TELECOM ITALIA S P A
Form 6-K
September 22, 2009
Table of Contents

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 SEPTEMBER 2009

Telecom Italia S.p.A.

(Translation of registrant s name into English)

Piazza degli Affari 2

20123 Milan, Italy

(Address of principal executive offices)

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

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

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

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

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

Table of Contents

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

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

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

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

- our ability to successfully implement our strategy over the 2009-2011 period;
- our ability to successfully achieve our debt reduction targets;
- the continuing impact of increased competition in a liberalized market, including competition from established domestic competitors and global and regional alliances formed by other telecommunications operators in our core Italian domestic fixed-line and wireless markets;
- the impact of the global recession in the principal markets in which we operate;
- our ability to utilize our relationship with Telefónica to attain synergies primarily in areas such as network, IT, purchasing and international mobile roaming;
- our ability to introduce new services to stimulate increased usage of our fixed and wireless networks to offset declines in the traditional fixed-line voice business due to the continuing impact of regulatory required price reductions, market share loss, pricing pressures generally and shifts in usage patterns;
- our ability to successfully implement our internet and broadband strategy both in Italy and abroad;
- the impact of regulatory decisions and changes in the regulatory environment in Italy and other countries in which we operate;
- the impact of economic development generally on our international business and on our foreign investments and capital expenditures;
- our services are technology-intensive and the development of new technologies could render such services non-competitive;
- the impact of political developments in Italy and other countries in which we operate;

the impact of fluctuations in currency exchange and interest rates;

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

Table of Contents

- 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.

Table of Contents

Table of Contents

Contents

Interim Management Report

Telecom Italia Group Half-year Condensed Consolidated Financial Statements at June 30, 2009

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.

Table of Contents

Selected Operating and Financial Data

Telecom Italia Group

Half-year 2009 highlights

Cash flows from operations and financial discipline	During the first half of 2009, the Group s transformation described in the Industrial Plan 2009-2011 was set into motion. The plan calls for a structural revision of the composition of Revenues, marketing processes and also the implementation of efficiency and control programs for expenditures aimed at containing cash costs. These actions, combined with a rigorous financial discipline, brought cash flows from operations to 2.2 billion euros or about 600 million euros more than in the corresponding period of 2008.
Organic EBITDA and organic EBITDA margin	The above actions as applied to Revenues and Costs made it possible to keep EBITDA basically in line with the corresponding period of 2008, improving on the percentage margin against the first half of 2008 by 1.5 percentage points, increasing from 39.7% to 41.2%. Such results put the Telecom Italia Group among the top performers in the TLC sector.
Pre-tax profit	Effective financial management together with the positive trend of operating management resulted in an increase in pre-tax profit of 192 million euros, +13.8% over the first half of 2008.

***

The main financial and operating indicators performed as follows in the first half of 2009:

Consolidated **Revenues**: are 13,953 million euros. The organic change[(1)] is -3.8% compared to the same period of the prior year. In particular:

the organic reduction of **Domestic Revenues** is 4.7%: although National Wholesale revenues grew (+15.8%), retail Revenues contracted as a result of competition and the macroeconomic trend which caused a variation in Revenues of -3.0% in the Top Clients Division, -8.7% in the Business Division and -6.8% in the Consumer Division.

This variation was determined by a reduction of the Revenues of the mobile segment (-7.1%) and a contraction of the Revenues in the fixed segment (-1.6%) which is a confirmation of the slowdown of the erosion recorded during 2008.

the organic growth of **Revenues in Brazil** is +2.1% (+0.7% in the first quarter of 2009, +3.4% in the second quarter of 2009, compared to the same quarter of the prior year). In a first half in transition, in which the reorganization measures were completed and the first steps in the commercial relaunch plan were taken, VAS and product revenues recorded a good performance, driven by the growth of the customer base which, after a contraction in the first quarter, once again became positive (+4.8% compared to the first quarter of 2009).

Consolidated organic **EBITDA**: is 5,747 million euros. Notwithstanding the above-mentioned organic reduction in Revenues, the organic change in EBITDA is -0.2% compared to the first half of 2008. This significant result was reached thanks to the structural

(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.

Table of Contents

revision of the composition of Revenues which benefited from the services which carried a higher margin, as well as due to efficiency and control measures over all the cost variables according to the operating cost reduction programs announced in the Group s Plan 2009-2011.

Consolidated organic **EBIT**: is 2,817 million euros. The organic change is -1.9% compared to the first half of 2008.

Consolidated organic **EBIT margin**: is 20.2% in the first half of 2009, with a gain of 0.4% points over the same period of the prior year.

Finance income/expenses and income taxes: the financial component, investment management and the equity valuation of associates record an overall improvement of 87 million euros.

Income taxes increased by 484 million euros: excluding deferred income taxes of 515 million euros in the first half of 2008 on accelerated depreciation taken in prior years reversed to income, income taxes decreased by 31 million euros.

Profit for the period attributable to owners of the Parent: is 964 million euros and decreased by 153 million compared to the first half of 2008, mainly as a result of higher income taxes.

Net free cash flow from operations: is 2,170 million euros and improved by 587 million euros compared to the first half of 2008. This is the consequence of a stable operating margin year-on-year and the effectiveness of measures aimed at controlling costs and monitoring and selecting capital expenditure projects. Capital expenditures in particular decreased by 913 million euros (-30.9%) compared to the first half of 2008, which had included 477 million euros for the acquisition of the 3G license in Brazil.

Adjusted net financial debt: the volatility of interest rates and exchange rates which were a distinguishing feature of the financial markets starting from the fourth quarter of 2008, had a sharp impact on the fair value of derivatives and related financial assets and liabilities. In order to present a more realistic analysis of net financial debt, a new performance measure has been introduced denominated adjusted net financial debt which excludes purely accounting and non-monetary effects deriving from the fair value measurement of derivatives and the related financial assets and liabilities.

At June 30, 2009, adjusted net financial debt amounts to 34,859 million euros, increasing 333 million euros compared to December 31, 2008 (34,526 million euros). This increase is a reflection of the payment of income taxes, including 244 million euros for tax disputes, provided for in prior years, and the distribution of dividends for 1,050 million euros.

The change in adjusted net financial debt in the first half of 2009, totaling +333 million euros, can be compared to +1,456 million euros recorded in the corresponding period of the prior year, with an improvement of 1,123 million euros.

Liquidity margin: amounts to 8.1 billion euros at June 30, 2009. During the first half of 2009, the situation of the European and United States financial markets made it possible to issue new bonds and obtain new loans at advantageous conditions. In addition, 6.5 billion euros of available irrevocable long-term credit lines (expiring in 2014) is available, not subject to events which limit its utilization. In the present environment of financial market uncertainty, the Telecom Italia Group keeps a high level of financial coverage in order to have a sufficient treasury margin at its disposal to meet debt repayment obligations over the next 18 to 24 months.

Table of Contents

Consolidated Operating and Financial Data

(millions of euros)	1st Half 2009	1st Half 2008	Change %
Revenues	13,953	14,809	-5.8%
EBITDA [1]	5,670	5,502	3.1%
EBIT[1]	2,680	2,575	4.1%
Profit before tax from continuing operations	1,588	1,396	13.8%
Profit from continuing operations	941	1,233	-23.7%
Loss from Discontinued operations/Non-current assets held for sale		(148)	°
Profit for the period	941	1,085	-13.3%
Profit for the period attributable to owners of the Parent	964	1,117	-13.7%
Investments:			
Industrial	2,043	2,956	-30.9%
Financial	4		°

Consolidated Financial Position Data

(millions of euros)	6/30/2009	12/31/2008	Change
Total assets	86,143	85,650	493
Total equity	26,621	26,825	-204
- attributable to owners of the Parent	25,820	26,095	-275
- attributable to Minority Interest	801	730	71
Total liabilities	59,522	58,825	697
Total equity and liabilities	86,143	85,650	493
Share capital	10,585	10,591	-6
Net financial debt carrying amount [1]	35,185	34,039	1,146
Adjusted net financial debt [1]	34,859	34,526	333
Adjusted net invested capital [2]	61,480	61,351	129
Debt Ratio (Adjusted net financial debt /Adjusted net invested capital)	56.7%	56.3%	+0.4 pp

Headcount, number in the Group at period-end [3]

(number)	6/30/2009	12/31/2008	Change
Headcount (excluding headcount of Discontinued operations/Non-current assets held for sale)	76,560	77,825	-1,265
Headcount of Discontinued operations/Non-current assets held for sale			

Headcount, average number in the Group (3)

(equivalent number)	1st Half 2009	1st Half 2008	Change %
Headcount (excluding headcount of Discontinued operations/Non-current assets held for sale)	73,368	76,660	-3,292
Headcount of Discontinued operations/Non-current assets held for sale		1,338	-1,338

Table of Contents

Consolidated Profit Ratios

	1st Half 2009	1st Half 2008	Change %
EBITDA(1) / Revenues	40.6%	37.2%	3,4 pp
EBIT(1) / Revenues (ROS)	19.2%	17.4%	1,8 pp
Revenues/Headcount (average number in the Group, thousands of euros)	190,2	193,2	-3,0
EBITDA(1) /Headcount (average number in the Group, thousands of euros)	77,3	71,8	5,5

Operating Data

	6/30/2009	12/31/2008	Change
Fixed-line network connections in Italy at period-end (thousands)	19,170	20,031	-861
Physical accesses at period-end (Consumer + Business) (thousands)	16,621	17,352	-731
Mobile lines in Italy at period-end (thousands)	32,630	34,797	-2,167
Mobile lines in Brazil at period-end (thousands)	37,826	36,402	1,424
Broadband connections in Italy at period-end (thousands)	8,443	8,134	309
of which retail broadband connections (thousands)	6,859	6,754	105
Broadband connections in Europe at period-end (thousands)	2,452	2,510	-58

(1) Details are provided in the section Alternative Performance Measures .

(2) Adjusted net invested capital = Total equity + Adjusted net financial debt.

(3) Headcount includes the number of people with temp work contracts.

The Telecom Italia Group Half-yearly Financial Report at June 30, 2009 has been prepared as set out in art. 154-ter (Financial Reports) of Legislative Decree 58/1998 (Consolidated Law on Finance TUF), and subsequent amendments and additions, and has been drawn up in accordance with International Accounting Standards issued by the International Accounting Standards Board and endorsed by the European Union (denominated IFRS), as well as the measures enacted implementing art. 9 of Legislative Decree 38/2005.

The report includes:

the Interim Management Report;

the half-year condensed consolidated financial statements

the certification of the half-year condensed consolidated financial statements pursuant to art. 81-ter of Consob Regulation 11971 dated May 14, 1999, with amendments and additions

Certain new standards and interpretations came into effect beginning January 1, 2009 and have therefore been applied to these financial statements. In particular, following the retrospective application of IFRIC 13 (Customer Loyalty Programmes), the comparative data of the corresponding periods of the year 2008 has been appropriately restated. Additional information is presented in the Note Accounting Policies of the half-year condensed consolidated financial statements at June 30, 2009.

Moreover, as a result of the application of IFRS 8, the use of the terms operating segment and Business Unit in this Half-yearly Financial Report are considered synonymous.

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 net financial debt carrying amount and adjusted net financial debt. Additional details on such measures are presented under Alternative performance measures .

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

Table of Contents

PRINCIPAL CHANGES IN THE SCOPE OF CONSOLIDATION

Beginning May 1, 2009, the company Telecom Media News S.p.A. has been excluded from the scope of consolidation following the sale of a 60% stake by Telecom Italia Media S.p.A..

The following principal changes had taken place during 2008:

- *the exclusion of Entel Bolivia starting from the second quarter of 2008 after the Bolivian government issued a decree on May 1, 2008 calling for the nationalization of the company. The investment is now carried in Current assets;*
- *the exclusion of the Pay-per-View business segment from December 1, 2008 after its disposal by Telecom Italia Media S.p.A..*

Table of Contents

Corporate Boards at June 30, 2009

Board of Directors

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

At June 30, 2009, the board of directors of the company is composed as follows:

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

(*) Co-opted by the board of directors on February 27, 2009 to replace Gianni Mion who resigned and subsequently appointed a director by the shareholders meeting held on April 8, 2009 up to the expiry of the term of office of the board of directors (the approval of the 2010 financial statements).

The board of directors formed the following internal committees:

Executive Committee, composed of: Gabriele Galateri di Genola (Chairman), Franco Bernabè, Roland Berger, Elio Cosimo Catania, Julio Linares López, Aldo Minucci, Stefano Cao (appointed by the board of directors meeting held on May 7, 2009, to replace Gianni Mion) and Renato Pagliaro;

Committee for Internal Control and Corporate Governance, composed of: Paolo Baratta (Chairman), Roland Berger, Jean Paul Fitoussi and Aldo Minucci;

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

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 approval of the 2011 financial statements.

The new 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

Table of Contents

Independent Auditors

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

Manager responsible for preparing the corporate financial reports

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

Table of Contents

Macro-organization Chart at June 30, 2009

Telecom Italia Group

Note that as a result of the issue of Organizational Regulation No. 334, as of July 17, 2009 the Domestic Market Operations structure, headed by Oscar Cicchetti, is now organized as follows:

Consumer: headed by Fabrizio Bona;

Business: headed by Pietro Labriola;

TOP Clients Market & Networked IT Services: headed by Gianfilippo D Agostino;

Customer Operations: headed by Carlos Lambarri;

Business Innovation: headed by Luca Tomassini;

Quality of Service: headed by Paolo D Andrea.

Table of Contents

Information for Investors

Telecom Italia S.p.A. share capital at June 30, 2009

Share capital	10,673,803,873.70 euros
Number of ordinary shares (par value 0.55 euros each)	13,380,795,473
Number of savings shares (par value 0.55 euros each)	6,026,120,661
Number of Telecom Italia ordinary treasury shares	37,672,014
Number of Telecom Italia ordinary shares held by Telecom Italia Finance S.A.	124,544,373
Percentage of treasury shares held by the Group to share capital	0.84%
Market capitalization (based on June 2009 average prices)	16,926 million euros

Shareholders

Composition of Telecom Italia S.p.A. shareholders according to the Shareholders Book at June 30, 2009, supplemented by communications received and other sources of information (ordinary shares)

Major holdings in share capital

At June 30, 2009, 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. ordinary share capital are as follows:

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

Table of Contents

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

- Brandes Investment Partners LP: on July 23, 2008, for a quantity of ordinary shares equal to 4.024% of total Telecom Italia S.p.A. ordinary shares;
- Alliance Bernstein LP: on November 14, 2008, for a quantity of ordinary shares equal to 2.069% of total Telecom Italia S.p.A. ordinary shares.

Common representatives

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

- Telecom Italia S.p.A. 1.5% 2001-2010 convertible bonds with a repayment premium;
- Telecom Italia S.p.A. 2002-2022 bonds at floating rates, open special series, reserved for subscription by employees of the Telecom Italia Group, in service or retired;
- Telecom Italia S.p.A. 750,000,000 euros, 4.50% notes due 2011;
- Telecom Italia S.p.A. 1,250,000,000 euros 5.375% notes due 2019.

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

Relative performance by Telecom Italia S.p.A.

1/1/2009 6/30/2009 vs. FTSE Italy All-Share Index and Dow Jones Stoxx TLC Index

(*) Stock market prices. Source Reuters.

Table of Contents

Relative performance by Telecom Italia Media S.p.A.

1/1/2009 6/30/2009 vs. FTSE Italy All-Share Index and Dow Jones Stoxx MEDIA Index

(*) Stock market prices. Source Reuters.

Relative performance by Tim Participações S.A.

1/1/2009 6/30/2009 vs. BOVESPA Index and ITEL Index (in Brazilian reais)

(*) Stock market prices. Source Bloomberg.

Table of Contents

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

Rating at June 30, 2009

	Rating	Outlook
STANDARD & POOR S	BBB	Stable
MOODY S	Baa2	Stable
FITCH RATINGS	BBB	Stable

Standard & Poor s, on July 29, 2009, confirmed its BBB rating of Telecom Italia with a stable outlook for the Group.

Moody s, on June 17, 2009, confirmed its Baa2 rating of Telecom Italia with a stable outlook for the Group.

Fitch Ratings, on June 12, 2009 confirmed its BBB rating of Telecom Italia with a stable outlook for the Group.

Table of Contents

Review of Operating and Financial Performance Telecom Italia Group

Half-year 2009 consolidated operating performance

The main profit indicators in the first half of 2009 compared to those in the first half of 2008 are as follows:

(millions of euros)	1st Half 2009	1st Half 2008	Change amount	Change %	Change % organic
REVENUES	**13,953**	**14,809**	(856)	(5.8)	(3.8)
EBITDA	**5,670**	**5,502**	168	3.1	(0.2)
EBITDA MARGIN	*40.6%*	*37.2%*	*3.4 pp*		
ORGANIC EBITDA MARGIN	*41.2%*	*39.7%*	*1.5 pp*		
EBIT	**2,680**	**2,575**	105	4.1	(1.9)
EBIT MARGIN	*19.2%*	*17.4%*	*1.8 pp*		
ORGANIC EBIT MARGIN	*20.2%*	*19.8%*	*0.4 pp*		
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**1,588**	**1,396**	192	13.8	
PROFIT FROM CONTINUING OPERATIONS	**941**	**1,233**	(292)	(23.7)	
LOSS FROM DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE		(148)	148	°	
PROFIT FOR THE PERIOD	**941**	**1,085**	(144)	(13.3)	
PROFIT FOR THE PERIOD ATTRIBUTABLE TO OWNERS OF THE PARENT	**964**	**1,117**	(153)	(13.7)	

The following chart summarizes the main line items which had an impact on the profit attributable to owners of the Parent in the first half of 2009:

Table of Contents

Revenues

Revenues amount to 13,953 million euros in the first half of 2009 with a reduction of 5.8% compared to 14,809 million euros in the same period of 2008 (-856 million euros). In terms of the organic change, the reduction in consolidated revenues is -3.8% (-554 million euros).

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

- excluding the effect of the change in the scope of consolidation (-53 million euros, mainly in reference to the exclusion of Entel Bolivia from the second quarter of 2008);
- excluding the effect of exchange differences (-273 million euros, being the sum of the negative exchange differences of the Brazil Business Unit(1), equal to 285 million euros, and the exchange differences of the other Business Units, equal to +12 million euros);
- excluding non-organic other revenues resulting from the settlement of some rate disputes with other operators in the first half of 2008, equal to 24 million euros.

The breakdown of Revenues by operating segment is the following:

(millions of euros)	1st Half 2009	*% of total*	1st Half 2008	*% of total*	Change amount	Change %	% organic
Domestic	10,891	*78.0*	11,391	*76.9*	(500)	(4.4)	(4.7)
Brazil	2,299	*16.5*	2,537	*17.1*	(238)	(9.4)	2.1
European BroadBand	613	*4.4*	642	*4.3*	(29)	(4.5)	(4.5)
Media, Olivetti and Other Operations	303	*2.2*	426	*2.9*	(123)	(28.9)	
Adjustments and Eliminations	*(153)*	*(1.1)*	*(187)*	*(1.2)*	*34*	*(18.2)*	
Total consolidated revenues	**13,953**	*100.0*	**14,809**	*100.0*	(856)	(5.8)	(3.8)

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

(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 2.92345 for the first half of 2009 and 2.59480 for the first half of 2008. The effect of the change in the exchange rates is calculated applying, to the period under comparison, the foreign currency translation rates used for the current period.

Table of Contents

The Domestic Business Unit (divided in Core Domestic and International Wholesale) was hurt overall in the first half by the negative market scenario with mixed results: the fixed telephony area continues to report an improving trend and mobile telephony registers a decline compared to previous quarters.

In particular, the change in Revenues of Core Domestic (telecommunication operations in Italy, shown in its new representation by business sales segment) during the first half of 2009 reflects the following:

- a contraction in Consumer segment revenues (-6.8%) largely attributable to business areas with low margins (products -38% and mobile content -27%) while growth was reported for both fixed (+12%) and mobile (+23%) Broadband;

- a reduction in Business segment revenues (-8.7%) hit to a greater extent than the other markets by the decline in consumption owing to the aforementioned economic picture and the contrasting impact of competition in the fixed telephony area due to asymmetries, particularly regarding Telecom Italia s customer win-back procedure;

- a limited reduction in the Top segment (-3%) driven by strong growth in ICT solutions and packages (+16.9%), a stable mobile area and a fall in the fixed business;

- a significant increase in the National Wholesale segment (+15.8% the organic increase) generated by the growth of the customer base of alternative operators.

As for the growth of the Brazil Business Unit revenues, the increase in organic revenues is +2.1% (+0.7% over the first quarter of 2009 compared to the same period of the prior year) thanks to the good trend in VAS and product revenues, buoyed by the expansion of the customer base which, after a decline in the first quarter, again reports a positive gain (+4.8% compared to the first quarter of 2009).

For an in-depth analysis of revenue performance by individual Business Unit, please refer to the section The Business Units of the Telecom Italia Group .

EBITDA

EBITDA is equal to 5,670 million euros and increased, compared to the corresponding period of 2008, by 168 million euros (+3.1%). The organic change in EBITDA is a negative 12 million euros (-0.2%).

The EBITDA margin went from 37.2% in the first half of 2008 to 40.6% in the first half of 2009; at the organic level, the EBITDA margin is 41.2% in the first half of 2009 with an increase of 1.5 percentage points compared to the same period of the prior year (39.7%).

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

	1st Half 2009		**1st Half 2008**		**Change**		
(millions of euros)		***% of total***		***% of total***	**amount**	**%**	**% organic**
Domestic	5,044	88.9	4,897	*89.0*	147	3.0	*(2.6)*
EBITDA margin	*46.3*		*43.0*		*+3.3 pp*		*+1.1pp*
Brazil	527	9.3	521	*9.5*	6	1.2	20.4
EBITDA margin	*22.9*		*20.5*		*+2.4 pp*		*+3.7pp*
European BroadBand	129	2.3	119	2.2	10	8.4	8.4
EBITDA margin	*21.0*		*18.5*		*+2.5 pp*		*+2.5pp*
Media, Olivetti and Other Operations	(24)	(0.4)	(24)	*(0.4)*			
Adjustments and Eliminations	*(6)*	*(0.1)*	*(11)*	*(0.2)*	*5*	*(45.5)*	

Total consolidated	**5,670**	*100.0*	**5,502**	*100.0*	168	3.1	(0.2)
EBITDA margin	*40.6%*		*37.2%*		*+3.4 pp*		*+1.5pp*

Table of Contents

The following chart summarizes the changes in EBITDA:

Income and expenses excluded from the calculation of organic EBITDA are the following:

(millions of euros)	1st Half 2009	1st Half 2008	Change
Disputes and settlements	41	36	5
Costs for services of the Brazil Business Unit associated with the settlement of a dispute	22		22
Other expenses, net	14	2	12
Expenses for mobility agreements under Law 223/91		287	(287)
Total non-organic (income) expenses	**77**	**325**	**(248)**

EBITDA was particularly impacted by the change in the following line items, analyzed below.

Acquisition of goods and services

Acquisition of goods and services stands at 5,951 million euros, with a reduction of 663 million euros (-10.0%) compared to the first half of 2008 (6,614 million euros) connected in part with the exchange rate effect, particularly that of the Brazil Business Unit (-160 million euros). In any case, the reduction of costs is across all areas of expenses, particularly the portion of revenues to be paid to other operators and purchases of goods by the Domestic Business Unit.

In detail:

(millions of euros)	1st Half 2009	1st Half 2008	Change
Purchases of goods	860	1,077	(217)
Portion of revenues to paid to other operators and interconnection costs	2,450	2,777	(327)
Commercial and advertising costs	951	962	(11)
Power, maintenance and outsourced services	622	644	(22)
Rent and leases	302	302	
Other service expenses	766	852	(86)
Total acquisition of goods and services	**5,951**	**6,614**	**(663)**
% of revenues	*42,7*	*44,7*	*-2,0pp*

Table of Contents

Employee benefits expenses

Details are as follows:

(millions of euros)	1st Half 2009	1st Half 2008	Change
Employee benefits expenses Italian companies:			
Expenses and costs of ordinary employees	1,774	1,778	(4)
Expenses for mobility agreements under Law 223/91		287	(287)
Total employee benefits expenses Italian Companies	**1,774**	**2,065**	**(291)**
Total employee benefits expenses Foreign Companies	**180**	**209**	**(29)**
Total employee benefits expenses	**1,954**	**2,274**	**(320)**
% of revenues	*14.0*	*15.4*	*-1.4pp*

In the Italian component of employee benefits expenses, the decrease of 4 million euros resulted from the reduction in the average number of the salaried workforce (-2,242 compared to the first half of 2008, at the same scope of consolidation) and is mainly offset by the effect of the June 2008 increase in minimum salaries established by the TLC collective national labor contract and estimated TLC labor contract expenses for the current year.

Employee benefits expenses in the first half of 2008 also included expenses amounting to 287 million euros for the start of mobility procedures under Law 223/91 by the Parent, Telecom Italia.

In the foreign component of employee benefits expenses, the decrease of 29 million euros is largely due to the exchange rate effect of the Brazil Business Unit (-14 million euros) and also to the exclusion from the scope of consolidation of the Entel Bolivia group (-4 million euros).

The average number of the salaried workforce is the following:

(equivalent number)	1st Half 2009	1st Half 2008	Change
Average salaried workforce Italy	61,099	63,341	(2,242)
Average salaried workforce Foreign[1]	12,269	13,319	(1,050)
Total average salaried workforce [2]	**73,368**	**76,660**	**(3,292)**
Non-current assets held for sale Foreign		1,338	(1,338)
Total average salaried workforce including Non-current assets held for sale	73,368	**77,998**	**(4,630)**

(1) The change compared to the first half of 2008 includes a reduction due to the exclusion of a 742 average headcount of the Entel Bolivia group.

(2) The total includes people with temp work contracts: 793 average headcount in the first half of 2009 (of which a 462 average headcount in Italy and a 331 average foreign headcount); a 1,567 average headcount in the first half of 2008 (of which a 1,065 average headcount in Italy and a 502 average foreign headcount).

Headcount at June 30, 2009 is the following:

(number)	6/30/2009	12/31/2008	Change
Headcount Italy	63,250	64,242	(992)
Headcount Foreign	13,310	13,583	(273)
Total [1]	**76,560**	**77,825**	**(1,265)**

(1)

Includes headcount with temp work contracts: 575 at 6/30/2009 (of which 255 in Italy and 320 foreign) and 1,075 at 12/31/2008 (of which 721 in Italy and 354 foreign).

Table of Contents

Other income

Details are as follows:

(millions of euros)	1st Half 2009	1st Half 2008	Change
Late payment fees charged for telephone services	34	46	(12)
Recovery of personnel costs, acquisition of goods and services rendered	23	28	(5)
Capital and operating grants	29	24	5
Damage compensation, penalties and sundry recoveries	22	40	(18)
Sundry income	30	20	10
Total	**138**	**158**	**(20)**

Other operating expenses

Details are as follows:

(millions of euros)	1st Half 2009	1st Half 2008	Change
Writedowns and expenses in connection with credit management	293	373	(80)
Accruals to provisions	45	71	(26)
Telecommunications operating fees and charges	143	159	(16)
Taxes on revenues of Brazilian companies	124	135	(11)
Indirect duties and taxes	65	72	(7)
Penalties, compensation and administrative sanctions	46	21	25
Association dues and fees, donations, scholarships and traineeships	13	13	
Sundry expenses	21	21	
Total	**750**	**865**	**(115)**

Writedowns and expenses in connection with credit management include 189 million euros referring to the Domestic Business Unit (172 million euros in the first half of 2008), 82 million euros to the Brazilian Business Unit (183 million euros in the first half of 2008, which recorded higher writedowns for one specific sales channel) and 21 million euros to the European BroadBand Business Unit (16 million euros in the first half of 2008).

Accruals to provisions recorded mainly for pending disputes include 32 million euros referring to the Domestic Business Unit (48 million euros in the first half of 2008) and 11 million euros to the Brazilian Business Unit (20 million euros in the first half of 2008).

Penalties, compensation and administrative sanctions refer entirely to the Domestic Business Unit; in the first half of 2009, the amount also includes expenses in connection with a settlement with another operator.

Depreciation and amortization

Details are as follows:

(millions of euros)	1st Half 2009	1st Half 2008	Change
Amortization of intangible assets with a finite useful life	1,177	1,215	(38)
Depreciation of tangible assets owned and leased	1,750	1,737	13
Total	**2,927**	**2,952**	**(25)**

Table of Contents

The reduction in the amortization charge of intangible assets with a finite useful life is entirely in connection with the Brazil exchange rate effect (-31 million euros) and that effect had an impact on the depreciation charge of tangible assets owned and leased of -28 million euros, which was countered by higher depreciation charges by the Domestic, Brazil and European BroadBand Business Units.

Net losses on disposals of non-current assets

Net losses on disposals of non-current assets is 15 million euros and includes the negative impact of 11 million euros on the sale of a 60% stake in Telecom Media News S.p.A. by Telecom Italia Media S.p.A. In the first half of 2008, this line item had included net gains of 26 million euros mainly in reference to the sale of properties.

Impairment losses on non-current assets

The impairment loss of 48 million euros refers entirely to intangible assets of the Domestic Business Unit. Specifically, in light of the new organizational structure and the continuance of fixed-mobile convergence, at this time the credit management platform developed for the fixed consumer clientele is no longer considered usable.

EBIT

EBIT is 2,680 million euros, with an increase of 105 million euros compared to the first half of 2008 (+4.1%). Instead, the organic change in EBIT is a negative 55 million euros (-1.9%).

The EBIT margin went from 17.4% in the first half of 2008 to 19.2% in the first half of 2009; at the organic level, the EBIT margin is 20.2% in the first half of 2009 (19.8% in the corresponding period of the prior year).

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

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

(millions of euros)	**1st Half 2009**	**1st Half 2008**	**Change**
Non-organic expenses already described under EBITDA	77	325	(248)
Impairment loss on non current assets	48		48
Losses (Gains) from the sale of properties and investments	11	(25)	36
Other expenses, net	1		1
Total Non-organic (income) expenses	**137**	**300**	**(163)**

Table of Contents

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

Details are as follows:

(millions of euros)	1st Half 2009	1st Half 2008	Change
ETECSA	31	29	2
Other	2	8	(6)
Total	**33**	**37**	**(4)**

Other income (expenses) from investments

Other income (expenses) from investments in the first half of 2009 amount to a negative 33 million euros and include the writedown of 39 million euros on the 19.37% investment in the Italtel Group. The amount of the investment, recorded at cost, was written off on the basis of a valuation backed by a specific report on its estimated value, conducted by an independent appraiser. The line item also includes gains, net of the relative transaction expenses of 3 million euros, on the disposals, in early 2009, of the investments held in Luna Rossa Challenge 2007 and Luna Rossa Trademark, which had already been classified in Non-current assets held for sale at December 31, 2008.

Finance income (expenses)

Details are as follows:

(millions of euros)	1st Half 2009	1st Half 2008	Change
Fair value measurement of call options on 50% of Sofora Telecomunicaciones share capital	5	(110)	115
Income (expenses) on bond buybacks		46	(46)
Early closing of cash flow derivatives	12	10	2
Net finance expenses, fair value adjustments of derivatives and underlyings and other items	(1,109)	(1,164)	55
Total	**(1,092)**	**(1,218)**	**126**

The change in finance income (expenses) was impacted by the following:

- lower income on bond buybacks. Such bond repurchase transactions, although having no impact in terms of finance income in the first half of 2009 (income of 46 million euros in the first half of 2008), will give rise to lower finance expenses prospectively and constitute an efficient alternative investment of liquidity;

- the overall reduction in interest rates and the positive change in the fair value adjustments of positions that qualified for hedge accounting and the improvement in the fair value measurement of the call options on Sofora.

Income tax expenses

Income tax expenses is 647 million euros and records an increase of 484 million euros compared to the same period of the prior year which had benefited from 515 million euros in deferred income taxes on accelerated depreciation taken in previous years reversed to income, net of the substitute tax, as allowed by the Italian Budget Law 2008.

Loss from Discontinued operations/Non-current assets held for sale

In the first half of 2008, this line item totaling -148 million euros had included the negative contribution of the consolidated loss of the Liberty Surf group which had been classified in discontinued operations and sold in August 2008.

Table of Contents

Consolidated financial position performance

Financial position structure

(millions of euros)	**6/30/2009**	**12/31/2008**	**Change**
ASSETS			
Non-current assets	68,938	70,957	(2,019)
Goodwill	*44,077*	*43,891*	*186*
Intangible assets with a finite useful life	*6,345*	*6,492*	*(147)*
Tangible assets	*15,309*	*15,662*	*(353)*
Other non-current assets	*3,207*	*4,912*	*(1,705)*
Current assets	17,205	14,684	2,521
Inventories, Trade and miscellaneous receivables and other current assets	*8,667*	*8,480*	*187*
Current income tax receivables	*52*	*73*	*(21)*
Investments	*39*	*39*	
Securities other than investments, Financial receivables and other non-current financial assets, Cash and cash equivalents	*8,447*	*6,092*	*2,355*
Discontinued assets/Non-current asses held for sale		9	(9)
	86,143	**85,650**	**493**
LIABILITIES			
Equity	26,621	26,825	(204)
Non-current liabilities	40,463	40,356	107
Current liabilities	19,059	18,469	590
Liabilities directly associated with Discontinued operations/Non-current assets held for sale			
	86,143	**85,650**	**493**

Non-current assets

Goodwill: increased by 186 million euros due to the fluctuation in the exchange rates of the Brazilian companies.

Intangible assets with a finite useful life: decreased by 147 million euros as a result of the following:

additions (+868 million euros);

amortization charge for the period (-1,177 million euros);

disposals, exchange differences, change in the scope of consolidation and other movements (for a net balance of +162 million euros);

Tangible assets: decreased by 353 million euros from 15,662 million euros at the end of 2008 to 15,309 million euros at June 30, 2009, as a result of:

- additions (+1,175 million euros);
- depreciation charge for the period (-1,750 million euros);
- disposals, exchange differences, change in the scope of consolidation and other movements (for a net balance of +222 million euros).

Other non-current assets: decreased by 1,705 million euros, from 4,912 million euros at the end of 2008 to 3,207 million euros at June 30, 2009. Of that amount, 539 million euros refers to Deferred tax assets after compensation with income taxes accrued for the first six months of 2009.

Table of Contents

Discontinued operations/Non-current asses held for sale

At the end of 2008, Discontinued operations assets/Non-current assets held for sale had included the investments held in Luna Rossa Challenge 2007 and Luna Rossa Trademark, which were sold in March 2009.

Consolidated equity

Consolidated equity amounts to 26,621 million euros (26,825 million euros at December 31, 2008), of which 25,820 million euros is attributable to owners of the Parent (26,095 million euros at December 31, 2008) and 801 million euros is attributable to Minority Interest (730 million euros at December 31, 2008).

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

(millions of euros)	**1/1 6/30/2009**	**1/1 12/31/2008**
At the beginning of the period (historical data)	**26,856**	**26,985**
Change in accounting principles (*)	(31)	(4)
At the beginning of the period (restated)	**26,825**	**26,981**
Total profit for the period	877	(*)1,635
Dividends declared by:	(1,053)	(1,668)
- Telecom Italia S.p.A.	*(1,029)*	*(1,609)*
- Other Group companies	*(24)*	*(59)*
Bond conversions, equity instruments granted and purchase of treasury shares	(10)	(26)
Change in scope of consolidation and other changes	(18)	(97)
At the end of the period	**26,621**	**26,825**

(*) Includes the impact of the retrospective application of IFRIC 13 (Customer Loyalty Programmes).

Table of Contents

Adjusted net financial debt and financial flows
Net debt is composed as follows:

Adjusted net financial debt

(millions of euros)	6/30/2009	12/31/2008	Change
Non-current financial liabilities:			
Bonds	27,189	25,680	1,509
Amounts due to banks, other financial payables and liabilities	8,264	9,134	(870)
Finance lease liabilities	1,637	1,713	(76)
	37,090	**36,527**	**563**
Current financial liabilities (1):			
Bonds	4,740	4,497	243
Amounts due to banks, other financial payables and liabilities	2,920	1,496	1,424
Finance lease liabilities	276	274	2
	7,936	**6,267**	**1,669**
Financial liabilities relating to Discontinued operations/Non-current assets held for sale			
GROSS FINANCIAL DEBT	**45,026**	**42,794**	**2,232**
Non-current financial assets:			
Securities other than investments	(16)	(15)	(1)
Financial receivables and other non-current financial assets	(1,378)	(2,648)	1,270
	(1,394)	**(2,663)**	**1,269**
Current financial assets			
Securities other than investments	(999)	(185)	(814)
Financial receivables and other current financial assets	(380)	(491)	111
Cash and cash equivalents	(7,068)	(5,416)	(1,652)
	(8,447)	**(6,092)**	**(2,355)**
Financial assets relating to Discontinued operations/Non-current assets held for sale			
FINANCIAL ASSETS	**(9,841)**	**(8,755)**	**(1,086)**
NET FINANCIAL DEBT CARRYING AMOUNT	**35,185**	**34,039**	**1,146**
Reversal of fair value measurement of derivatives and related financial liabilities/assets	*(326)*	*487*	**(813)**
ADJUSTED NET FINANCIAL DEBT	**34,859**	**34,526**	**333**
Detailed as follow:			
ADJUSTED GROSS FINANCIAL DEBT	**43,844**	**41,226**	**2,618**
ADJUSTED FINANCIAL ASSETS	**(8,985)**	**(6,700)**	**(2,285)**

(1) of which current portion of medium/long-term debt:			
Bonds	4,740	4,497	243
Amounts due to banks, other financial payables and liabilities	2,216	684	1,532
Finance lease liabilities	276	274	2

Table of Contents

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

The Group defines an optimum composition for the fixed-rate and floating-rate debt structure and uses derivative financial instruments to achieve that prefixed composition. Taking into account the Group s operating activities, the optimum mix of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, at around 65% - 70% for the fixed-rate component and 30% - 35% for the floating-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. Additional details are provided in the Note Derivatives in the half-year condensed consolidated financial statements of the Telecom Italia Group at June 30, 2009.

The volatility of interest rates and exchange rates featuring prominently in the financial markets beginning in the fourth quarter of 2008, significantly impacted the fair value measurement of the derivative positions and the related financial assets and liabilities.

With this in mind and in order to present a more realistic analysis of net financial debt, a new performance measure has been introduced, in addition to the usual indicator (renamed Net financial debt carrying amount), 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 have the objective of predetermining the exchange rate and the interest rate of future variable contractual flows, does not, in fact, require an effective financial settlement.

Starting with the June 2009 data, this new net financial debt measure will be used consistently and also presented for the comparative data of previous periods.

The following chart summarizes the main transactions which had an impact on the change in net financial debt during the first half of 2009:

(*) Adjustment of the fair value measurement of derivatives and related financial assets and liabilities.

Table of Contents

Net free cash flow from operations

(millions of euros)	1st Half 2009	1st Half 2008	Change
EBITDA	5,670	5,502	168
Capital expenditures on an accrual basis	(2,043)	(2,956)	913
Change in net operating working capital:	(1,435)	(1,142)	(293)
Change in inventories	(4)	(21)	17
Change in trade receivables and net amounts due on construction contracts	(221)	56	(277)
Change in trade payables (*)	(1,356)	(1,499)	143
Other changes in operating receivables/payables	146	322	(176)
Change in provisions for employees benefits	(26)	292	(318)
Change in operating provisions and Other changes	4	(113)	117
Net free cash flow from operations	**2,170**	**1,583**	**587**

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

Net free cash flow from operations amounts to 2,170 million euros in the first half of 2009 and shows an improvement of 587 million euros compared to the corresponding period of the prior year mainly as a result of the reduction in capital expenditure requirements (-913 million euros compared to the first half of 2008).

Capital expenditures flow

Capital expenditures flow is 2,043 million euros, with a decrease of 913 million euros compared to the first half of 2008. The breakdown is as follows:

(millions of euros)	1st Half 2009	*% of total*	1st Half 2008	*% of total*	Change
Domestic	1,609	*78.8*	1,952	*66.0*	(343)
Brazil	288	*14.1*	824	*27.9*	(536)
European BroadBand	124	*6.1*	189	*6.4*	(65)
Media, Olivetti and Other Operations	27	*1.3*	29	*1.0*	(2)
Adjustments and Eliminations	*(5)*	*(0.3)*	*(38)*	*(1.3)*	33
Total	**2,043**	***100.0***	**2,956**	***100.0***	**(913)**
% of Revenues	*14.6*		*20.0*		*5.4pp*

Capital investments in the first half of 2008 had included 477 million euros relating to the purchase of the mobile telephone licenses for the Brazil Business Unit s 3G service. Without considering that purchase, the reduction in capital expenditures, besides the impact of the exchange rate of the Brazilian real (-39 million euros), is also due to the impact of the programs to cut costs and capital expenditures begun in 2008.

The following also had an effect on net financial debt during the first half of 2009:

Disposal of investments and other divestitures flow

Disposal of investments and other divestitures flow amounts to 41 million euros (60 million euros in the first half of 2008) and refers to the sale of the investments held in Luna Rossa Challenge 2007 and Luna Rossa Trademark (for total cash receipts of 13 million euros), the sale of the investment in Telecom Media News in the first half of 2009, after the necessary capitalization, and also the disposal of other tangible and intangible assets. In particular, the disposals of tangible assets included the cancellation of a contract for the purchase of an aircraft which involved the manufacturer s restitution of the advances that had been paid by Telecom Italia (about 21 million euros).

Table of Contents

Financial investments and treasury shares buyback flow

Amounts to 15 million euros and 11 million euros of that amount refers to the buyback of a total of 11.4 million Telecom Italia ordinary shares purchased to service the top management incentive plan denominated 2008 TOP Plan. The average unit price was 0.92959 euros per share (including brokerage commissions).

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

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

Finance expenses, taxes and other net non-operating requirements flow mainly includes the payment, made during the first half of 2009, of taxes (which include 244 million euros for the tax disputes which had already been provided for in prior years), net finance expenses and also the change in non-operating receivables and payables.

Sales of receivables to factoring companies

The sales of receivables to factoring companies finalized during the first half of 2009 resulted in a positive effect on net financial debt at June 30, 2009 of 623 million euros (794 million euros at December 31, 2008 and 699 million euros at June 30, 2008).

Gross financial debt

Bonds

Bonds at June 30, 2009 are recorded for 31,929 million euros (30,177 million euros at December 31, 2008). Their nominal repayment amount is 31,293 million euros, with an increase of 2,473 million euros compared to December 31, 2008 (28,820 million euros).

The change in bonds during the first half of 2009 is as follows:

(millions of the original currency)	**currency**	**amount**	
NEW ISSUES			**Issue date**
Telecom Italia S.p.A. 500 million euros, 7.875% maturing 1/22/2014	EUR	500	1/22/2009
Telecom Italia S.p.A. 650 million euros, 6.75% maturing 3/21/2013	EUR	650	3/19/2009
Telecom Italia S.p.A. 850 million euros, 8.25% maturing 3/21/2016	EUR	850	3/19/2009
Telecom Italia S.p.A. 750 million pounds, 7.375% maturing 12/15/2017	GBP	750	5/26/2009
Telecom Italia Capital S.A. 1,000 million U.S. dollars, 6.175% maturing 6/18/2014	USD	1,000	6/18/2009
Telecom Italia Capital S.A. 1,000 million U.S. dollars, 7.175% maturing 6/18/2019	USD	1,000	6/18/2009
REPAYMENTS			**Repayment date**
Telecom Italia Finance S.A. 5.15%, issue guaranteed by Telecom Italia S.p.A.	EUR	(*)1,450	2/9/2009
Telecom Italia S.p.A. Floating Rate Notes Euribor 3M+ 0.60%	EUR	110	3/30/2009
BUYBACKS			**Buyback period**
Telecom Italia Finance S.A. 1,849(**) million euros 6.575% maturing July 2009	EUR	253.77	January June
Telecom Italia Finance S.A. 119 million euros Floating Rate Notes maturing June 2010	EUR	20.00	March May
Telecom Italia S.p.A. 796 million euros Floating Rate Notes maturing June 2010	EUR	53.75	April May

Table of Contents

NOTES

Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group: total of 358 million euros (nominal amount) at June 30, 2009 which increased during the first half of 2009 by 10 million euros (348 million euros at December 31, 2008).

Bond buybacks: as occurred in 2008, in the first half of 2009 the Telecom Italia Group bought back bonds in order to:

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

(*) Net of 50 million euros of bonds repurchased by the Company in 2008.
(**) Net of 107 million euros of bonds repurchased by the Company in 2008.

Revolving Credit Facility and Term Loan

The composition and drawdown of the syndicated committed credit lines available at June 30, 2009, represented by the Term Loan (TL) of 1.5 billion euros expiring January 2010 and the Revolving Credit Facility (RCF) for a total of 8 billion euros expiring August 2014, are presented in the following table:

	6/30/2009		12/31/2008	
(billions of euros)	**Agreed**	**Drawn down**	**Agreed**	**Drawn down**
Term Loan expiring 2010	1.5	1.5	1.5	1.5
Revolving Credit Facility expiring 2014	8.0	1.5	8.0	1.5
Total	**9.5**	**3.0**	**9.5**	**3.0**

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

- under the RCF, the bank has a commitment for 127 million euros of which 23.8 million euros has been disbursed;
- under the TL, the bank has a commitment for 19.9 million euros, for an amount completely disbursed.

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

Maturities of financial liabilities and average cost of debt

The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities) is 7.69 years.

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

For details of the maturities of the financial liabilities in terms of expected nominal repayment amount, as contractually agreed, please refer to the Notes Net financial debt and Financial risk management in the half-year condensed consolidated financial statements at June 30, 2009 of the Telecom Italia Group.

Liquidity margin

The Telecom Italia Group s available liquidity margin, calculated as the sum of *Cash and cash equivalents* and *Securities other than investments,* amounts to 8,067 million euros at June 30, 2009 (5,601 million euros at December 31, 2008) which, together with its unused committed credit lines of 6.5 billion euros, allows the Group to amply meet its repayment obligations over the next 18 to 24 months. During the first half of 2009, the situation of the European and United States financial markets made it possible to issue new bonds and obtain new loans at advantageous conditions. These transactions have ensured an increase in cash compared to the end of 2008 despite the payment of dividends and the repayment of bonds.

Table of Contents

In particular:

- ***Cash and cash equivalents*** are 7,068 million euros (5,416 million euros at December 31, 2008). In the first half of 2009, as occurred at the end of 2008, Telecom Italia S.p.A. invested 1,499 million euros in Repurchase Agreements (with AA- ratings by S&P) on Italian government securities with a maximum maturity of one month.

The different technical forms of investing available cash at June 30, 2009, including euro commercial paper for 70 million euros, can be analyzed as follows:

- Maturities: investments have a maximum maturity date of three months;
- Counterparty risk: investments are made with first-rate banks and financial institutions that have high creditworthiness and a rating of at least A;
- Country risk: investments are mainly made in major European financial markets;

- ***Securities other than investments***, maturing beyond three months, for 999 million euros (185 million euros at December 31, 2008), which include 912 million euros of Italian treasury bonds purchased by Telecom Italia S.p.A. (with A ratings by S&P s) and 87 million euros of bonds issued by counterparties with ratings of at least BBB+ with different maturities, but all with an active market.

In the **second quarter of 2009, adjusted net financial debt** increased by 390 million euros. The effect of the positive operating change was absorbed by the distribution of dividends and tax payments.

Adjusted net financial debt

(millions of euros)	**6/30/2009**	**3/31/2009**	**Change**
NET FINANCIAL DEBT CARRYING AMOUNT	**35,185**	**34,518**	**667**
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(326)*	*(49)*	*(277)*
ADJUSTED NET FINANCIAL DEBT	**34,859**	**34,469**	***390***
Detailed as follow:			
ADJUSTED GROSS FINANCIAL DEBT	*43,844*	*41,172*	*2,672*
ADJUSTED FINANCIAL ASSETS	*(8,985)*	*(6,703)*	*(2,282)*

***

Table of Contents

Events Subsequent to June 30, 2009

Please refer to the specific Note Events subsequent to June 30, 2009 in the half-year condensed consolidated financial statements at June 30, 2009 of the Telecom Italia Group.

Business Outlook for the Year 2009

With regard to the business outlook for the current year, on the basis of performance during the first six months, the Telecom Italia Group confirms its earnings and financial targets announced at the end of 2008 during the presentation of the Group s 2009-2011 three-year plan. In particular:

- Domestic Business Unit: organic EBITDA at 9.9 - 10 billion euros;
- Brazil Business Unit: organic EBITDA at about 3.6 billion Brazilian reais;
- Net financial debt/EBITDA ratio at about 2.9 at year-end 2009.

Consequently, the Group confirms organic EBITDA at the previous target.

This outlook for 2009 could nevertheless be influenced by risks and uncertainties dependent upon a number of factors, the majority of which is beyond the Group s control. These include:

- changes in the general macroeconomic scenario in the Italian and South American markets;
- variations in business conditions;
- changes in legislation and regulations (changes in prices and rates);
- outcomes of disputes and litigation with regulatory authorities, competitors and other parties;
- financial risks (trend of interest rates and/or exchange rates).

Table of Contents

Half-year Condensed Consolidated Financial Statements

Separate Consolidated Income Statements

(millions of euros)	1st Half 2009 (a)	1st Half 2008 Restated (b)	Change (a - b) amount	%
Revenues	13,953	14,809	(856)	(5.8)
Other income	138	158	(20)	(12.7)
Total operating revenues and other income	**14,091**	**14,967**	**(876)**	**(5.9)**
Acquisition of goods and services	(5,951)	(6,614)	663	10.0
Employee benefits expenses	(1,954)	(2,274)	320	14.1
Other operating expenses	(750)	(865)	115	13.3
Changes in inventories	(24)	17	(41)	°
Internally generated assets	258	271	(13)	(4.8)
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS (EBITDA)	**5,670**	**5,502**	**168**	**3.1**
Depreciation and amortisation	(2,927)	(2,952)	25	0.8
Gains (losses) on disposals of non-current assets	(15)	26	(41)	°
Impairment reversals (losses) on non-current assets	(48)	(1)	(47)	°
OPERATING PROFIT (EBIT)	**2,680**	**2,575**	**105**	**4.1**
Share of profits (losses) of associates and joint ventures accounted for using the equity method	33	37	(4)	(10.8)
Other income (expenses) from investments	(33)	2	(35)	°
Finance income	1,525	1,512	13	0.9
Finance expenses	(2,617)	(2,730)	113	4.1
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**1,588**	**1,396**	**192**	**13.8**
Income tax expenses	(647)	(163)	(484)	°
PROFIT FROM CONTINUING OPERATIONS	**941**	**1,233**	**(292)**	**(23.7)**
Profit (loss) from Discontinued operations/Non-current assets held for sale		(148)	148	
PROFIT FOR THE PERIOD	**941**	**1,085**	**(144)**	**(13.3)**
of which:				
* **Profit attributable to owners of the Parent**	**964**	**1,117**	**(153)**	**(13.7)**
* Profit (loss) attributable to Minority Interest	(23)	(32)	9	28.1

Table of Contents

Consolidated Statements of Comprehensive Income

In accordance with revised IAS 1 *(Presentation of Financial Statements),* which came into effect on January 1, 2009, the following Statement of Comprehensive Income includes the profit or loss for the period as shown in the Separate Consolidated Income Statement and all non-owner changes in equity.

(millions of euros)		**1st Half 2009**	**1st Half 2008 Restated**
PROFIT FOR THE PERIOD	**(A)**	**941**	**1,085**
Other components of the statement of comprehensive income:			
Available for sale assets:			
Profit (loss) from fair value adjustments		(12)	4
Loss (profit) trasferred to the Separate Income Statement			
Income tax expense		8	
	(B)	**(4)**	**4**
Hedging instruments:			
Profit (loss) from fair value adjustments		(786)	(363)
Loss (profit) trasferred to the Separate Income Statement		(71)	381
Income tax expense		240	(3)
	(C)	**(617)**	**15**
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		571	140
Loss (profit) on translating foreign operations transferred to the Separate Income Statement			
Income tax expense			
	(D)	**571**	**140**
Share of other profits (losses) of associates and joint ventures accounted for using the equity method			
Profit (loss)		(14)	(17)
Loss (profit) transferred to the Separate Income Statement			
Income tax expense			
	(E)	**(14)**	**(17)**
Total	**(F=B+C+D+E)**	**(64)**	**142**
TOTAL PROFIT (LOSS) FOR THE PERIOD	**(A+F)**	**877**	**1,227**
Attributable to:			
* **Owners of the Parent**		**782**	**1,230**
* Minority Interest		95	(3)

Table of Contents

Consolidated Statements of Financial Position

(millions of euros)	6/30/2009 (a)	12/31/2008 Restated (b)	Change (a-b)
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Goodwill	44,077	43,891	186
Intangible assets with a finite useful life	6,345	6,492	(147)
	50,422	**50,383**	**39**
Tangible assets			
Property, plant and equipment owned	13,951	14,252	(301)
Assets held under finance leases	1,358	1,410	(52)
	15,309	**15,662**	**(353)**
Other non-current assets			
Investments in associates and joint ventures accounted for using the equity method	472	496	(24)
Other investments	59	57	2
Securities, financial receivables and other non-current financial assets	1,394	2,663	(1,269)
Miscellaneous receivables and other non-current assets	819	694	125
Deferred tax assets	463	1,002	(539)
	3,207	**4,912**	**(1,705)**
TOTAL NON-CURRENT ASSETS (A)	**68,938**	**70,957**	**(2,019)**
CURRENT ASSETS			
Inventories	383	379	4
Trade and miscellaneous receivables and other current assets	8,284	8,101	183
Current income tax receivables	52	73	(21)
Investments	39	39	
Securities other than investments	999	185	814
Financial receivables and other current financial assets	380	491	(111)
Cash and cash equivalents	7,068	5,416	1,652
Current Assets sub-total	**17,205**	**14,684**	**2,521**
Discontinued operations/Non-current assets held for sale			
of a financial nature			
of a non-financial nature		9	(9)
		9	**(9)**
TOTAL CURRENT ASSETS (B)	**17,205**	**14,693**	**2,512**
TOTAL ASSETS (A+B)	**86,143**	**85,650**	**493**
EQUITY AND LIABILITIES			
EQUITY			
Equity attributable to owners of the Parent	25,820	26,095	(275)
Equity attributable to Minority Interest	801	730	71
TOTAL EQUITY (C)	**26,621**	**26,825**	**(204)**
NON-CURRENT LIABILITIES			
Non-current financial liabilities	37,090	36,527	563
Employee benefits	1,204	1,212	(8)
Deferred tax liabilities	184	386	(202)
Provisions	742	692	50

Miscellaneous payables and other non-current liabilities	1,243	1,539	(296)
TOTAL NON-CURRENT LIABILITIES (D)	**40,463**	**40,356**	**107**
CURRENT LIABILITIES			
Current financial liabilities	7,936	6,267	1,669
Trade and miscellaneous payables and other current liabilities	9,954	10,942	(988)
Current income tax payables	1,169	1,260	(91)
Current liabilities sub-total	**19,059**	**18,469**	**590**
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)	**19,059**	**18,469**	**590**
TOTAL LIABILITIES (F=D+E)	**59,522**	**58,825**	**697**
TOTAL EQUITY AND LIABILITIES (C+F)	**86,143**	**85,650**	**493**

Consolidated Statement of Cash Flow

(millions of euros)	1st Half 2009	1st Half 2008 Restated
CASH FLOWS FROM OPERATING ACTIVITIES:		
Profit from continuing operations	941	1,233
Adjustments for:		
Depreciation and amortisation	2,927	2,952
Impairment losses (reversals) on non-current assets (including investments)	117	111
Net change in deferred tax assets and liabilities	584	(477)
Losses (gains) realized on disposals of non-current assets (including investments)	11	(26)
Share of losses (profits) of associates and joint ventures accounted for using the equity method	(33)	(37)
Change in employee benefits	(26)	292
Change in inventories	(4)	(21)
Change in trade receivables and net amounts due from customers on construction contracts	(221)	56
Change in trade payables	(988)	(1,076)
Net change in miscellaneous receivables/payables and other assets/liabilities	(176)	614
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES (A)	**3,132**	**3,621**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of intangible assets on an accrual basis	(868)	(1,432)
Purchase of tangible assets on an accrual basis	(1,175)	(1,524)
Total purchase of intangible and tangible assets on an accrual basis	(2,043)	(2,956)
Change in amounts due to fixed asset suppliers	(368)	3
Total purchase of intangible and tangible assets on a cash basis	(2,411)	(2,953)
Acquisition of other investments	(4)	
Change in financial receivables and other financial assets	192	113
Proceeds from sale of subsidiaries, net of cash disposed of	(11)	
Proceeds from sale/repayment of intangible, tangible and other non-current assets	52	60
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B)	**(2,182)**	**(2,780)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Change in current financial liabilities and other	(1,173)	(226)
Proceeds from non-current financial liabilities (including current portion)	5,153	1,918
Repayments of non-current financial liabilities (including current portion)	(2,236)	(2,997)
Consideration paid for equity instruments	(11)	
Dividends paid	(1,050)	(1,664)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C)	**683**	**(2,969)**
CASH FLOWS FROM (USED IN) DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE (D)		**(26)**
AGGREGATE CASH FLOWS (E=A+B+C+D)	**1,633**	**(2,154)**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD (F)	**5,226**	**6,204**
Net foreign exchange differences on net cash and cash equivalents (G)	71	7
NET CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (H=E+F+G)	**6,930**	**4,057**

Table of Contents

ADDITIONAL CASH FLOWS INFORMATION:

(millions of euros)	1st Half 2009	1st Half 2008 Restated
Income taxes (paid) received	(286)	(84)
Interest expense paid	(1,917)	(2,006)
Interest income received	575	624
Dividends received	3	22

ANALYSIS OF NET CASH AND CASH EQUIVALENTS:

(millions of euros)	1st Half 2009	1st Half 2008 Restated
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD:		
Cash and cash equivalents from continuing operations	5,416	6,449
Bank overdrafts repayable on demand from continuing operations	(190)	(275)
Cash and cash equivalents from Discontinued operations/Non-current assets held for sale		30
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale		
	5,226	**6,204**
NET CASH AND CASH EQUIVALENTS AT END OF THE PERIOD:		
Cash and cash equivalents from continuing operations	7,068	4,413
Bank overdrafts repayable on demand from continuing operations	(138)	(360)
Cash and cash equivalents from Discontinued operations/Non-current assets held for sale		20
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale		(16)
	6,930	**4,057**

Table of Contents

Selected Operating and Financial Data - The Business Units of the Telecom Italia Group

The data of the Telecom Italia Group is presented in this Half-yearly Financial Report according to the following operating segments:

Domestic Business Unit: includes domestic operations for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale) as well as the relative support activities;

Brazil Business Unit: includes telecommunications operations in Brazil;

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

Media Business Unit: includes television network operations and management;

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

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:

(millions of euros)	Revenues 1st Half 2009	Revenues 1st Half 2008	EBITDA 1st Half 2009	EBITDA 1st Half 2008	EBIT 1st Half 2009	EBIT 1st Half 2008	Capital expenditures 1st Half 2009	Capital expenditures 1st Half 2008	Headcount at period-end (number) 6/30/2009	Headcount at period-end (number) 12/31/2008
Domestic	10,891	11,391	5,044	4,897	2,711	2,645	1,609	1,952	61,009	61,816
Brazil	2,299	2,537	527	521	37	(2)	288	824	10,149	10,285
European BroadBand	613	642	129	119	(9)	2	124	189	2,778	2,912
Media	114	148	(6)	(35)	(47)	(69)	24	27	850	967
Olivetti	153	180	(12)	(12)	(15)	(16)	2	1	1,124	1,194
Other operations	36	98	(6)	23	(7)	14	1	1	650	651
Adjustments and Eliminations	(153)	(187)	(6)	(11)	10	1	(5)	(38)		
Consolidated Total	**13,953**	**14,809**	**5,670**	**5,502**	**2,680**	**2,575**	**2,043**	**2,956**	**76,560**	**77,825**

Table of Contents

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

	6/30/2009	12/31/2008	6/30/2008
DOMESTIC FIXED			
Fixed-line network connections in Italy at period-end (thousands)	19,170	20,031	20,952
Physical accesses (Consumer +Business) at period-end (thousands)	16,621	17,352	18,131
Voice pricing plans (thousands)	5,461	5,834	6,034
Broadband accesses in Italy at period-end (thousands)	8,443	8,134	7,792
of which retail (thousands)	*6,859*	*6,754*	*6,564*
Virgilio average daily page views during period (millions)	47.0	44.8	45.2
Virgilio average daily single visitors (millions)	3.1	2.5	2.4
Network infrastructure in Italy:			
- access network in copper (millions of km - pair)	109.3	109.3	106.8
- access and carrier network in optical fiber (millions of km - fiber)	3.9	3.9	3.8
Network infrastructure abroad:			
- European backbone (km of fiber)	55,000	55,000	55,000
- Mediterranean (km of submarine cable)	7,000	7,000	7,000
- South America (km of fiber)	30,000	30,000	30,000
Total traffic:			
Minutes of traffic on fixed-line network (billions)	70.2	144.3	74.9
- Domestic traffic	60.7	125.3	65.6
- International traffic	9.5	19.0	9.3
DOMESTIC MOBILE			
Number of lines at period-end (thousands)	32,630	34,797	35,796
of which prepaid lines (thousands) (1)	*26,347*	*28,660*	*29,927*
Change in lines (%)	(6.2)	(4.2)	4.3
Churn rate (2)	14.7	23.6	11.3
Total outgoing traffic per month (millions of minutes)	2,970	3,054	3,062
Total outgoing and incoming traffic per month (millions of minutes)	4,206	4,316	4,318
Average monthly revenues per line (3)	19.5	20.0	19.5
BRAZIL			
Number of lines at period-end (thousands)	37,826	36,402	33,815
EUROPEAN BROADBAND (4)			
Broadband accesses in other European countries at period-end (thousands)	2,452	2,510	2,522
MEDIA			
La7 audience share Free to Air (analog mode) (average during period, in %)	3.0	3.1	3.1
La7 audience share Free to Air (analog mode) (last month of period, in %)	3.4	3.0	3.2

(1) Excluding not human SIM.
(2) The data refers to total lines. The churn rate for the period represents the number of mobile customers who discontinued service during the period expressed as a percentage of the average number of customers.
(3) The values are calculated on the basis of revenues from services (including revenues from prepaid cards and revenues from non- domestic traffic) as a percentage of the average number of lines.
(4)

For purposes of comparison, the data presented excludes the broadband connections of Liberty Surf group (973 thousand at June 30, 2008) following the sale of the company to Iliad S.A., finalized on August 26, 2008.

Table of Contents

The Business Units of the Telecom Italia Group

Domestic

The Business Unit

The Domestic Business Unit operates as the consolidated market leader in the sphere of 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 the Business Unit

The Domestic Business Unit is organized as follows:

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

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

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

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

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

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

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

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

Other (support structures): Other includes:

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

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

Table of Contents

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

Main operating and financial data

Key results in the first half of 2009 by the Domestic Business Unit overall and by segment of clientele and business compared to the first half of 2008 are presented in the following tables.

(millions of euros)	1st Half 2009	1st Half 2008	Change amount	%	% organic
Revenues	10,891	11,391	(500)	(4.4)	(4.7)
EBITDA	5,044	4,897	147	3.0	(2.6)
EBITDA margin	*46.3*	*43.0*			
EBIT	2,711	2,645	66	2.5	(4.7)
EBIT margin	*24.9*	*23.2*			
Capital expenditures	1,609	1,952	(343)	(17.6)	
Headcount at period-end (number)	61,009	([1]) 61,816	(807)	(1.3)	

([1]) Headcount at December 31, 2008.

Core Domestic

(millions of euros)	1st Half 2009	1st Half 2008	Change amount	%	% organic
Revenues	10,337	10,850	(513)	(4.7)	(4.9)
Consumer	*5,544*	*5,947*	*(403)*	*(6.8)*	*(6.8)*
Business	*1,911*	*2,092*	*(181)*	*(8.7)*	*(8.7)*
Top	*1,816*	*1,872*	*(56)*	*(3.0)*	*(3.0)*
National Wholesale	*974*	*831*	*143*	*17.2*	*15.8*
Other	*92*	*108*	*(16)*	*(14.8)*	*(24.6)*
EBITDA	4,872	4,716	156	3.3	(2.4)
EBITDA margin	*47.1*	*43.5*			
EBIT	2,602	2,522	80	3.2	(4.4)
EBIT margin	*25.2*	*23.2*			
Capital expenditures	1,578	1,874	(296)	(15.8)	
Headcount at period-end (number)	59,723	([1]) 60,539	(816)	(1.3)	

([1]) Headcount at December 31, 2008.

As far as the impact on margins is concerned, the decline in revenues in the first half of 2009 against the first half of 2008 (-513 million euros) is largely compensated by a corresponding reduction in related costs (referring to the portion of revenues to be paid to other telecommunications operators and purchases of merchandise for resale).

In particular, as regards the market segments, the following changes compared to the corresponding period of 2008 are noted:

Consumer: the reduction in revenues (-403 million euros; -6.8%) is attributable to lower access and fixed traffic revenues (-138 million euros) owing to the contraction of the customer base (-1.2 million accesses), only partly offset by the increase in subscriber charges, the impact of the change in regulated interconnection rates, particularly income from termination on the mobile network (-59 million euros), the decrease in value-added service revenues (-36 million euros) and content revenues (-40 million euros), the decline in the mobile customer base and the contraction of product sales volumes (-140 million euros, of which -117 million euros refers to mobile devices). Such changes in the traditional business areas were in part offset by the growth of the customer base and broadband service revenues on the fixed network (+54 million euros, +12%) and mobile network (+32 million euros, +23%);

Table of Contents

Business: the contraction in revenues (-181 million euros, -8.7%) is mainly due to the economic difficulties encountered by the SMEs segment which adversely affected consumption, and the focus on higher margin services and products. The contraction is much more evident in the fixed area (-10%) partly on account of contrasts in the sphere of competition particularly regarding win-back procedures;

Top: the decrease of revenues (-56 million euros, -3%) is the outcome of three different factors: a strong growth in ICT solutions and packages (+16.9%) with a 2 point increase in market share, from around 7% in the first half of 2008 to 9% in the first half of 2009, a basic stability in the mobile area and the ongoing contraction of the fixed-line area, partly in connection with the economic environment and the consequent reduction of consumption by companies. Moreover, it should be noted that the contraction in the second quarter of 2009 (-2.1%) was lower than that of the first quarter (-3.8%);

National Wholesale: the increase in revenues (+143 million euros, +17.2%; 15.8% in organic terms) is generated by the growth of the OLO customer base on Local Loop Unbundling, Wholesale Line Rental and Bitstream services.

International Wholesale

(millions of euros)	1st Half 2009	1st Half 2008	amount	Change %	% organic
Revenues	877	901	(24)	(2.7)	(4.1)
of which third parties	*595*	*590*	*5*	*0.8*	
EBITDA	184	187	(3)	(1.6)	(3.5)
EBITDA margin	*21.0*	*20.8*			
EBIT	115	122	(7)	(5.7)	(7.0)
EBIT margin	*13.1*	*13.5*			
Capital expenditures	31	78	(47)	(60.3)	
Headcount at period-end (number)	1,286	(1) 1,277	9	0.7	

(1) Headcount at December 31, 2008.

In the first half of 2009, International Wholesale (Telecom Italia Sparkle group) reported revenues of 877 million euros, down 24 million euros compared to the first half of 2008 (-2.7%) owing to the reduction of voice services in the captive market. Revenues from third parties grew by approximately 5 million euros thanks principally to the good trend of the IP/Data, Multinational Corporations and Consulting businesses which in part offset the above reduction in voice services.

***

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.

Table of Contents

Revenues

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

(millions of euros)	1st Half 2009			1st Half 2008			Change %		
Market segment	**Total**	**Fixed (*)**	**Mobile (*)**	**Total**	**Fixed (*)**	**Mobile (*)**	**Total**	**Fixed (*)**	**Mobile (*)**
Consumer	5,544	2,552	3,151	5,947	2,700	3,439	(6.8)	(5.5)	(8.4)
Business	1,911	1,271	672	2,092	1,418	715	(8.7)	(10.4)	(6.0)
Top	1,816	1,450	409	1,872	1,490	413	(3.0)	(2.7)	(1.0)
National Wholesale	974	1,348	68	831	1,108	53	17.2	21.7	28.3
Other (support structures)	92	97	12	108	78	21	(14.8)	24.4	(42.9)
Total Core Domestic	**10,337**	**6,718**	**4,312**	**10,850**	**6,794**	**4,641**	**(4.7)**	**(1.1)**	**(7.1)**
International Wholesale	877	877		901	901		(2.7)	(2.7)	
Eliminations	*(323)*	*(194)*		*(359)*	*(210)*		*(10.0)*	*(7.6)*	
Total Domestic	**10,891**	**7,401**	**4,312**	**11,391**	**7,485**	**4,641**	**(4.4)**	**(1.1)**	**(7.1)**

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

Fixed Telecommunications

In the first six months of 2009, revenues of the fixed telecommunications area amount to 7,401 million euros and decreased by 84 million euros (-1.1%) compared to the corresponding period of the prior year. At the organic level, the change in revenues is a reduction of 121 million euros (-1.6%), continuing the trend of improvement noted during 2008 and in the first quarter of 2009.

At June 30, 2009, the number of retail voice accesses is around 16.6 million (-731,000 accesses compared to December 31, 2008). The wholesale customer portfolio increased and at June 30, 2009 reached approximately 5.7 million accesses (+741,000 accesses compared to December 31, 2008). The overall access market recorded an increase of 15,000 units from December 2008.

The total broadband portfolio at June 30, 2009 is equal to 8.4 million accesses (+309,000 accesses compared to December 31, 2008), of which retail is 6.86 million and wholesale is 1.58 million.

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

Table of Contents

Retail voice

(millions of euros)	1st Half 2009	%	1st Half 2008	%	Change amount	Change %
Traffic	1,422	40.6	1,628	41.9	(206)	(12.7)
Accesses	1,778	50.8	1,879	48.3	(101)	(5.4)
VAS services	108	3.1	138	3.5	(30)	(21.7)
Telephone products	194	5.5	246	6.3	(52)	(21.1)
Total Retail Voice	**3,502**	100	**3,891**	100	(389)	(10.0)

Retail voice revenues, in all market segments, show an ongoing reduction in the customer base and traffic volumes due to the competitive environment in which the company operates. Combined with this is a reduction in regulated fixed-mobile termination rates and the discontinuance of certain mandatory or voluntary Premium services offered by the company: in fact, VAS service revenues decreased by -30 million euros compared to the first half of 2008.

The economic impact in terms of lower revenues from accesses (-101 million euros), despite the increase in subscriber charges which came into effect on February 1, 2009 for the domestic business, is nevertheless compensated by the expansion of national wholesale services (+91 million euros for regulated intermediate services such as Local Loop Unbundling and Wholesale Line Rentals).

Internet

(millions of euros)	1st Half 2009	%	1st Half 2008	%	Change amount	Change %
Total Internet	**841**	100	**810**	100	31	3.8
of which content/portal	*69*	*8.2*	*57*	*7.0*	*12*	*21.1*

Revenues from internet are 841 million euros, up 31 million euros compared to the first half of 2008. The Narrowband component continues to decline and now represents only 2% of total revenues. The total domestic retail broadband access portfolio in the domestic market reached 6.9 million accesses, growing 105,000 compared to the end of 2008. Flat-rate packages now account for 81% of the total retail broadband customer portfolio (77% at year-end 2008). IPTV services continue to gain ground in the Consumer market (the portfolio has 397,000 customers, +68,000 compared to the end of 2008) and the Virgilio portal Web packages and activities grew. The Alice Casa offering has a portfolio of 351,000 customers (+233,000 compared to December 31, 2008) and accounts for 5.1% of the broadband portfolio compared to 1.7% at December 2008.

Business Data

(millions of euros)	1st Half 2009	%	1st Half 2008	%	Change amount	Change %
Leased lines	97	11.7	102	12.7	(5)	(4.9)
Data transmission	259	31.4	281	35.1	(22)	(7.8)
Data products	95	11.5	88	11.0	7	8
ICT services	375	45.4	330	41.2	45	13.6
Total Data Business	**826**	100	**801**	100	25	3.1

Revenues of the Data Business area rose by 25 million euros compared to the first half of 2008 (+3.1%) thanks to the growth of the packages offered by Telecom Italia for ICT services and products. Those revenues increased by 45 million euros (+13.6%), especially in the services area which grew by 17.7%.

Table of Contents

Wholesale

	1st Half 2009		1st Half 2008		Change	
		%		%	amount	%
National Wholesale	1,417	69.2	1,171	64.4	246	21.0
International Wholesale (*)	629	30.8	647	35.6	(18)	(2.8)
Total Wholesale	**2,046**	100	**1,818**	100	228	12.5

(*) Includes sales to the third-party market and domestic Mobile Telecommunications.

The customer portfolio of Telecom Italia s wholesale division reached about 6.0 million accesses for voice services and 1.6 million for broadband services at the end of June 2009.

On the whole, revenues from national wholesale services show an increase of 246 million euros (+21.0%) compared to the corresponding period of 2008. The change in wholesale revenues is related to the expansion of the customer base of alternative operators served through the various types of accesses.

Mobile Telecommunications

Mobile telecommunications revenues for the first half of 2009 total 4,312 million euros, down by 329 million euros (-7.1%) compared to the first six months of 2008. This decline is due to:

- the contraction of traditional value-added services (text messaging) and relative to the sale of content;
- the change in regulated interconnection rates;
- the reduction in the sales volume of handsets.

At June 30, 2009, the number of Telecom Italia mobile lines is about 32.6 million. The reduction compared to December 31, 2008 can be attributed to greater selectivity in the sales policy focusing on higher-value customers. This strategy is confirmed by the number of postpaid lines which reached 19% of total lines compared to about 18% at March 31, 2009 and about 17% at December 31, 2008, as well as the cessation of silent lines.

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

Outgoing voice

Outgoing voice revenues total 2,340 million euros, down by 77 million euros (-3.2%) compared to the first half of 2008, mainly as a result of the reduction in the customer base.

Table of Contents

Incoming voice

Incoming voice revenues of 618 million euros record a decrease of 98 million euros (-13.7%), compared to the same period of 2008, principally due to the reduction of termination prices on the mobile network and marginally also to the above-mentioned contraction in the customer base.

Value-added services (VAS)

Value-added services (VAS) revenues amount to 969 million euros and fell by 6.6% compared to the first half of 2008. Such contraction is primarily attributable to VAS content (ring tones, logos and games) following a drop in the usage of such services caused by the general economic situation. The ratio of VAS revenues to revenues from services is about 24%, in line with the 2008 average.

Handset sales

Handset sales revenues are 227 million euros, down by 98 million euros, compared to the first half of 2008. The reduction is due to a decrease in the total quantities sold owing to a more selective sales policy that rationalizes the product portfolio and focuses on quality (higher percentage of advanced handsets and devices using mobile internet) and also to the margins on these same handsets and devices.

EBITDA

EBITDA amounts to 5,044 million euros, an increase of 147 million euros compared to 2008 (+3.0%). The EBITDA margin is 46.3%, an increase of 3.3 percentage points compared to the corresponding period of 2008. The organic change in EBITDA compared to the first half of 2008 is a negative 134 million euros (-2.6%) with an EBITDA margin of 46.8% (45.7% in the first half of 2008). Details are as follows:

(millions of euros)	**1st Half 2009**	**1st Half 2008**	**Change**
HISTORICAL EBITDA	**5,044**	**4,897**	**147**
Effect of translation of foreign currency financial statements		**4**	**(4)**
Non-organic (income) expenses	**48**	**325**	**(277)**
Expensis for mobility agreements under Law 223/91		*287*	*(287)*
Disputes and settlements	*41*	*36*	*5*
Other expenses, net	*7*	*2*	*5*
COMPARABLE EBITDA	**5,092**	**5,226**	**(134)**

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

- *acquisition of goods and services* totals 4,117 million euros, with a reduction of 428 million euros (-9.4%) compared to the first half of 2008. The change is mainly due to a decrease in the amount to be paid to other operators, partly following the reduction in the termination rates of voice calls on the network of other operators from the fixed and mobile network, and lower purchases of products for resale, in addition to keeping commercial expenses in check, particularly those related to customer acquisition. Such decrease is connected with the Group s strategy of focusing on higher-value customers;

- *employee benefits expenses* of 1,700 million euros, decreased by 277 million euros compared to the corresponding period of 2008. In fact, in the first half of 2008, 287 million euros had been provided in connection with the mobility procedure under Law 223/91. Excluding such effect, employee benefits expenses recorded an increase of 10 million euros; the contraction in the average headcount (-2,031 compared to the first half of 2008) is mainly offset by the effect of the June 2008 increase in minimum salaries established by the TLC collective national labor contract and estimated TLC labor contract expenses for the current year.

EBIT

EBIT is 2,711 million euros, with an increase of 66 million euros (+2.5%) compared to the corresponding period of 2008. The EBIT margin is 24.9% (23.2% in the first half of the prior year).

EBIT performance can be attributed, apart from the factors commented under EBITDA, to higher depreciation and amortization charges of 5 million euros and the fact that the first half of 2008 had benefited from gains recognized on the sale of properties for 25 million euros while in the first half of 2009 impairment losses of 48 million euros were recorded on the development of the credit management platform for the fixed consumer clientele which, in light of the new organizational structure and the continuance of the fixed-mobile convergence process, is now no longer considered usable.

Table of Contents

The organic change in EBIT is a negative 139 million euros (-4.7% compared to the corresponding period of 2008). The EBIT margin is 25.8% (in line with the first half of 2008). Details are as follows:

(millions of euros)	1st Half 2009	1st Half 2008	Change
HISTORICAL EBIT	**2,711**	**2,645**	**66**
Effect of translation of foreign currency financial statements		**2**	**(2)**
Non-organic (income) expenses	**97**	**300**	**(203)**
Non-organic expenses already described under EBITDA	*48*	*325*	*(277)*
Non-recurring gains on sale of properties		*(25)*	*25*
Impairment loss on intangible assets	*48*		*48*
Other expenses	*1*		*1*
COMPARABLE EBIT	**2,808**	**2,947**	**(139)**

Capital expenditures

Capital expenditures total 1,609 million euros, down by 343 million euros compared to the same period of 2008. The percentage of capital expenditures to revenues is 14.8% (17.1% in the first half of 2008). That reduction is largely due to lower commitments associated with handset packages (either rented or in connection with multi-year contracts), the acquisition, in the first quarter of 2008, of WI-MAX licenses and also the optimization and the rationalization of capital expenditures for the Broadband Access network, Core Platform and Control, Service and Application Platform.

Headcount

Headcount is 61,009, with a reduction of 807 compared to December 31, 2008. The figure includes 174 people with temp work contracts.

***

Commercial agreements

On March 3, 2009, Telecom Italia sealed an agreement with Mediaset through which it will be possible to access content in the Mediaset Premium package through Alice Home TV. This package boosts the Telecom Italia IPTV platform with new content adding films, TV series, cartoons and the best of the soccer Serie A TIM Championships;

on April 21, 2009, the Impresa Semplice plan was launched which offers a portfolio of integrated solutions dedicated to SMEs. Thanks to the high-speed full IP access networks, hardware resources and applications software available at the Telecom Italia Data Center, the companies can access the most advanced ICT services at reasonable costs and without having to sustain any initial investment; the Impresa Semplice solutions include accesses to fixed and mobile networks, voice and data communications systems, messaging and collaboration tools, telecommunications products and computer work stations, hosting and virtualization of hardware and software resources;

on June 5, 2009, Telecom Italia and Aria signed a series of agreements which will allow them to focus their respective strategies and build infrastructural synergies with the aim of closing the Digital Divide and extending high-speed internet access to those areas of Italy that have not yet been reached by ADSL service. The first agreement calls for the operator Aria s right to use Telecom Italia s WiMAX frequencies in the regions of central and southern Italy such as Abruzzi, Umbria, Latium, Molise, Apulia, Campania, Basilicata, Calabria and Sardinia. At the same time, Aria will see that the minimum coverage is reached, guaranteeing the commitments undertaken with the Ministry of Economic Development. Under the agreement, Telecom Italia could also supply its own customers broadband using WiMAX technology, thanks to Aria s white label wholesale package, throughout Italy. Finally, thanks to another agreement between the parties, Aria will use Telecom Italia s transport network infrastructures to build its own network;

on July 3, 2009, Telecom Italia and 3 Italia sealed a co-siting agreement to share the access sites to the mobile network which regards both the existing sites and those that will be built in the future. The subject of the agreement is the so-called passive infrastructures: poles, cables, power supply and air-conditioning systems and other civil infrastructures. Maintaining the ownership of their own infrastructures, each operator will host the mobile stations of the partner with the aim of optimizing network coverage all over the country.

The agreement is for three years, is renewable and when fully operational will cover 2,000 sites, ensuring an optimization of investments, a savings of 30% in costs and a reduction in the network development times of each operator.

Principal changes in the regulatory framework

Retail fixed markets

Beginning February 1, 2009, Telecom Italia raised the monthly subscriber charge for its residential clientele from 12.14 euros to 13.40 euros. This increase had been authorized by AGCom by resolution 719/08/Cons, published in the Gazzetta Ufficiale of January 7, 2009.

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

Wholesale fixed markets

Unbundled access and co-location services

On March 24, 2009, AGCom (under Resolution 14/09/CIR) approved Telecom Italia s Reference Offer relating to unbundled access services and co-location services for the year 2009 which, starting January 1, 2009, fixes the LLU rental at 8.49 euros/month, with an increase of 0.85 euros/month compared to 2008. On June 8, 2009, Telecom Italia, in accordance with the above Resolution, republished the Reference Offer for the year 2009.

Broadband access services (Bitstream)

On March 24, 2009, AGCom (under Resolution 13/09/CIR) also approved the Reference Offer for Telecom Italia s Bitstream services for 2008, providing for a reduction of the monthly ADSL access rental from 9 euros/month to 8.50 euros/month for the period January 1 December 31, 2008. On May 19, 2009, in accordance with the above Resolution, Telecom Italia published the new version of the Bitstream Reference Offer for 2008 which will be applied retroactively from January 1, 2008.

Moreover, on June 18, 2009, Telecom Italia published the Bitstream Reference Offer for 2009. In accordance with the indications specified in Resolution 13/09/CIR which established, for ADSL access, a reduction in the monthly charge of not less than 5% of the 2008 price and, for the ATM bandwidth, a reduction of not less than 9% of the 2008 price, Telecom Italia reduced the monthly charge for ADSL access from 8.50 euros/month to 8.07 per month for the period January 1 December 31, 2009. The Bitstream Reference Offer for 2009 must now be approved by AGCom.

Mobile market

Frequencies

On June 9, 2009, the bid for the assignment of user rights to the frequencies in the 2100 MHz band for the 3G-type mobile service offering ended. Telecom Italia, Vodafone and Wind each were assigned 1 block of frequencies, each equal to 2x5 MHz. The amount paid by Telecom Italia in July 2009 was 88,782,000 euros.

International roaming

In June 2009, a new Regulation was adopted by the European Parliament and Council relating to roaming within the Community (544/2009).

The rule, which modifies the previous Regulation of June 2007 on the subject (717/2007), calls for additional price reductions for voice calls (retail and wholesale) and fixes maximum prices also for text messaging (at the retail and wholesale level) and data (at the wholesale level), to be applied within the 27 member states starting from July 2009. In particular, the rule:

limits the cost of sending a text message to 0.11 euros (excluding VAT) and 0.04 euros for wholesale;

Table of Contents

reduces the price limit (excluding VAT) on voice calls to 0.43 euros/min. for calls dialed and 0.19 euros/min. for calls received, also reducing the price limit for wholesale to 0.26 euros/min.;

imposes a maximum price on wholesale data at 1 euro per MB.

Further reductions are set to start on July 1, 2010 and July 1, 2011. The new Regulation also calls for more transparency obligations on retail data and the introduction of expenditure ceilings beginning March 1, 2010 in order to avoid the so-called bill shock phenomenon.

The new laws will be applied up to summer 2012. The European Commission will re-examine the Regulation by June 30, 2011.

Mobile termination

Under Resolution 667/08/CONS, published in the Gazzetta Ufficiale dated January 3, 2009, AGCom set up a planned series of reductions (running from 2009 to 2012) in the maximum termination prices of mobile network operators establishing, from July 1, 2009, a value of 7.70 euro cents/min. for Telecom Italia and Vodafone, 8.70 euro cents/min. for Wind and 11.0 euro cents/min. for H3G.

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

In February 2009, AGCom began a process to produce a new cost model for the mobile termination service which takes into maximum consideration the Recommendation of the European Commission on the regulation of termination rates on fixed and mobile networks in the EU, adopted on May 7, 2009 (2009/396/EC). The adoption of the new cost model in the years to come could lead to the revision of the termination prices already authorized by AGCom in the resolution noted above.

BroadBand

On June 19, 2009, Law 69 dated June 18, 2009 was published in the Gazzetta Ufficiale and article 1 introduces economic and legal measures to assist in the expansion of broadband. In particular, the law calls for:

a provision of up to 800 million euros (with 85% earmarked for the south of Italy) to complete a program for infrastructure work that the government should deem necessary to technologically update the electronic communications networks (a resolution by CIPE is currently expected that should establish the actual distribution of the funds and the relative amount).

a series of exceptions and corrections to the existing legislation to remove some legal obstacles and operationally facilitate the building of the networks.

Table of Contents

Brazil

The Business Unit

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

The structure of the Business Unit

The Tim Brasil group is organized as follows:

Main operating and financial data

Key results in the first half of 2009 compared to the first half of 2008 are presented in the following table.

	(millions of euros) 1st Half 2009 (a)	1st Half 2008 (b)	(millions of Brazilian reais) 1st Half 2009 (c)	1st Half 2008 (d)	Change amount (c-d)	% (c-d)/d	% organic
Revenues	2,299	2,537	6,721	6,582	139	2.1	2.1
EBITDA	527	521	1,541	1,351	190	14.1	20.4
EBITDA margin	*22.9*	*20.5*	*22.9*	*20.5*			
EBIT	37	(2)	107	(6)	113	ns	ns
EBIT margin	*1.6*	*(0.1)*	*1.6*	*(0.1)*			
Capital expenditures	288	824	843	2,138	(1,295)	(60.6)	
Headcount at period-end (number)	10,149	(1)10,285	10,149	(1)10,285	(136)	(1.3)	

(1) Headcount at December 31, 2008.

Revenues

Revenues total 6,721 million Brazilian reais, 139 million Brazilian reais higher than in the first half of 2008 (+2.1%) compared to +0.7% in the first quarter of 2009. Product revenues grew from 413 million Brazilian reais in the first half of 2008 to 618 million Brazilian reais in the first half of 2009 (+49.6%). Service revenues went from 6,169 million Brazilian reais in the first half of 2008 to 6,103 million Brazilian reais in the first half of 2009 (-1.1%). In this category of service revenues, VAS revenues increased by 21.7% over the corresponding period of the prior year, owing to both the growth of the customer base (which after a contraction reported in the first quarter, once again shows a gain totaling +4.8% compared to the first quarter of 2009) and data packages with broadband and services and content. The dilution of average monthly revenues per user continues: 27.9 Brazilian reais at June 2009 compared to 31.5 Brazilian reais at June 2008; during the last few months of the first half, a gradual recovery was noted thanks to the positive contribution of the postpaid customer base and the success of new prepaid plans.

Table of Contents

Total lines at June 30, 2009 are 37,826 thousand, up 11.9% compared to June 30, 2008 and 3.9% compared to December 31, 2008, corresponding to a 23.7% market share on lines.

EBITDA

EBITDA amounts to 1,541 million Brazilian reais and is 190 million Brazilian reais higher than in the first half of 2008 (+14.1%); the EBITDA margin is 22.9%, up 2.4 percentage points over the first half of 2008. This result was achieved by exercising a tight control over costs combined with an efficiency plan to generate resources to support the Business Unit s growth and the commercial relaunching of Tim Brasil. The cost components which grew compared to the previous half consequently refer to the expansion of the business.

During the first half of 2009, negotiations were concluded with Embratel regarding the dispute that began in 2005 over long-distance traffic and interconnection. The settlement produced a negative impact on EBITDA of 64 million Brazilian reais along with the recognition of amounts payable by Embratel that had been disputed and that had already been recorded in Tim Participações financial statements for 90 million Brazilian reais. In April 2009, following a burglary, an impairment loss was recorded on the San Paolo warehouse for 21 million Brazilian reais. The organic change in EBITDA compared to the same period of 2008 is +275 million Brazilian reais with an EBITDA margin of 24.2% (20.5% in the first half of 2008). Details are as follows:

(millions of Brazilian reais)	1st Half 2009	1st Half 2008	Change
HISTORICAL EBITDA	**1,541**	**1,351**	**190**
Tim Participações costs for services associated with the settlement of a dispute	64		64
Other expenses	21		21
COMPARABLE EBITDA	**1,626**	**1,351**	**275**

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

acquisition of goods and services, totaling 3,860 million Brazilian reais, increased by 4.2% compared to the same period of 2008 (3,704 million Brazilian reais), mainly as a result of higher other selling costs, especially advertising costs, equal to 239 million Brazilian reais in the first half of 2009 (150 million Brazilian reais in the same period of 2008), and fees, sales commissions and other selling costs of 699 million Brazilian reais in the first half of 2009 (604 million Brazilian reais in the first half of 2008). Such increases were in part compensated by the reduction in the portion of revenues to be paid to other TLC operators;

employee benefits expenses, amounting to 288 million Brazilian reais, fell by 25 million Brazilian reais compared to the first half of 2008 (-8.0%) due to a variation in the composition and in the unit cost of the workforce. Average headcount went from 9,213 in the first half of 2008 to 9,259 in the first half of 2009. The percentage of employee benefits expenses to revenues is 4.3%, -0.5 percent compared to the same period of 2008;

other operating expenses, amounting to 1,015 million Brazilian reais, decreased by 19.6% (1,262 million Brazilian reais in the first half of 2008) mainly as a result of lower losses on receivables relating to the TV sales channel. Such expenses consist of the following:

(millions of Brazilian reais)	1st Half 2009	1st Half 2008	Change
Writedowns and expenses in connection with credit management	240	475	(235)
Accruals to provisions	32	51	(19)
Telecommunications operating fees and charges	340	343	(3)
Taxes on revenues	363	350	13
Indirect duties and taxes	24	27	(3)
Sundry expenses	16	16	

Total	**1,015**	**1,262**	**(247)**

Table of Contents

EBIT

EBIT amounts to 107 million Brazilian reais, with an improvement of 113 million Brazilian reais compared to the first half of 2008. This increase is due to a higher contribution by the EBITDA margin compared to the first half of 2008, in part offset by higher amortization and depreciation charges of 74 million Brazilian reais on the 3G license, purchased in the second quarter of 2008, and capital expenditures connected with the new UMTS network.

The organic change in EBIT is a positive 198 million Brazilian reais compared to the same period of 2008 with a positive EBIT margin of 2.9% (a negative 0.1% EBIT margin in the first half of 2008). Details are as follows:

(millions of Brazilian reais)	1st Half 2009	1st Half 2008	Change
HISTORICAL EBIT	**107**	**(6)**	**113**
Non-organic expenses already described under EBITDA	85		85
COMPARABLE EBIT	**192**	**(6)**	**198**

Capital expenditures

Capital expenditures amount to 843 million Brazilian reais with a decrease of 1,295 million Brazilian reais compared to the same period of 2008. They mainly refer to the 3G license which was purchased in April 2008 for 1,239 million Brazilian reais.

Headcount

Headcount is 10,149 at June 30, 2009, a reduction of 136 people compared to December 31, 2008 (10,285).

Commercial developments

In the first half of 2009, the relaunching of the positioning and the relative sales strategy of the Tim Brasil group were directed to:

- strengthening the TIM brand by using new advertising formats and the launching of new advertising campaigns (e.g. TIM Blue Earth) geared to repositioning the brand and communicating a clear message about its distinctive features;

- launching of new promotional packages aimed at encouraging the use of its services such as Plano Infinity which introduces a new communication concept for the client, by passing from a rate per minute to a rate per call;

- intensifying the focus in the corporate segment, with the launch of the TIM Empresa Simples plan, aimed at the small business world with packages that provide for integrating voice (fixed and mobile) and data services;

- launching of innovative products and services, such as the WI-FI mini router and the Blackberry Storm , and the first service in the Brazilian market with internet access using a prepaid formula and exclusive sales of high-range handsets such as the Motorola Aura and the Nokia 5800 ;

- continually developing third-generation services (Tim Web Broadband) and integrated plans for fixed, mobile and Internet services; the Triple play plan was launched which gives access to mobile services, internet and cable TV;

continually improving network quality and the level of service and building the loyalty and retention policy in the high-usage segments.

Main changes in the regulatory framework

On March 2, 2009, the last step was concluded in the gradual opening of number portability in the country begun on September 1, 2008. Consequently, telephone number portability is now available in all the SMP Register Areas of Brazil for mobile and in all the STFC Local Areas for fixed telecommunications.

Table of Contents

Other relevant information

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

The finalization of the transaction is subject to a series of conditions including the approval of the Brazilian National Regulatory Agency (Anatel) and the restructuring of Intelig s pre-existing debt position with the banks and former shareholders, such that the company will be able to present a net financial position of zero at the closing. The restructuring is in progress.

As a result of the merger, the Docas group (through the vehicle company JVCO Participaçoes Ltda) will acquire an investment in ordinary and preferred share capital of Tim Participaçoes of up to 6.15% of each class of stock. The exchange ratio will be subject to verification and confirmation on the basis of an economic and financial valuation report issued by a leading financial institution, also in light of the debt situation that will have to be verified. The transaction was submitted to the Brazilian Antitrust Authority and approval is still pending.

Table of Contents

European BroadBand

The Business Unit

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

The structure of the Business Unit

The Business Unit is organized as follows:

Main operating and financial data

Key results in the first half of 2009, for the entire Business Unit and by country, compared to the first half of 2008, restated for purposes of comparison, are presented in the following tables.

(millions of euros)	1st Half 2009	1st Half 2008	Change amount	Change %
Revenues	613	642	(29)	(4.5)
EBITDA	129	119	10	8.4
EBITDA margin	*21.0*	*18.5*		
EBIT	(9)	2	(11)	°
EBIT margin	*(1.5)*	*0.3*		
Capital expenditures	124	189	(65)	(34.4)
Headcount at period-end (number)	2,778	(1) 2,912	(134)	(4.6)

(1) Headcount at December 31, 2008.

Table of Contents

Germany (HanseNet + Telecom Italia Deutschland)

(millions of euros)	1st Half 2009	1st Half 2008	Change amount	%
Revenues	569	601	(32)	(5.3)
EBITDA	123	115	8	7.0
EBITDA margin	*21.6*	*19.1*		
EBIT	(5)	9	(14)	°
EBIT margin	*(0.9)*	*1.5*		
Capital expenditures	120	181	(61)	(33.7)

Netherlands (BBNed)

(millions of euros)	1st Half 2009	1st Half 2008	Change amount	%
Revenues	44	41	3	7.3
EBITDA	6	4	2	n.s.
EBITDA margin	*13.6*	*9.8*		
EBIT	(4)	(7)	3	n.s.
EBIT margin	*(9.1)*	*(17.1)*		
Capital expenditures	4	8	(4)	n.s.

Revenues

Revenues amount to 613 million euros and record a decrease of 29 million euros (-4.5%) compared to the first half of 2008. The broadband customer portfolio at June 30, 2009 is equal to about 2.5 million accesses, a number that is basically unchanged from December 31, 2008 and from June 30, 2008. The narrowband customer portfolio is at 0.4 million accesses at June 30, 2009, a decrease compared to 0.5 million accesses at the end of December 2008 and 0.6 million accesses at the end of June 2008.

In greater detail, revenues from business operations conducted in Germany total 569 million euros and register a decrease of 5.3% compared to the first half of 2008 (-32 million euros), mainly due to lower contributions to revenues from AOL customers (Broadband resale and Narrowband) and Wholesale services, which are only partly offset by higher revenues from unbundled accesses and mobile services. The broadband customer portfolio in Germany is about 2.3 million accesses at June 30, 2009, stable compared to December 31, 2008 and a reduction from 2.4 million at June 30, 2008.

The Netherlands contributes 44 million euros to total revenues, 3 million euros more than in the first half of 2008 (+7.3%), thanks to a higher contribution from ADSL retail service revenues. The customer portfolio numbering about 163,000, is lower by about 3,000 compared to December 31, 2008, but 2,000 higher compared to June 30, 2008.

EBITDA

EBITDA amounts to 129 million euros and records an increase of 10 million euros (+8.4%) compared to the first half of 2008. The EBIT margin is 21.0% against 18.5% in the first six months of 2008.

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

- *acquisition of goods and services,* totaling 415 million euros, decreased by 10.0% compared to the first half of 2008 (-46 million euros). The reduction is mainly the consequence of lower advertising and promotional expenses, commercial costs (partly due to the acquisition of new customers with minimum 2-year contracts, the costs of which are capitalized: 16 million euros in the first half of 2009 and 3 million euros in the first half of 2008) and outsourced customer care costs, while interconnection costs with other operators grew in association with the growth of the unbundled Alice customer base;

Table of Contents

- *employee benefits expenses* amount to 64 million euros and decreased by 1 million euros compared to the first half of 2008 (-2%) as a result of the reduction in the average headcount (from 2,965 in the first half of 2008 to 2,635 in the first half of 2009);

- *other operating expenses* of 21 million euros rose by 5 million euros compared to the first half of 2008 mainly due to higher expenses connected with credit management.

EBIT

EBIT is a negative 9 million euros against a positive 2 million euros in the first half of 2008.

The drop in EBIT is due to a considerable increase in depreciation and amortization charges (+20 million euros) owing to both significant capital expenditures in network infrastructures and supporting information systems made between the end of 2007 and 2008 and the capitalization of costs incurred for the acquisition of new customers with 2-year minimum contracts.

Capital expenditures

Capital expenditures amount to 124 million euros, down by 65 million euros compared to the first half of 2008 largely on account of the contraction of investments in network infrastructures and the activation costs capitalized of new customers on the access platforms of other operators.

Headcount

Headcount is 2,778 at June 30, 2009, with a reduction of 134 compared to December 31, 2008, and includes 320 people with temp work contracts (354 at December 31, 2008).

Commercial packages

Germany

The growth of the Broadband market in Germany has slowed down appreciably since the fourth quarter of 2008 and this situation is confirmed by the figures for the first half of 2009 which show a net growth of about 500,000 Broadband lines per quarter. The market scenario is characterized by growing competition on the part of cable operators, by the strong commercial relaunching of the German incumbent Deutsche Telekom (DT) and the aggressiveness of the principal alternative operators (especially Vodafone and United Internet) in terms of pricing and promotions. It should also be noted that United Internet acquired the Broadband access business of the operator Freenet.

In this competitive environment, HanseNet, in the first six months of 2009, put into place a new strategy based on three principal elements:

- sales & marketing approach focused on the acquisition of higher-value customers;

- special emphasis on the end-to-end management of the acquired customer base;