas:

- operational processes/events: in order to monitor the fundamental operational processes (delivery, assurance, sales, technical and commercial support, etc.);
- touch points: monitoring of the various customer contact channels and occasions (e.g. points of sale, billing, customer care and web);
- key products and services: e.g. fixed and mobile broadband, smartphones, etc.;
- lifecycle: monitoring of fundamental relationship events (between customer and operator;
- intangible issues that have a cross-cutting impact on customer satisfaction (e.g. innovation);
- "reflective" surveys: these are based on the customer's overall perception and are not connected with a specific event. The indicator used in this kind of survey is the Customer Satisfaction Index (CSI). The CSI allows international statistical standards (ACSI model) to be used to measure customer perception of the main satisfaction drivers in the different type of customers of Telecom Italia (fixed consumer, mobile consumer, fixed business , mobile business, top clients, public sector) and the similar services provided by leading competitors.

During 2011, a new CSI measurement model was introduced that takes further dimensions into account (e.g. socio-cultural variables, local context, etc.). In December 2011, Telecom Italia obtained a Certificate of Conformity of its Customer Satisfaction Index (CSI) measurement process with the requirements of the UNI 11098-2003 standard (Guidelines for determining Customer Satisfaction and for measuring the respective process indicators).

The CSI values of Telecom Italia by type of customer are shown below. The 2010 data have therefore been recalculated in order to make them comparable to 2011.

Customer type(*)

	2011	2010
CONSUMER	74.24	73.86
BUSINESS	62.98	62.10
TOP CLIENTS	68.40	67.19
PUBLIC SECTOR	71.91	71.34
TOTALS	**70.86**	**70.38**

(*)

Average satisfaction is measured on a scale of 0-100, where 0 means not at all satisfied and 100 means completely satisfied .

The information in the following table refers to the annual average value of customer satisfaction concerning customer care, measured in the "reactive" surveys for Telecom Italia S.p.A.

Type of customer care customer

	Overall satisfaction(*)	
	2011	**2010**
187 consumer fixed telephony	8.32	7.39
119 consumer mobile telephony	8.56	8.33
191 business fixed telephony	7.06	6.72
191 business mobile telephony	7.13	6.47

(*) Average satisfaction on a scale of 1-10, where 1 means not at all satisfied and 10 means completely satisfied .

Customer satisfaction within the managerial incentives scheme

Among the targets set for all the managers included in Telecom Italia s short term managerial incentives scheme there are also those linked to customer satisfaction, in line with the business plan for the period. The targets are measured on the basis of customer satisfaction indexes monitored by means of periodic "reflective" surveys: the overall CSI for the Company and the specific customer satisfaction indexes per customer type.

Additional targets are set for particularly critical processes and activities (commercial and technical front-end) based on quality parameters measured by "reactive" surveys.

Customer satisfaction within collective incentives schemes

Also Telecom Italia s collective incentives schemes include a target linked to customer satisfaction. In particular, the performance-related pay award for employees not covered by an individual incentive scheme, incorporates both the overall customer satisfaction target across the whole Company and specific targets for the organisational structures responsible for different customer categories.

Suppliers

General matters

The selection, assessment and control of Telecom Italia Group s suppliers, for high risk procurement sectors, involves a pre-contractual qualification stage in which the economic/financial and technical/organisational characteristics are assessed. The positive evaluation of these characteristics allows inclusion in the Group s Register of Vendors. The Group requires every supplier to make a commitment, for themselves and their authorised sub-contractors, collaborators and employees, to observe the principles of ethics and conduct included in the Group s Code of Ethics.

Registered companies which have received purchase orders normally undergo checks during the supply period, including incoming quality control (mandatory for acceptance and use of the purchased goods) and monitoring of the vendor rating (systematic assessment of the supply).

Main sustainability initiatives

•

The process that establishes the activities aimed at improving the social responsibility of the supply chain has been redesigned by introducing a more comprehensive system of elements used to assess the sustainability of suppliers during the qualification stages, incoming quality and vendor rating.
The most significant aspects of the process include:

–

the creation of a self-assessment questionnaire for new suppliers during the qualification phase. The questionnaire was developed according to best industry practice and the main requirements of the relevant standards for responsible corporate management relating to ethical values and safeguarding the environment, including SA8000, Global Compact and ISO14000;

–

the classification of suppliers based on the potential risks associated with their sustainability performance, using a specific method that considers the socio-environmental and business continuity aspects of the procurement markets to which the suppliers belong. Suppliers in the higher risk classes undergo Corporate Social Responsibility (CSR) audits.

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In December 2011, ISO9001:2008 certificate of conformity of the Quality Management System was confirmed for the Group's Supply Chain & Real Estate department, with specific recognition for the initiatives taken in the field of sustainability. The certification required 27 Department processes to be mapped, identifying 155 performance indicators that allow the administration of services provided to internal clients and suppliers to be monitored and improved. Furthermore, the ISO14001 certification was confirmed for the service unit Facility and Real Estate and Infrastructure Acquisitions activities.

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Application continued of the green procurement policy established in 2009, which contains guidelines for establishing the environmental requirements of products and services purchased.

The policy covers all stages of the product life: design, production, use and end of life.

Published on the supplier portal of Telecom Italia and in the sustainability section of the telecomitalia.com website, the document contributes to orienting purchasing policies towards low environmental impact products and services.

Sustainability checks

Activities continued aimed at verifying the CSR of common suppliers and sub-suppliers, as required by the Memorandum of Understanding (MOU) signed by Telecom Italia, France Telecom and Deutsche Telekom at the end of 2009. Belgacom, KPN, Swisscom and Vodafone have also subsequently signed up to the Memorandum.

Thanks to the new members, the verification activities now cover 55 production sites located in Asia, Central and South America, North Africa and Eastern Europe. During 2010-2011, 33 audits were carried out by specialised international companies, selected by competitive tender, covering approximately 155,000 workers.

Involvement initiatives

For the fifth year in a row, the Group s main suppliers have been involved in satisfaction surveys regarding the Supply Chain & Real Estate department and, more generally, Telecom Italia. The online questionnaire, consisting of 27 questions, remained active for 3 weeks. The survey involved 1,132 suppliers with a 48% response rate. The overall assessment of the supply relationship with the Telecom Italia Group achieved a score of 73/100, which is consistent with 2010, thus confirming the improvement recorded in the last survey and the generally positive trend in the level of satisfaction recorded since 2008. The analysis of the satisfaction level shows an upward trend in the percentage of suppliers who state they are satisfied or very satisfied .

The two e-communities set up in previous years for suppliers in the civil infrastructure and network operations sectors, aimed at improving dialogue mainly regarding social and environmental sustainability, remain active.

The activities of the e-communities mainly take place through a platform known as TelecHome . Developed in Web 2.0 logic, it contributes to the exchange of information and experiences within the e-communities, in order to:

- integrate the best operational practices on specific issues;
- publish the results obtained, in terms of the environmental/social certifications attained;
- support voting campaigns on various initiatives.

The Environment

Environmental performance

The information regarding environmental performance has been drawn from management data, some of which are estimated.

The environmental performance data given below cover energy, atmospheric emissions, water, paper, waste and electromagnetic emissions.

Energy

Energy consumption by Telecom Italia S.p.A. and the Group is presented according to the guidelines proposed by the Global Reporting Initiative (GRI G3 guidelines) regarding direct consumption for heating and transport (Scope1 according to the GreenHouse Gas Protocol[(2)]) and indirect consumption for the purchase and use of electricity (Scope2).

Heating systems

		Telecom Italia S.p.A. 2011	Changes % 2011 vs 2010	2011 vs 2009
Energy generated by heating oil	MJ	120,177,570	3.12%	6.37%
Energy generated by methane	MJ	437,290,915	0.25%	(36.54%)
Total energy for heating	MJ	557,468,485	0.86%	(30.49%)

Heating systems

		TI Group 2011	TI Group breakdown by Business Unit (%) Domestic	Brazil	Argentina	Media	Olivetti
Total energy for heating	MJ	689,155,125	87.85%	0.00%	3.71%	0.44%	8.00%

The data in the table relating to Telecom Italia S.p.A. show that, compared to 2010, consumption for heating has remained essentially unchanged and that, as noted last year, consumption has been falling significantly since 2009, when the big cogeneration plants came into service. These plants produce heat and electricity at the same time in a number of Data Processing Centres (DPCs), leading to a reduction in the purchase of fossil fuels used exclusively to heat working environments. In Brazil, the climate makes it unnecessary to heat indoor premises while in Argentina heating is necessary only for a few months in the coldest areas of the country.

Vehicles

		Telecom Italia S.p.A. 2011	Changes % 2011 vs 2010	2011 vs 2009
Unleaded petrol consumption	l	2,081,298	(46.02%)	(60.99%)
Diesel consumption	l	17,526,407	(2.38%)	(0.86%)
LPG consumption	l	238,606	(*)	(*)
Total energy for transport( )	MJ	699,138,479	(8.53%)	(12.84%)

(*)

The amount of LPG used in 2009 and 2010 was negligible and was not recorded.

(*) Represents conversion into MegaJoules of the consumption of unleaded petrol, diesel and LPG expressed in litres.

Number of vehicles and distance travelled(3)

		Telecom Italia S.p.A. 2011	Changes % 2011 vs 2010	2011 vs 2009
Total number of company vehicles	no.	19,243	(3.33%)	(8.66%)
Number of low-emission vehicles( )	no.	18,968	(3.34%)	(8.75%)
Total distance travelled	Km	306,714,162	(4.16%)	(0.64%)

(*)

Euro4 or higher standard vehicles fuelled by unleaded petrol, diesel and LPG, electric vehicles or vehicles running on other fuels with comparable or lower emissions.

At Telecom Italia S.p.A., the significant containment of energy consumption for transport is due partly to the reduction in the distance travelled and partly to the greater efficiency achieved in managing the fleet of vehicles.

Number of vehicles and distance travelled(*)

		TI Group 2011	TI Group breakdown by Business Unit (%) Domestic	Brazil	Argentina	Media	Olivetti
Total number of vehicles	no.	23,901	81.59%	3.30%	13.85%	0.38%	0.88%
Total energy consumed	MJ	956,252,389	74.36%	4.43%	19.01%	0.74%	1.46%
Total distance travelled	Km	386,246,821	80.60%	3.54%	14.00%	0.64%	1.22%

Consumption figures for electricity used to operate telecommunication and civil/industrial plants follow.

Electricity procured and produced

		Telecom Italia S.p.A. 2011	Changes % 2011 vs 2010	2011 vs 2009
Electricity from mixed sources(*)	kWh	1,896,664,295	(6.28%)	(9.40%)
Electricity from renewable sources	kWh	37,032,133	(7.91%)	(13.79%)
Total electricity	kWh	1,933,696,428	(6.31%)	(9.49%)

(*)

Electricity purchased from mixed sources is equal to 1,813 GWh approximately. Self-produced electricity from mixed sources is equal to 84 GWh approximately and refers to the co-generation plants, with an associated consumption equal to 22 million m^3 of methane. The production of electricity from continuous generators (not shown in the table) is estimated to be around 3 GWh.

Electricity procured and produced

		TI Group 2011	TI Group breakdown by Business Unit (%) Domestic	Brazil	Argentina	Media	Olivetti
Total electricity	kWh	2,743,240,667	72.03%	12.67%	13.76%	0.89%	0.65%

Energy saving and network efficiency improvement initiatives led to a significant reduction in overall electricity consumption of over 6%. During 2011, energy efficiency and optimisation of consumption initiatives primarily related to:

- adoption of the most modern and efficient technological solutions for TLC platforms and servers installed in Data Centres, including the concentration and virtualisation of machines[(4)];
- introducing innovative mobile network system technologies in order to improve performance in terms of transmission capacity and allow new services to be introduced that significantly reduce energy consumption;
- rationalising and optimising air conditioning systems, particularly by segregating environments depending on their different temperature requirements, and increasing the average operating temperatures of telephone exchanges, servers and Radio Base Stations (RBSs);
- modernising of AC/DC conversion equipment through the introduction of technological solutions that guarantee better performance;

- maintaining the efficiency of the fixed traditional switching network and the data networks;

- installing time switches to turn off the lighting systems;

- the targeted use of Full Free Cooling[5] technologies and other low environmental impact systems characterised by reduced energy consumption in cooling systems;

- additional use of remote metering systems via sensor to cover around 25% of the company's energy use in 2011 (with a plan for further increases to achieve remote metering of around 50% of consumption in 2012);

- energy efficiency audits at Telecom Italia's most important sites in terms of energy consumption and consequent adoption of improvement actions;

- sharing of technological sites thanks to co-siting agreements[6] leading to energy savings of around 30%.

The following initiatives were carried out in 2011 regarding the use of non-traditional or alternative and experimental new technologies:

- cogeneration/trigeneration: 5 large systems are in operation in four Data Centre sites (Rozzano, Padua, Bologna and 2 in Pomezia) and energy requirements are fulfilled by a trigeneration system (power generation, heating and cooling system) which, together with the traditional supply systems, allows energy savings of around 30%;

- building of small scale cogeneration plants fuelled by methane with an electrical output of 120 kWe. 5 additional systems have been completed at industrial sites to join the 12 systems already producing electricity and heat;

- wind/photovoltaic power: at 8 RBSs situated in areas characterised by favourable environmental and meteorological conditions, which were previously powered by diesel generators, a supplementary mixed wind and photovoltaic supply has been installed (3 to 6 kW wind power generator and 5 kWp photovoltaic panels). Similar work is taking place at a further 5 RBSs and data analysis is continuing in order to identify additional suitable sites;

- building of geo-cooling[7] systems at three medium-sized telecommunication exchanges to provide air conditioning for the equipment rooms, replacing the traditional cooling units and with a view to making wider use of the technology across the territory;

- commissioning of a further 52 energy backup systems with hydrogen fuel cells instead of the traditional lead battery systems, joining the 137 already in operation. The introduction of this equipment has allowed the purchase and subsequent disposal of traditional batteries containing approximately 160 tonnes of lead to be avoided. Lifecycle assessments show a benefit to the environment in terms of CO_2 not emitted of around 60 tonnes.

A number of projects were launched in 2011 to obtain energy efficiency certificates (white certificates) with a value of 270,000 TOEs (Tonnes of Oil Equivalent) saved over five years. These certificates, which can be traded on the electricity market, have a unit value of 100 euros per TOE not used.

At Telecom Argentina, an interdisciplinary energy committee was set up that meets on a quarterly basis in order to analyse energy consumption and determine rationalisation strategies.

To this end, the methodical monitoring of consumption at each individual plant, using measurement and monitoring instruments with wireless technologies and remote sensors (Kaleidos project), and the preventive maintenance carried out to ensure that any corrective actions required can be quickly identified, are extremely important.

In the city of Rosario, the first green contact centre has been inaugurated and is currently in progress the process of obtaining its LEED (Leadership in Energy and Environmental Design) certification. The building has been designed and built according to green building standards and includes state-of-the-art technologies in its customer contact infrastructure and equipment.

Atmospheric emissions

Greenhouse gas emissions by Telecom Italia and the Group consist almost exclusively of carbon dioxide and are due to the use of fossil fuels for heating, transport, electricity generation, purchase of electricity produced by third parties and staff travel (for business trips and commuting between home and work). In addition to these, dispersals of hydrochlorofluorocarbons and hydrofluorocarbons (HCFC and HFC) from air conditioning systems are also considered and converted into kg of CO_2 equivalent.

As with the classification of power consumption, for atmospheric emissions use is made of the Global Reporting Initiative - GRI Version 3 - guidelines, which refer to the definitions of the GHG Protocol, distinguishing between direct emissions (Scope1: use of fossil fuels for vehicles, heating, power generation), indirect emissions (Scope2: purchase of electricity for industrial and civil use) and other indirect emissions (Scope3).

Unless otherwise stated, the atmospheric emissions recorded in this Report have been calculated based on the latest coefficients made available by the GHG Protocol[8]; emissions in previous years have been recalculated based on these coefficients in order to allow comparison.

Atmospheric emissions

		Telecom Italia S.p.A. 2011	Changes % 2011 vs 2010	2011 vs 2009
CO_2 emissions from transport	kg	52,018,660	(8.43%)	(12.47%)

CO_2 emissions from heating	kg	32,738,582	1.03%	(28.60%)
Emissions of CO_2 equivalents for HCFC/HFC(*) dispersals	kg	21,508,900	(19.81%)	(26.81%)
CO_2 emissions from electricity generation by cogeneration	kg	40,975,696	36.21%	213.87%
CO_2 emissions from electricity generation using diesel	kg	2,261,181	(15.23%)	(37.79%)
Total direct emissions of CO_2 - under Scope1 GRI	kg	149,503,019	0.48%	(1.23%)
CO_2 emissions from purchases of electricity generated by mixed sources	kg	722,386,641	(7.50%)	(12.29%)
Total indirect emissions of CO_2 - under Scope2 GRI	kg	722,386,641	(7.50%)	(12.29%)
CO_2 emissions from work-home commuting( )	kg	55,843,288	(6.81%)	(14.72%)
CO_2 emissions from air travel( )	kg	9,942,526	(0.61%)	(16.14%)
Total other indirect emissions of CO_2 - under Scope3 GRI	kg	65,785,814	(5.93%)	(14.93%)
Total CO_2 emissions	kg	937,675,474	(6.20%)	(10.89%)

(*)

Hydrochlorofluorocarbons (HCFC) and hydrofluorocarbons (HFC), in terms of equivalent CO_2 emissions are determined by reference to specific Global Warming Potential (GWP) parameters for the two gases: the index is based on a relative scale that compares the gas considered with an equal mass of carbon dioxide with a GWP of 1. The GWP of HCFC used was 1,780 and that of HFC was 1,300. In 2009, however, a single parameter was used without differentiating between the types of gas dispersed.

( )

In determining the impact of home-work commuting, reference is made to statistical data produced on the company's personnel.

( )

Air travel emissions were calculated based on the individual journeys actually made and the coefficients suggested by the GHG Protocol depending on the short or long term duration of each individual journey.

Atmospheric emissions

			TI Group breakdown by Business Unit (%)				
		TI Group 2011	Domestic	Brazil	Argentina	Media	Olivetti
Total CO_2 emissions under Scope1 GRI	kg	177,807,364	86.08%	2.14%	9.06%	0.44%	2.28%
Total CO_2 emissions under Scope2 GRI	kg	963,547,634	76.72%	1.05%	20.97%	1.01%	0.25%
Total other CO_2 emissions under Scope3 GRI	kg	96,316,630	75.98%	8.04%	15.44%	0.22%	0.32%

Total CO_2 emissions	kg	1,237,671,628	78.00%	1.75%	18.83%	0.87%	0.55%

Atmospheric emissions by Telecom Italia S.p.A. are falling significantly in overall terms. The following are a number of considerations on how individual items contributed to the achievement of the overall result:

- reduction of emissions due to lower consumption by vehicles;

- reduction of equivalent CO_2 emissions, relating to the dispersal of HCFC and HFC used in air conditioning systems, due to the adoption of more meticulous methods for preventing leaks and the replacement of these gases with lower environmental impact solutions;

- an increase in emissions attributable to cogeneration, resulting from the company s decision to invest more in this technology, with financial and environmental benefits. The increase is in any case offset by the lower amount of power purchased from the grid, which overall has led to a positive balance being achieved in terms of emissions;

- reduction of emissions from diesel electricity generators in situations where the electricity distribution network is unavailable;

- reduction of emissions resulting from electricity consumption;

- reduction of emissions from business air travel by employees due to a reduction in the number of trips, resulting in particular from the greater use of video-conferencing.

Water

Water consumption

		Telecom Italia S.p.A. 2011	Changes % 2011 vs 2010	2011 vs 2009
Consumption of water drawn from artesian wells	m^3	53,858	(20.50%)	(36.80%)
Consumption of water provided by water supply companies	m^3	4,300,000	(0.97%)	(1.61%)
Total water consumption	m^3	4,353,858	(1.27%)	(2.28%)

Water consumption

TI Group breakdown by Business Unit (%)

		TI Group 2011	Domestic	Brazil	Argentina	Media	Olivetti
Consumption of water drawn from artesian wells	m^3	944,003	5.70%	0.00%	0.00%	0.01%	94.29%
Consumption of water drawn from supply companies	m^3	6,528,173	67.92%	2.73%	28.70%	0.35%	0.30%
Total water consumption(*)	m^3	7,472,176	60.06%	2.39%	25.07%	0.31%	12.17%

(*) The data of the Argentina BU was estimated on the basis of invoices received.

Paper

Paper purchased

		Telecom Italia S.p.A.2011 2011	Changes % 2011 vs 2010	2011 vs 2009
paper purchased for office use	kg	413,578	(21.92%)	(35.16%)
paper purchased for commercial use	kg	1,551,076	(5.61%)	(23.18%)
Total paper purchased	kg	1,964,654	(9.59%)	(26.05%)

Purchases of paper for office and commercial use (telephone bills) continue to be directed at product types that meet the highest environmental standards based on the responsible management of forests according to the Forest Stewardship Council (FSC, see fsc.org) requirements.

With regard to the working environment, consumption has been rationalised by the awareness-building work on rationalising use and by the printing on demand project which provides for the use of shared high performance printers.

As regards paper purchased for commercial use, activities continued for the purpose of achieving an overall reduction in consumption, particularly by promoting the use of electronic invoices and statements among customers. This allowed over 92 tonnes of paper to be saved, as well as reducing the production of CO_2 associated with delivery of the packages.

The collection of sorted waste in offices, organised in all the company's office premises, allowed 21,670 tons of paper to be sent for recycling during 2011.

Telecom Argentina is also focusing on digital billing, which currently covers around 5% of customers and allows the company to avoid printing and sending out around 150,000 documents for each billing cycle.

Paper for office use

	TI Group breakdown by Business Unit (%)				
TI Group 2011	Domestic	Brazil	Argentina	Media	Olivetti

Non-recycled paper purchased	kg	255,828	1.03%	2.47%	96.50%	0.00%	0.00%
Recycled paper purchased	kg	63,072	0.00%	100.00%	0.00%	0.00%	0.00%
FSC certified paper purchased	kg	473,003	93.59%	1.34%	0.00%	2.96%	2.11%
Total paper purchased for office use	kg	791,903	56.23%	9.56%	31.18%	1.77%	1.26%

Waste

The data shown in the table refer to the quantity of waste consigned[9] and recorded by law[10].

Waste consigned (*)

		Telecom Italia S.p.A. 2011	Changes % 2011 vs 2010	2011 vs 2009
Hazardous waste	kg	5,747,941	6.26%	(8.30%)
Non-hazardous waste	kg	12,406,059	12.28%	7.54%
Total quantity of waste	kg	18,154,000	10.30%	1.96%
Waste for recycling/recovery	kg	17,345,326	15.16%	7.13%
Ratio between the amount of waste recycled/recovered and the total waste	%	95.55%	4.41%	5.07%

(*)

The data does not include telephone poles because these are not disposed of as ordinary waste but under the framework agreement signed in 2003 with the Ministry of the Environment, the Ministry of Production Activities and the production and recovery companies, subject to the favourable opinion of the conference of State-Regions-Autonomous Provinces. In 2011, Telecom Italia decommissioned 160,861 poles weighing a total of 12,868,880 Kg.

Waste consigned

		TI Group 2011	TI Group breakdown by Business Unit (%) Domestic	Brazil	Argentina	Media	Olivetti
Total waste consigned(*)	kg	20,583,186	89.89%	4.49%	2.36%	0.69%	2.57%

(*)

For comparison purposes among the Business Units, the data of the Telecom Argentina BU doesn t include decommissioned telephone poles (kg 16,146,750 in 2011) although these have been consigned and are not managed separately from other waste. Furthermore, the figure has not been calculated on the basis of estimated data, and only includes recorded waste.

Waste data varies over time according to the quantities and types delivered to the companies contracted to treat it. The most important item of data for Telecom Italia's purposes is the ratio between waste produced and consigned for recycling/recovery, which has improved significantly compared to the two previous years.

Ministerial Decree No. 65 of March 8, 2010 (published in the Gazzetta Ufficiale on May 10, 2010) implemented the collection of Waste Electrical and Electronic Equipment (WEEE) by all Telecom Italia sales channels as of June 18, 2010. As required by the legislation, Telecom Italia and all its sales channels have been registered as "Distributors" in the National Register of Environmental Managers and management procedures have been adapted to comply with the legislation.

In 2011 Telecom Italia has regenerated a large number of its own devices (including 121,644 modems, 640 set top boxes for IPTV, 35,900 fixed line telephony products and 150,679 other materials related to technical logistics). This activity has a dual purpose: to help reduce WEEE while generating an economic benefit derived from not purchasing new equipment. The savings have thoroughly covered the regeneration costs of these products.

For ADSL (home gateway) modems, a review has been carried out of the reconditioning and disposal processes in the event of a fault or at the end of their useful life, in order to reduce the environmental impacts of these stages but also to identify solutions that improve the choice of materials and the methods for dismantling future products. Part of this analysis has already been used to build the new Telecom Italia Wi-Fi N modem, which inaugurated the new range of green products in 2011. Around half a million of these modems were sold in 2011.

An awareness-building campaign is taking place at Telecom Argentina urging customers to deliver their used mobile phone batteries to retail outlets. An agreement with a specialised company allows the lithium, cobalt and nickel contained in the appliances to be recovered and re-introduced as materials in the production cycle under conditions that are completely safe for the environment.

Electromagnetic emissions

The actions of the Telecom Italia Group on the subject of electromagnetic emissions are essentially:

- careful and proper management of its equipment during its entire life cycle, in compliance with current regulations and internal standards of efficiency and safety;
- deployment of, and constant research into, the latest technological instruments for checks and controls.

Systematic monitoring has continued of the levels of electromagnetic emissions in the installations of La7, MTV and Telecom Italia Media in order to guarantee that legal limits are respected and high safety standards are maintained. For the Telecom Italia Media Group in particular, such monitoring is related to electromagnetic field levels for protection of the population and the levels of exposure of workers. According to the checks carried out in Italy, the electromagnetic emissions generated by La7 and MTV are well within legal limits.

Similar attention is paid to the emissions from mobile handsets using the frequency bands operated by Telecom Italia: GSM 900MHz, DCS 1800MHz and UMTS. In 2011, in accordance with the established targets, all the models of technologically innovative mobile phones marketed by Telecom Italia under the TIM brand were submitted to SAR qualification(11). In determining the SAR compliance of mobile handsets. Telecom Italia complies with ICNIRP (International Commission on Non-Ionizing Radiation Protection) guidelines and subsequent declarations of conformity(12). This qualification, which is carried out during the pre-marketing stage, when Telecom Italia does not often have the SAR value declared by the manufacturer, makes the test more valuable than a simple quality control check.

During the year, the percentage of GSM network traffic in half rate mode increased. This technology allows a single radio resource to be used for two simultaneous conversations, thus reducing the overall power emitted as compared to the traditional voice coding system.

In order to respond to the growing demand for information about non-ionising radiation[13] Telecom Argentina signed an agreement with the Argentinian federation of municipalities and a continuous monitoring and data dissemination system has been installed in over 500 municipalities.

The Community

Contributions made by the Telecom Italia Group to the Community, calculated according to the guidelines of the London Benchmarking Group (LBG), amounted to around 31 million euros in 2011 (33.4 million euros in 2010).

More than 100 major international companies subscribe to the LBG, which was founded in 1994 and is the global gold standard for the classification of voluntary contributions made by companies in favour of the Community.

In accordance with the LBG model, in order to measure and represent the Group's commitment to the community, the contributions disbursed have been subdivided into three categories (Charity, Investments in the community, Initiatives in the community), adopting a pyramid-shaped scheme, which places initiatives of a charitable nature at the top and initiatives which in addition to being of benefit to the Community are in the commercial interest of the Company at the bottom.

Allocation by % of the contribution to the Community by the Telcom Itali Group

Research and development

Within Telecom Italia, research and development activities are carried out by the Information Technology, TILab and Innovation & Industry Relations departments, which oversee the development of new technologies and the engineering aspects of Telecom Italia's service offers through strategic partnerships with the main producers of telecommunications equipment and systems and with research centres of excellence at the most highly qualified national and international academic institutions. Activities to enhance and generate competitive advantage for the Group are of particular importance and are pursued through strategic management of the relationship between research, Intellectual Property Rights (IPR) and business, aimed at developing the company s assets in patents rights. 14 new applications for patents were filed during 2011.

The themes on which projects are developed are identified on the basis of the three-year technological plan, the reference document for the Group, which provides guidelines for the evolution of the network, platform and services.

Published annually, following a wide-ranging process involving all the areas of the company involved, the Plan identifies the main external factors (regulations, standards, vendors, other market operators) that may influence the company's strategies and highlights the emerging and cross-cutting technologies in other sectors that may be of interest to the Group.

Projects and initiatives

The themes identified can be arranged in 3 macro-strands:

- Network and service platform innovation
- Services to reduce environmental impact
- Services for the Community

Network and service platform innovation

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Careful electromagnetic compatibility analyses were carried out on the new generation wireless LTE (Long Term Evolution) networks currently being designed. The analyses focused in particular on the interference problems associated with the proximity of the spectrum in the 800 MHz band between LTE channels and digital TV channels (DVB-T) and the problems connected with the proximity between aerials for receiving the TV signal and the existing mobile telephony system transmitters (GSM, UMTS) for the purpose of complying with the legal emission limits for electromagnetic fields.

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In the context of activities aimed at developing new mobile access technologies, testing on "active aerials" is taking place for the purpose of improving the spectral efficiency and control and optimisation of the aerial radiation pattern. This activity is required in order to improve the energy efficiency of Radio Base Stations (RBS) by connecting these aerials using optical fibres, thus eliminating the losses due to coaxial cables.

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Research activities continued on mobile radio access as part of the European ARTIST4G project, working with a number of leading operators, manufacturing companies, universities, research centres and European SMEs, with the aim of improving the quality of the service for users connected to the same mobile network cell, without affecting performance for other users. The work is proceeding as planned and the project is expected to be completed by the first half of 2012.

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The new generation of high capacity hybrid radio links were added to the network. These allow both circuit and packet traffic to be carried and will be used, among other things, to connect the remote sites of the new LTE network.

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The first version of the M2M platform for Machine_to_Machine communications between networked devices came into operation, allowing Telecom Italia's top customers (big companies and organisations) to manage their stock of terminals and SIM cards, even using automatic (not-human) applications between networked devices.

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Test campaigns were completed in the laboratory for solutions to be used on high speed trains. The Cubovision project was developed for Trenitalia (Cubo3n) for the purpose of delivering and updating multimedia content on the Frecciarossa fleet of trains (currently under development for the Frecciargento and Frecciabianca fleet as well). The services and offer (browsing of the catalogue, purchase and use of content) are delivered via a Wi-Fi multi-device (PC, MAC, iPhone, iPad) web portal hosted entirely on the servers installed on board, thus optimising interaction with the Telecom Italia service centre platforms created with mobile radio access.

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For the mobile Cubovision project, two applications have been developed to offer content: one for the Android platform and one for the IOS (iPhone, iPad) platform. These applications include video content management in adaptive formats that guarantee the best possible user experience in all band conditions (Wi-Fi, HSDPA mobile radio, UMTS mobile radio, etc.) and protection of pay-per-view content.

- As part of the POF-PLUS (Plastic Optical Fibre for Pervasive Low-cost Ultra-high capacity Systems) project, a plastic fibre optic system was developed for Ethernet data transmission at 1 Gbit/s over a distance of 50 metres using an international state-of-the-art LED light source that was even exhibited at the OFC 2011 conference. At the same time as its experimental activity, Telecom Italia contributed to drawing up an ETSI (European Telecommunications Standards Institute) specification which is the first international standard in this field.

Services to reduce environmental impact

- Next Generation Data Center: is a project aimed at developing hardware infrastructure according to virtualisation and cloud computing principles, based on replacing the physical servers in Telecom Italia data centres by making shared use of infrastructure between the various applications. The project, which aims to develop commercial offers for the ICT market (e.g. ospit@ virtuale), allows logistical and energy optimisations to be achieved.

- Next Generation Workplace: is a personal computing evolution that allows centrally managed content and applications to be accessed remotely and in multichannel mode, replacing traditional workstations, based on a desktop, with highly simplified PCs that only contain the basic network information needed to communicate with the centralised infrastructure. In addition to contributing in a decisive way to reducing energy consumption, the project is aimed at improving the operational flexibility of employees, establishing the foundation for future development of work models (e.g. teleworking).

- ITS & Infomobility Platform: aims to enable new mobility services for Public Administration and private users by gradually introducing the idea of a vehicle constantly connected with the outside world (e.g. service centre, roadside infrastructure, occupants, other vehicles, etc.). The objective is to improve the efficiency and eco-sustainability of transport for the benefit of the community. The strategy and solutions are developed in close synergy with the industry standardisation activities in which Telecom Italia is closely involved.

- Smart metering: solutions that allow energy consumption to be monitored and optimised, such as Energy@Home.

- Smart Town: the solution provides a package of services for municipalities by using the public lighting network and is offered as part of the Digital Town (Smart Cities) initiatives involving Italy's main cities.

- EARTH (Energy Aware Radio and NeTwork TecHnologies): studies network architectures and the individual radio components of existing and future generation mobile systems in order to improve their energy efficiency by at least 50% compared to current standards, with resulting benefits in terms of savings and a reduction in harmful emissions.

- ECONET (low Energy COnsumption NETworks): is intended to develop new technologies and integrated control mechanisms in order to enable energy saving in fixed network equipment by dynamically adapting network capacity and resources according to the actual traffic loads and requirements of users, guaranteeing quality of service at the same time. The aim is to allow the energy requirement of equipment to be reduced by 50% in the short to medium term (and 80% in the long term).

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Telepresence: development of a prototype for the telepresence service for business customers, the features of which guarantee a high standard of video quality (resolution up to full HD), visibility of the whole person, smoothness in the reproduction of movements and polyphonic audio with echo and background noise suppression. The prototype is distinguished by the use of low cost technologies such as HD consumer webcam, low cost 50" plasma TV, medium range PC and new sound cards.

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On the Access Gateways (AG) front, work continued on creating the new range of Telecom Italia Green products, which was inaugurated in April 2011 with the new Wi-Fi for the supply of broadband services. A further two broadband modems were added and the environmental declaration was finalised for the new version of the Sirio Punto telephone, which is expected to be launched in the first few months of 2012. Also completed was the environmental declaration for the Cubovision 2 multimedia box (which is expected to be launched by the beginning of 2012), optimising various environmental aspects in close cooperation with the supplier (energy consumption, choice of materials, disassembly procedures, packaging).

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As of December 2008, Huawei and Telecom Italia have set up a Network Innovation Center (NIC) for synergistic collaborations on various issues, with particular regard to energy efficiency.

Services for the Community

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Solutions for reducing the geographical divide: these are intended to facilitate access to broadband in areas with digital divide problems and new urban areas.

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Laboratorio Accreditato di Prova (LAP) [accredited test laboratory]: operates within TILab and carries out testing activities on ICT services and systems for the company's internal departments and for external companies and organisations. The LAP is accredited as a provider of various services to the Ministry of Economic Development, SIT (Italian calibration service) and Accredia (the new national accreditation body) based on European Regulation EC 765/2008. During 2011, a new technical operating sector was set up, consisting of the laboratory for mobile telephony added value services (VAS) and three new accredited services for performing tests.

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Smart Inclusion: this project allows young long term hospital patients to stay in contact with their school and family home via a touch screen terminal fitted with a camera, while also allowing doctors to optimise the management of care procedures. The technical solution has been created by Telecom Italia by using innovative technologies such as plastic fibre optics and power lines, as well as specific software developments mainly based on open source platforms.

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E-learning and evolved teaching: a series of initiatives have been launched in the field of schooling with the aim of fulfilling the demand for evolved systems based on collaboration, communication and the use of innovative devices such as IMBs - Interactive Multimedia Boards.

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Nuvola Italiana Home Doctor: remote healthcare based on monitoring the physiological parameters of the patient directly from home or in appropriately equipped premises. The measurements are carried out by combining technologies developed by Telecom Italia with the standard medical electronic apparatus on sale.

Human Resources(*)

(*) The data in this chapter relate to all the Telecom Italia Group companies (see Reporting paragraph).

Headcount and changes

Telecom Italia Group

Headcount as of December 31, 2011 is as follows:

(units)	12.31.2011	12.31.2010	Changes
Italy	56,838	57,994	(1,156)
Abroad	27,274	26,135	1,139
Total personnel on payroll	84,112	84,129	(17)
Agency contract workers	42	71	(29)
Total personnel	84,154	84,200	(46)
Non-current assets held for sale	-	-	-
Total	84,154	84,200	(46)

Excluding agency contract workers, the Group's headcount has decreased by 17 units compared to December 31, 2010.

The changes can be itemised as follows:

- exit of the company Loquendo S.p.A. from the consolidation scope (103 units);
- entry into the consolidation scope of the company 4GH Retail (699 units) and the companies TIM Fiber SP and TIM Fiber RJ (302 units);
- net turnover down by 915 units, as detailed below by individual Business Unit:

(units)	Recruited	Departed	Net change
Domestic	614	2,347	(1,733)
Brazil	4,523	4,400	123
Argentina	1,824	1,107	717
Olivetti, Media and others	191	213	(22)
Turnover	7,152	8,067	(915)

Telecom Italia S.p.A.(*)

(units)	12.31.2011	12.31.2010	Changes
Total personnel on payroll	47,801	49,636	(1,835)

(*)

In 2011, as in 2010, there were no agency contract workers.

As of December 31, 2011, Telecom Italia S.p.A. had 47,801 employees on its payroll.

Compared to December 31, 2010, an overall reduction of 1,835 units was recorded, due to:

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balance of 7 outgoing units due to inter-company transfers (84 incoming units from the transfer, by the company Matrix S.p.A., of the Market & Technology Captive department);

•

net turnover down by 1,828 units, as detailed below:

(units)	Recruited	Departed	Net change
Turnover of Telecom Italia S.p.A.	106	1,934	(1,828)

Tim Brasil Group

(units)	12.31.2011	12.31.2010	Changes
Total personnel on payroll	10,539	10,114	425

The headcount of Tim Brasil Group as of December 31, 2011, was equal to 10,539 units.

Compared to December 31, 2010, an increase of 425 units was recorded, due to:

- 1 incoming unit from other Group companies;
- the entry into the consolidation scope of the companies TIM Fiber SP and TIM Fiber RJ (302 units);
- net turnover up by 122 units, as detailed below:

(units)	Recruited	Departed	Net change
Turnover at Tim Brasil Group	4,522	4,400	122

Argentina Business Unit

(units)	12.31.2011	12.31.2010	Changes
Total personnel on payroll	16,349	15,632	717

Excluding agency contract workers, the headcount of the Argentina Business Unit as of December 31, 2011 was 16,349 units.

Compared to December 31, 2010, an increase of 717 units was recorded, due to:

- net turnover as detailed below:

(units)	Recruited	Departed	Net change

Argentina Business Unit turnover	1,824	1,107	717

Breakdown of Telecom Italia Group personnel

Telecom Italia Group personnel can be broken down as follows:

Telecom Italia Group: employee breakdown by job category

Telecom Italia Group: employee breakdown by age group

Telecom Italia Group: employee breakdown by academic qualification

The geographical distribution and intake of personnel by the Group are the following:

Telecom Italia Group: employee breakdown by geographical area

Telecom Itali Group: recruitment breakdown by geographical area

Gender balance

In 2011, the distribution of men and women in the Group was the following:

(units)	12.31.2011	12.31.2010	Changes
Men	53,741	54,363	(622)
Women	30,371	29,766	605
Total	84,112	84,129	(17)

In 2011, the percentage of women holding senior management positions in the Telecom Group was approximately 12% and, in middle management, the proportion of the total was 27%.

People Caring

Over the years, the Group has developed several programmes and initiatives to support its employees, to improve the quality of their working lives and also to support those outside the Company.

People Caring is the Telecom Italia department created to respond to the expectations of employees regarding certain important issues, identified through active listening carried out both on line (Intranet, community, email) and through meetings and focus groups. The main topics identified are:

- work-life balance;
- support for the needs of employees and their families;
- support for volunteering initiatives by employees;
-

promoting the forms of diversity that exist in the workplace through activities and projects.

Development

The 2010 Group performance assessment process for Italy was completed in March 2011. The uniformity of the assessment criteria used was ensured, as always, by appropriate calibration committees, consisting of managers from the assessed employee's department and Human Resources.

As of April, following the assessment process, specific training plans were implemented.

During 2011, assessment activities continued for senior managers, middle managers and employees, both in Italy and Brazil, where an on line system was developed with the aim of mapping the potential of all the Company's employees, identifying strengths and areas of improvement in order to guide development activities effectively.

In order to attract and retain the best talents, a Talent without borders programme was launched in Brazil, aimed at trainees and students enrolled in the last 2 years of university, which allows them to access accelerated and diverse professional career paths.

In Argentina, as part of the Talent Pool project, the assessment process was completed for middle managers and specialists in certain areas of the company. This process, which involved 197 people and also involved the use of an on line platform, allow skills development and coaching programmes to be developed. During the second half of 2011, an assessment process was completed for senior managers in the mobile telephony unit, which was also extended to middle managers recruited the previous year.

Selection

During March and July 2011, Telecom Italia signed two important agreements with trade unions for the training and recruitment by the Company of young undergraduates and graduates, with the aim of renewing existing skills and developing new management skills, covering the generation gap. The following initiatives are taking place in particular:

- support for 95 research doctorates for young engineering and economics graduates through agreements signed with several universities nationwide, with the aim of acquiring excellent skills to be dedicated to specific research projects of interest to the company;

- planning of 3 master degree courses in technological innovation for the ICT market aimed at creating a pool of resources highly trained in topics of interest to the company from which to draw future recruits. The universities involved are the Polytechnic of Turin, MIP - Polytechnic of Milan and Federico II University of Naples, involving a total of 65 young Engineering and Economics graduates;

- extension of apprenticeship contracts for advanced training within the project called The Day Before . The experimental project launched by Telecom Italia in agreement with trade unions was started up by the TeleContact Center (TCC) with the aim of recruiting 200 engineering and economics undergraduates. 103 engineering undergraduates have so far been recruited by the Naples, Catanzaro and Caltanissetta offices. In July the initiative was also launched in Telecom Italia, within Open Access, for the recruitment of a further 200 engineering undergraduates.

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Other collaboration activities with the academic world which have proved successful in previous years also continued. Further 180 stages have started in the Group.

In Brazil, selection programmes continued aimed at promoting the training of young people between the ages of 16 and 24 (Jovem Aprendiz) and young graduates. Tim Brasil continued to prioritise the recruitment of staff who were already working for the company. During 2011, 166 interns were recruited (via the Estágio Sem Fronteiras initiative).

At Telecom Argentina and Telecom Personal tools to seek talent outside the company were diversified and optimised in 2011, involving the help of external consultants and head hunters, the use of social networks and collaboration with universities.

Training

In 2011, over 2.2 million hours of training were carried out in the company costing a total of more than 30 million euros. 96.8% of staff, equal to 81,452 employees, took part in at least one training activity.

Organisational areas, total by training type (Telecom Italia Group)

Type of Training	Total by training type				
	Total hours (no.)	Hours per head (no.)	Participations (*) (no.)	Participants (no.)	Coverage (%)
Specialist training	1,848,683	22.0	323,878	44,255	52.6%
Senior Managers	3,220	2.5	289	191	15.1%
Middle Managers	46,932	7.1	4,389	1,977	29.9%
Office Staff/Workers	1,798,531	23.7	319,200	42,087	55.2%
Management training	116,596	1.4	11,645	5,878	7.0%
Senior Managers	25,426	20.1	3,475	762	60.3%
Middle Managers	35,324	5.4	3,350	1,749	26.5%
Office Staff/Workers	55,846	0.7	4,820	3,367	4.4%
Institutional training	125,102	1.5	52,906	26,673	31.7%
Senior Managers	1,497	1.2	277	163	12.9%
Middle Managers	6,426	1.0	9,676	1,851	28.0%
Office Staff/Workers	117,179	1.5	42,953	24,659	32.3%
Training for newly-hired employees	38,518	0.5	2,823	1,162	1.4%
Senior Managers	-	-	-	-	-
Middle Managers	313	0.0	20	14	0.2%
Office Staff/Workers	38,205	0.5	2,803	1,148	1.5%
Language training	77,222	0.9	4,982	3,484	4.1%
Senior Managers	15,846	12.5	649	326	25.8%
Middle Managers	22,199	3.4	1,463	1,159	17.6%
Office Staff/Workers	39,177	0.5	2,870	1,999	2.6%
TOTAL	2,206,121	26.2	396,234	81,452	96.8%
Senior Managers	45,989	36.4	4,690	1,442	114.1%
Middle Managers	111,194	16.8	18,898	6,750	102.2%
Office Staff/Workers	2,048,938	26.9	372,646	73,260	96.1%

(*)

Shows the overall number of participations in the various kind of training (classroom, on-the-job, on line training).

Internal communication

The main activities carried out related to:

- off line publishing initiatives, with the production of the planned editions of the corporate magazine for employees and multimedia products on compliance and regulation issues;

- on line publishing initiatives on the Intranet and on the company's web TV.

Telecom Italia people were involved in internal events in person or remotely.

For events attended by large numbers of people, multimedia conventions are now the established method, allowing a small number of people to gather in a physical space (auditorium, large meeting rooms) and interact with a vast virtual audience of colleagues connected from their workstations by video streaming.

The main events held by this method include the 2 editions of Parli@mone , in which the executives of Telecom Italia have talked to employees connected by video streaming on organisational and strategic matters. All the questions received were answered directly during the course of the event or subsequently.

In Brazil, in order to encourage internal integration and promote corporate identity and corporate values, Olympic games (Olimpíadas TIM 2011) were launched for the second year running. These are an internal championship that includes 6 disciplines and involved over 2,000 employees split into 230 teams.

Internal communication activities also took place, dedicated to health, safety, the environment and to encourage volunteering activities.

In Argentina, NEO TV, a channel of multimedia content, broadcasts in streaming mode in all the company's offices on subjects including health, presentation of work teams and developments in the company's business.

Tecotwitt, a tool similar to Twitter, has been developed to allow all employees to take part in discussions on issues of interest.

Health and Safety

During 2011, a number of specific initiatives were launched or continued regarding health and safety at work, one of the most important of which was an assessment of work-related stress. This initiative was implemented by means of a procedure that involved an assessment based on indicators associated with the context and content of work (e.g. sick leave, holidays not taken, disciplinary procedures, accident rates, decision-making autonomy, interpersonal relationships, home/work interface, work environments, work loads and pace of work) surveyed by means of appropriate check lists. The assessment, which involved all workers, regardless of the department they belong to, was carried out by dividing the workers into 12 homogeneous groups, identified by reference to various criteria, including the types of tasks performed, the ways in which they are performed and the departments in which they work.

The context and content check lists were applied during specific work sessions attended by workers' representatives, the Human Resources department and the Prevention and Protection Service. The results of the assessment, which did not identify widespread situations of work-related stress but an estimate of average risk in three uniform groups, were shared with the workers' health and safety representatives and the other interested parties, with whom an agreement was also reached on the procedures to be used to identify improvement actions.

Accidents

The accident rates for 2011 show a general decrease in the statistical data, except for the severity index, which increased as a result of a fatal accident at work caused by a car accident (no fatal accident in 2010).

The Group continues to pay constant attention to the issue of safety in the workplace, mainly by verifying implementation of risk control measures and providing training aimed at disseminating a logic of respect and protection for oneself and others.

Similar attention is also paid to providing training for the operation and maintenance of Tlc systems that involve overhead work (poles, ladders and pylons) in order to ensure that people acquire sufficient knowledge on how to behave correctly during work-related activities.

Further education/training efforts have also been directed at providing safe driving courses (operating since 2007). In 2011 these involved over 600 people who use company vehicles on a continuous basis.

The accident at work data for Telecom Italia S.p.A. are shown below.

	2011	2010
Number of accidents (excluding commuting)	657	873
Severity index(*)	0.29	0.20
Frequency rate(*)	8.99	10.91
Average duration in hours	114.14	136.44
Unproductivity index(*)	1.25	1.80
Accidents per 100 workers	1.35	1.70

(*) The severity, frequency and unproductivity indexes are respectively:

the number of conventional working days lost per thousand hours worked

the number of accidents per million hours worked

the number of hours lost due to accidents per thousand hours worked

The accident rates for 2011 show a general decrease in the statistical data, except for the severity index, which increased as a result of a fatal accident at work caused by a car accident (no fatal accident in 2010).

Industrial relations

During 2011, many information and discussion meetings were held with the trade unions to illustrate the reorganisation activities involving the various company departments (Customer, Technology, Staff) and to examine any effects on personnel.

Trade union representatives were involved in the business ethics certification process for the Open Access department (SA 8000 Certification). Obtained in May 2011, the certification relates to the company's ethical performance and is a tool used to inform customers that the company's products are made under proper working conditions and with respect for human rights in the performance of production activities.

With regard to the solidarity contract applied to around 29,200 employees of Telecom Italia S.p.A. for the two-year period between November 8, 2010 and November 7, 2012, in accordance with the agreement of October 25, 2010, the Company and the trade unions held specific verification meetings aimed at discussing the many initiatives taken by Telecom Italia S.p.A. to favour repositioning of surplus personnel. Training is a crucial element for the success of staff skill re-orienteering and improvement processes. For this purpose specific projects have been discussed with the trade unions.

Also among training initiatives carried out in 2011, there is the one targeted to women employees. The project, which was shared with the trade unions through an agreement signed on September 7, 2011, gave sixty female colleagues from Rome, Milan and Turin the opportunity to obtain an expert diploma in electronics and telecommunication at the expense of the company. Participation is voluntary and, in addition to covering tuition fees, the Company took appropriate measures to ensure a sustainable work-life balance.

One of the most significant initiatives launched by Telecom Italia, as a sustainable company that contributes to the economic and social development of the country, is the Senior Apprenticeship Project. the initiative aims to promote closer relations between the academic world and the world of work in southern Italy (see The Day Before project in the Selection paragraph). The project was agreed with the trade unions (SLC-CGIL, FISTel-CISL, UILCom-UIL) under an agreement signed on March 4, 2011.

In order to strengthen its commitment and extend these initiatives to a wider geographical area, and through an agreement signed on July 27, 2011, Telecom Italia S.p.A. shared further projects with the trade unions for the implementation of innovative and concrete initiatives.

On May 19, 2011, Telecom Italia S.p.A. and the national secretariats of SLC-CGIL, FISTel-CISL and UILCom-UIL signed an agreement regarding facilitated tax exemption according to the legal rules introduced on this subject. The agreement allows personnel who earn no more than a specific threshold to benefit from tax exemptions established for the 2011 tax year.

In accordance with current legislative provisions regarding company transfers, Telecom Italia S.p.A. involved the trade union representatives in both procedures carried out during the year, which ended with positive joint assessments:

- the first, which took place in May, is related to the transfer, by means of the partial demerger of Matrix S.p.A., of its branch of activity called "Market & Technology Captive" to Telecom Italia S.p.A..

  The company and trade unions signed a specific agreement to harmonize contract work conditions for all workers who joined Telecom Italia S.p.A. after October 1, 2011;

- the second, which was completed in September, relates to all employees of the company TI Audit & Compliance Services S.C. a r.l. which, following the merger by incorporation, have been transferred without interruption to Telecom Italia S.p.A. starting from January 1, 2012.

In accordance with the agreements reached with the workers representatives in the context of the framework agreement of August 4, 2010 for the management of surplus staff at Telecom Italia S.p.A., on July 27, 2011 an additional 2-year extension of the defensive solidarity contract was agreed between the Company and the trade unions. This will be applied until August 31, 2013 to employees working in the Directory Assistance sector of the Company (12.54, directory data assurance, call centres, international services centre, local support). The workers affected will be partially reimbursed by INPS for the money lost as a result of the reduction in working hours.

In April, the industry's main trade unions (SLC-CGIL, FISTel-CISL and UILCom-UIL) discussed an agreement regarding the initiatives launched respectively by Pathnet S.p.A. and Telecom Italia Sparkle S.p.A. to provide employees with an opportunity to register, for the 2010-2011 academic year, for one of the degree courses run by the faculties of Law, Economics, Engineering, Communication Science, Psychology and Arts of the Uninettuno International Telematic University.

Telecom Italia Media

During the year, discussions with the union of journalists, which are still under way, focused primarily on a more detailed examination of the specific regulatory aspects of the national labour agreement for journalists and the second level agreements.

On December 21, 2011, an agreement was signed with the trade union representatives of Telecom Italia Media, SLC CGIL, UILCOM UIL and FISTEL CISL, both national and local, which provides for the renewal of the union agreement for raising the overall limit set by the law as the maximum length of temporary employment contracts according to article 5, paragraph 4-bis, of legislative decree no. 368 of September 6, 2001, as amended by law 133/2008. This limit was raised from 36 to 63 months in total. The agreement also governs certain aspects of fixed term and permanent employment contracts and various issues relating to employment discipline.

As regards relations with unions other than those representing journalists, on May 20, 2011 the companies Telecom Italia Media S.p.A. and Telecom Italia Media Broadcasting S.r.l. jointly signed an agreement with the national and local trade union representatives and the company's workers representatives relating to the methods for electing and running trade union representatives and workers' safety representatives. On the same day, an agreement was also signed between the company Telecom Italia Media Broadcasting S.r.l. and the national and local trade union representatives which, considering the strongly improved results achieved by the company, values the contribution made by workers to supporting the overall growth of the company, which has been significant over the past year.

Finally we report that the renewed national collective labour agreement for the employees of private radio and television companies was signed on February 16, 2011.

Tim Brasil

At the beginning of the year, the national collective labour agreement (valid until November 2011) was signed with 26 trade unions. The terms of the final proposal were accepted by 21 trade unions (representing around 97% of employees) and the final adjustment phase is nearing completion for the missing 3%. In September, the company launched a new phase of negotiations with the trade unions, which was completed successfully with 19 trade unions representing 90% of employees signing a new labour agreement (valid until November 2012). The final proposal include profit distribution agreements for the two-year period 2011-2012. Negotiations continued with the trade unions with which an agreement was not reached.

Telecom Argentina

Since 2010, trade unions in the telephone industry have come together in a federation of telecommunication unions called the MUS (Mesa de Unidad Sindical de las Telecomunicaciones), which is the main forum for dialogue about the various issues being negotiated. In this context, joint negotiations were conducted in 2011 and salary increases were agreed that will apply until 2012.

During 2011, the application of teleworking continued as part of the pilot programme for the implementation and promotion of teleworking in the private companies PROPET (Programa Piloto de Seguimiento y Promoción del Teletrabajo en Empresas Privadas) of the National Ministry of Employment MTEYSS (Ministerio de Trabajo, Empleo y Seguridad Social), as an additional tool for achieving a better work-life balance. The programme was applied during 2011 to 66 employees in several areas of the company in 11 different provinces.

Remuneration policy

In 2011, remuneration policies pursued the aim of cooling the incremental effects of the increase in the fixed component of labour costs over time. Intervention was focused on the variable elements of remuneration, making exclusive use of one-off tools with a greater degree of selectivity than in the past. Interventions on fixed remuneration were frozen, with the exception of measures regarding individuals working in core business positions characterised by the actual existence of risks of a competitive nature. The MBO 2011 system, the only short-term formalised incentive tool aimed at managers and particularly valuable employees, confirms the importance that the company has placed over the past two years and continues to place on corporate and departmental macro-economic objectives. In 2011, investment has continued to be made in enhancing the non-monetary components of the pay packet (company benefits). Telecom Italia has equipped itself with a long-term incentive system that brings together senior executive personnel, top management and a selected number of managers in achieving pre-established three-year performance objectives in order to strengthen the link between management remuneration and company performance ensuring the long-term sustainability of the company's results.

Employees share ownership plan 2010-2014

In 2010, Telecom Italia launched the 2010-2014 employees share ownership plan for all permanent employees of Telecom Italia or its subsidiaries with registered offices in Italy.

During the first subscription phase, which took place between June 28 and July 9, 2010, all employees were able to purchase ordinary shares, with a 10% discount on the market price, up to a maximum countervalue of three thousand euros.

On August 2, 2011 the second phase was completed, involving the allocation of one free share for every three shares purchased to those who complied with the conditions set by the plan, i.e. retained ownership of the shares purchased for one year and remained employees of one of the Group companies.

The plan complies with the conditions for access to the fiscal benefits of article 51 of the consolidated law on income tax. Employees who decide to retain full ownership of the shares, bought at a discount and assigned free of charge, for three years from the respective dates of purchase/assignment, will be entitled to an exemption from tax and contributions on the benefit paid by the company in terms of discount and bonus shares.

Shareholders

Financial communication

In 2011, the Company organised quarterly conference calls, road shows abroad and meetings in the Group's corporate centres (reverse road shows) as well as attending industry conferences. During these events, the Company met over 350 investors. In addition to these there are the direct meetings and telephone conversations that the Investor Relations team has on a daily basis.

The responses to the financial market by the Group are based on the criteria of relevance, the sensitiveness of information, the congruence and topicality of the issues dealt with to the Group structure and the actions undertaken to achieve the targets of the Strategic Plan.

Financial communication also takes into consideration the needs of investors linked to Socially Responsible Investing (SRI), which favours companies that pay attention to ethical, social and environmental factors as well as financial aspects. Communication with this particular category of investors, which is jointly administered with the Group Sustainability department, is developed through individual contacts and participation at dedicated events.

As regards relations with individual (retail) shareholders - there are currently 500,000 holders of ordinary shares - Telecom Italia's strategy aims to increase communication channels in order to respond quickly and effectively to queries regarding the performance of shares and the Group as a whole. The messages and ideas that emerge from dialogue with retail investors are collected and reported to top management.

The TI Alw@ys ON (telecomitaliaclub.it) shareholders' club was launched in 2006 as a virtual meeting place between the Company and its individual investors. The Club is also open to those who do not have shares in the Group, and just by joining the Club, members can obtain the same free services that are reserved for shareholders, that is:

- SMS alert, which provides a daily report of the closing price and percentage variations of Telecom Italia s ordinary and savings shares compared to the previous day, as well as the daily percentage variations in the FTSE/Mib index;
- weekly stock exchange report: sent on Monday morning and summarising performance during the week ending the previous Friday;
- quarterly newsletter: contains a comment on the most recent economic and financial results and a focus on events and trends that have influenced the performance of results.

In addition to these services, Telecom Italia offers shareholders an Individual Shareholders' Guide , containing detailed information about the Group, available on request and on the website, as well as constant updates through the (corporate, product and financial press releases).

With regard to on line financial communication, the website (telecomitalia.com) is constantly updated and innovated. This year, Telecom Italia achieved first place overall in the Italian and European KWD Webranking 2011 rankings produced by KWD, the digital division of Hallvarsson & Halvarsson, a Swedish company that assesses and rewards listed companies that are most attentive to on line corporate and financial communication.

Risk Management

In order to ensure a global approach to risk management, the Telecom Italia Group has adopted a process inspired by the Enterprise Risk Management (ERM) framework[14]. This is a corporate risk governance tool used to identify, assess and manage risks.

The foundation of the system is the Group Risk Management Committee, which is chaired and coordinated by the head of Administration, Finance and Control & International Development department and is made up of the managers of the departments involved, according to the issues dealt with in the individual meetings.

The Risk Management department manager helps with the coordination of the Committee, which meets on a quarterly basis (or according to specific requirements) and is intended to guarantee governance of the Group risk management process.

The ERM approach, approved by the Risk Management Committee, is based on an assessment of the risk profile by management in relation to company processes and the strategic objectives. This approach provides for risks to be mapped, focusing on the ones regarded to be most significant, and on the formation of inter-departmental working groups defined by the Group Risk Management Committee for the implementation of mitigation plans and control indicators.

The process is updated on an annual basis (or more regularly) at the discretion of the Group Risk Management Committee.

During 2011:

- the stages required by the ERM 2010 cycle were completed, creating a more mature risk management process, defining action plans for the main risks and monitoring these using a quarterly risk dashboard;

- the 2011 ERM cycle was launched;

- The Group's 2011 corporate risk profile was defined (excluding Telecom Argentina) which involved completing the analysis phase and part of the evaluation phase (risk assessment and allocation). The subsequent phases are expected to be completed during 2012;

- in September, the Group Risk Management Committee approved the updated version of the "Telecom Italia Group Risk Management Guidelines" and the "Enterprise Risk Management in the Telecom Italia Group" organisational procedure, which are intended to provide Group companies with a reference tool for day-to-day risk management activities.

Alternative Performance Measures

In this Report on Operations, in the consolidated financial statements of the Telecom Italia Group and in the separate financial statements of the Parent, Telecom Italia S.p.A., for the year ended December 31, 2011, in addition to the conventional financial performance measures established by IFRS, certain alternative performance measures are presented for purposes of a better understanding of the trend of operations and the financial condition. Such measures, which are also presented in other periodical financial reports (half-year financial report at June 30 and interim reports at March 31 and September 30) should, however, not be construed as a substitute for those required by IFRS.

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

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

Profit (loss) before tax from continuing operations	
+	Finance expenses
-	Finance income
+/-	Other expenses (income) from investments (1)
+/-	Share of losses (profits) of associates and joint ventures accounted for using the equity method (2)
EBIT - Operating profit (loss)	
+/-	Impairment losses (reversals) on non-current assets
+/-	Losses (gains) on disposals of non-current assets
+	Depreciation and amortization
EBITDA - Operating profit (loss) before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets	

(1)

Expenses (income) from investments for Telecom Italia S.p.A.

(2)

Line item in Group consolidated financial statements only.

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Organic change in Revenues, EBITDA and EBIT**:** these measures express changes (amount and/or percentage) in revenues, EBITDA and EBIT, excluding, where applicable, the effects of the change in the scope of consolidation, exchange differences and non-organic components constituted by non-recurring items and other non-organic income and expenses. Telecom Italia believes that the presentation of such additional information allows for a more complete and effective understanding of the operating performance of the Group (as a whole and at the Business Unit level) and the Parent. The organic change in revenues, EBITDA and EBIT is also used in presentations to analysts and investors. Details of the economic amounts used to arrive at the organic change are provided in this Report on Operations as well as an analysis of the major non-organic components for years 2011 and 2010.

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Net Financial Debt: Telecom Italia believes that Net Financial Debt represents an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets. The Report on Operations includes two tables showing the amounts taken from the statement of financial position and used to calculate the Net Financial Debt of the Group and Parent.

In order to better represent the actual change in net financial debt, starting with the Half-year Financial Report at June 30, 2009, in addition to the usual measure (renamed Accounting net financial debt) a new measure was introduced denominated Adjusted net financial debt which excludes effects that are purely accounting in nature resulting from the fair value measurement of derivatives and related financial assets and liabilities.

Net financial debt is calculated as follows:

+	Non-current financial liabilities
+	Current financial liabilities
+	Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale
A)	Gross financial debt
+	Non-current financial assets
+	Current financial assets
+	Financial assets included in Discontinued operations/Non-current assets held for sale
B)	Financial assets
C=(A - B)	Accounting net financial debt
D)	Reversal of fair value measurement of derivatives and related financial assets/liabilities
E = (C + D)	Adjusted net financial debt

Glossary

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

3G (third-generation Mobile System). Third-generation wireless service, designed to provide high data speeds, always-on data access, and greater voice capacity.

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

ADR Agreement concerning the international carriage of Dangerous goods by Road.

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

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

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

Bitstream. Wholesale Broadband access service which consists of supplying an access to XDSL Telecom Italia network and a 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.

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

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

Carrier. Company that makes available the physical telecommunication network.

CDP (Carbon Disclosure Project). An international initiative that encourages companies to focus on deal with the risks and emerging opportunities of climate change.

CLG (Corporate Leaders Group) EU CLG The European Corporate Leaders Group, coordinated by Cambridge University

CO_2 Carbon dioxide. Carbon dioxide, one of the most important greenhouse gases. Attributable to industrial processes as a product of combustion, in particular from the use of fossil fuels.

Cogeneration. Cogeneration is the joint production of usable electrical (or mechanical) and heat energy drawn from the same primary source. Cogeneration, using the same fuel for two different uses, aims at a more efficient use of primary energy, with respective financial savings, above all in those production processes where the electricity and thermal extraction take place contemporaneously.

Co-siting. Agreements to share technological sites (for Telecommunications, specifically, sites of access to the network and passive infrastructure) by several operators in order to achieve a more efficient use of the network infrastructure in urban and rural areas.

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

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

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

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

EEB (Energy Efficiency in Buildings). An international initiative promoted by WBCSD for research into the energy efficiency of buildings.

EFFC (Extraction Full Free Cooling). A system of cooling intended to reduce consumption without the use of greenhouse gases. EFFC is based on the principle of Free Cooling (forced ventilation without the use of air-conditioning), associated with a system for extracting the hot air produced by the equipment, and the further (adiabatic) cooling of the incoming air, achieved by using an area with a high concentration of vaporized water.

EMS (Environmental Management Systems). Environmental Management Systems contribute to the management, in a sustainable way, of the production and support processes, and are a stimulus to continuous improvement in environmental performance in that they are instruments for ensuring the effective management, prevention and continuous reduction of environmental impact in the field of working processes.

EPS (External Power Supplies). External power supplies for equipment

EuP (Energy-using Products). Within the scope of the Directive for the eco-compatible design of products which consume energy (Eco-design Directive for Energy-using Products 2005/32/EC), the regulatory framework has been defined to which producers of energy-using products (EuP) must comply, from the design phase onwards, to increase energy efficiency and reduce the negative environmental impact of their products.

FFC Full Free Cooling. A system of cooling based on the use of forced ventilation in order to reduce energy consumption.

FSC (Forest Stewardship Council). The Forest Stewardship Council is an international non-governmental, non-profit organization. FSC is an internationally recognized system of forestry certification. The purpose of the certification is to ensure proper forestry management and the traceability of derivative products. The FSC logo ensures that the product has been created with raw materials originating in properly managed forests according to the principles of the two main standards: forestry management and the chain of custody. The FSC certification scheme is third party and independent.

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. In the case of FTT Curb (Fiber to the Curb) the fiber arrives at the apparatus (distribution cabinet) located on the pavement, from where copper connections are run to the customer; in the case of FTTHome (Fiber to the Home), the fiber terminates inside the home of the customer.

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

GRI (Global Reporting Initiative)

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

HFC (Hydrofluorocarbons). Hydrofluorocarbons: compound molecules used in cooling equipment. They are part of the family of greenhouse gases. They do not cause ozone depletion.

Home Access Gateway Access Gateway Home gateway Residential Gateway. A residential gateway is a home networking device, used as a gateway to connect devices in the home to the Internet or other WAN.

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

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.

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

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

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

LCA (Life Cycle Analysis) Life Cycle Analysis: analytic methodology for the evaluation and quantification of environmental impact associated to a product/process/activity along the whole life cycle, from the extraction and acquisition of raw materials up to the end of life.

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

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

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

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

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

NGDC (Next Generation Data Center). A major rethink of the IT architecture through the physical concentration and virtualization of the servers in order to reduce the costs of maintenance/management and energy consumption, and to improve efficiency.

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

OHSAS (Occupational Health and Safety Assessment Series). The international standard that sets the prerequisites for management systems for the health and safety protection for workers.

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

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

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

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

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

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

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

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

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

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

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

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

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

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