TELECOM ITALIA S P A
Form 6-K
November 19, 2008

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

Telecom Italia S.p.A.

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 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-

This Report on Form 6-K shall be deemed to be incorporated by reference in the Registration Statement on Form F-3 of Telecom Italia Capital S.A. (Registration No. 333-127351) and Telecom Italia S.p.A. (Registration No. 333-127351-01) and to be a part thereof from the date on which this report is furnished, to the extent not superseded by documents or reports subsequently filed or furnished.

Table of Contents

Index to Financial Statements

TABLE OF CONTENTS

Table of Contents

Index to Financial Statements

INTRODUCTION

As used in this Report on Form 6-K, unless the context otherwise requires, the term Company means Telecom Italia S.p.A. the operating company for fixed and mobile telecommunications services in Italy and the holding company for various businesses, principally telecommunications, and the terms we , us and our refers to the Company, and, as applicable, the Company and its consolidated subsidiaries.

¢ Presentation of Certain Financial and Other Information

The financial information contained in this Report on Form 6-K has been prepared in accordance with International Financial Reporting Standards issued by the IASB International Accounting Standard Board (**IFRS**). IFRS also include all effective International Accounting Standards (**IAS**) and all Interpretations issued by the International Financial Reporting Interpretations Committee (**IFRIC**), comprising those previously issued by the Standing Interpretations Committee (**SIC**).

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

The currency used by Telecom Italia in preparing its consolidated financial statements is the euro.

References to , euro and Euro are to the euro.

References to U.S. dollars , dollars , U.S.$, USD or $ are to U.S. dollars.

References to BRL are to the Brasilian Reais**.**

For the purpose of this Report on Form 6-K, billion means a thousand million.

¢ 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:

- 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;

- our ability to refinance existing indebtedness when due under the current uncertain conditions in the capital and bank markets; such uncertain conditions might also adversely impact liquidity already raised for refinancing purposes;

Table of Contents

Index to Financial Statements

our ability to utilize our relationship with Telefónica (through our new shareholder structure) to attain synergies primarily in areas such as network, IT, purchasing, sales activities in Germany 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;

our ability to successfully achieve our debt reduction targets;

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 and economic developments in Italy and other countries in which we operate;

the impact of fluctuations in currency exchange and interest rates;

our ability to successfully implement our strategy over the 2008-2010 period;

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

our ability to achieve the expected return on the investments and capital expenditures we have made and continue to make in Brazil on mobile and in Europe on broadband;

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.

For additional information, see Item 3. Key Information Risk Factors and the related cautionary statement under Item 5. Operating and Financial Review and Prospects included in our 2007 Form 20-F.

4

Table of Contents

Index to Financial Statements

KEY DEFINITIONS

The following terms appearing in this Report on Form 6-K have the meanings set forth below.

EU	means the European Union.
IASB	means the International Accounting Standards Board.
IFRS	means International Financial Reporting Standards issued by the IASB. IFRS also include all effective International Accounting Standards (**IAS**) and all Interpretations issued by the International Financial Reporting Interpretations Committee (**IFRIC**), comprising those previously issued by the Standing Interpretations Committee (**SIC**).
Merger	means the merger of Old Telecom Italia into Olivetti, which became effective on August 4, 2003.
Old Telecom Italia and Old Telecom Italia Group	means Telecom Italia as well as Telecom Italia and its consolidated subsidiaries, respectively, as they existed immediately prior to the effective date of the Merger.
Olivetti	unless otherwise indicated, means Olivetti S.p.A., the holding company and controlling shareholder of Old Telecom Italia.
Olivetti Group	means Olivetti and its consolidated subsidiaries, including Old Telecom Italia.
Ordinary Shares	means the Ordinary Shares, 0.55 par value each, of Telecom Italia.
Parent	means Telecom Italia S.p.A..
Savings Shares	means the Savings Shares, 0.55 par value each, of Telecom Italia.
Telecom Italia	means the entity which resulted from the Merger.
Telecom Italia Group and Group	means the Company and its consolidated subsidiaries.
Telecom Italia Media	Telecom Italia Media is the Telecom Italia Group s subsidiary operating in the Media business.
TIM	means Telecom Italia Mobile S.p.A., the Telecom Italia Group s subsidiary which operated in the mobile telecommunications business, and merged with and into Telecom Italia, with Telecom Italia as the surviving company, effective as from June 30, 2005.
Tim Italia	means the company deriving from the spin-off of TIM s domestic mobile operations, effective as from March 1, 2005. After the merger of TIM with and into Telecom Italia, Tim Italia became a wholly-owned subsidiary of Telecom Italia. Subsequently Tim Italia merged with and into Telecom Italia, with Telecom Italia as the surviving company, effective as from March 1, 2006.

Table of Contents

Index to Financial Statements

DESCRIPTION OF TELECOM ITALIA

Telecom Italia is a joint-stock company established under Italian law with registered offices in Milan at Piazza degli Affari 2, 20123 Milan, Italy. The telephone number is +39-02-85951. The company is recorded in the Milan Companies Register at number 00488410010, R.E.A. number 1580695, R.A.E.E. number IT08020000000799. The duration of the company, as stated in the company s Bylaws, extends until December 31, 2100.

¢ Overview of the Telecom Italia Group s Major Business Areas

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

Telecom Italia Group s Business Units as of June 30, 2008 were as follows:

Table of Contents

Index to Financial Statements

SUMMARY SELECTED FINANCIAL AND STATISTICAL INFORMATION

The summary selected financial data set forth below are consolidated financial data of the Telecom Italia Group as follows:

- with respect to the income statement data, the unaudited financial data for the six-month periods ended June 30, 2008 and 2007; and

- with respect to the balance sheet data, the unaudited financial data as of June 30, 2008 and the audited financial data as of December 31, 2007.

In the opinion of the management of Telecom Italia, the unaudited interim consolidated financial data of Telecom Italia reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of Telecom Italia s consolidated results of operations for the unaudited interim periods. Results for the six-month period ended June 30, 2008, are not necessarily indicative of results that may be expected for the entire year.

The summary selected financial data below should be read in conjunction with the Telecom Italia Group s Unaudited Interim Consolidated Financial Statements included elsewhere in this Telecom Italia s 2008 Half-Yearly Financial Report 6-K.

Table of Contents

Index to Financial Statements

2008 Half-Yearly Financial Report **Summary Selected Financial And Statistical Information**

Income Statement Data:	Six months ended June 30, 2008[1] (Unaudited) (millions of Euro)	2007[1]
Revenues	14,838	15,337
Other income	158	164
Total operating revenues and other income	**14,996**	**15,501**
Acquisition of goods and services	(6,610)	(6,739)
Employee benefits expenses	(2,274)	(1,893)
Other operating expenses	(865)	(824)
Changes in inventories	17	21
Internally generated assets	271	269
Depreciation and amortization	(2,952)	(2,793)
Gains (losses) on disposals of non current assets	26	12
Impairment reversals (losses) on non current assets	(1)	
Operating profit	**2,608**	**3,554**
Share of profits (losses) of associates and joint ventures accounted for using the equity method	37	58
Finance income	1,515	1,256
Finance expenses	(2,731)	(2,225)
Profit before tax from continuing operations	**1,429**	**2,643**
Income tax expense	(173)	(1,018)
Profit from continuing operations	**1,256**	**1,625**
Profit (loss) from Discontinued operations/Non current assets held for sale	(148)	(123)
Profit for the period	**1,108**	**1,502**
Of which:		
Profit attributable to equity holders of the Parent	*1,140*	*1,500*
Profit (loss) attributable to Minority Interest	*(32)*	*2*

	Six months ended June 30, 2008[1] (Unaudited) (thousands of Euro, except percentages and per share amounts)	2007[1]
Financial Ratios:		
Revenues/Employees (average number in the Telecom Italia Group)[3]	193.6	196.6
Operating profit/Revenues (ROS)(%)	17.6	23.2

Basic and Diluted earnings per Share (EPS)[3]:		
Ordinary Share	**0.06**	**0.07**
Savings Share	**0.07**	**0.08**
Of which:		
From continuing operations:		
Ordinary Share	*0.07*	*0.08*
Savings Share	*0.07*	*0.08*
From Discontinued operations/Non-current assets held for sale:		
Ordinary Share	*(0.01)*	*(0.01)*
Savings Share		

8

Table of Contents

Index to Financial Statements

2008 Half-Yearly Financial Report **Summary Selected Financial And Statistical Information**

	As of June 30, 2008[1] (Unaudited)	As of December 31, 2007[1]
	(millions of Euro)	
Balance Sheet Data:		
Total Assets	**85,868**	**87,425**
Equity:		
Equity attributable to the equity holders of the Parent	25,572	25,922
Equity attributable to Minority Interest	886	1,063
Total Equity	**26,458**	**26,985**
Total liabilities	**59,410**	**60,440**
Total equity and liabilities	**85,868**	**87,425**
Share capital[4]	**10,605**	**10,605**

	As of June 30, 2008[1] (Unaudited)	As of December 31, 2007[1]
Financial Ratios:		
Net financial debt/Net invested capital (debt ratio)(%)[5]	58.4	57.0
Employees (number in the Telecom Italia Group at period-end, excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale and including personnel with temporary work contracts)	80,508	83,429

Table of Contents

Index to Financial Statements

2008 Half-Yearly Financial Report **Summary Selected Financial And Statistical Information**

	As of and for the period ended		
	June 30, 2008(1)	December 31, 2007(1)	June 30, 2007(1)
Statistical Data:			
Domestic fixed:			
Fixed network connections in Italy (thousands)	20,952	22,124	22,836
Physical accesses (Consumer + Business) (thousands)	18,146	19,221	19,811
Voice pricing plans (thousands)	6,034	6,375	6,619
Broadband accesses in Italy (thousands)	7,792	7,590	7,277
Virgilio page views powered by Alice (millions)	8,111	14,737	7,549
Virgilio powered by Alice average daily single visitors (millions)	2.4	2.1	2.1
Network infrastructure in Italy:			
access network in copper (millions of km pair)	106.8	106.8	106.8
access network and transport in optical fiber (millions of km of fiber)	3.8	3.8	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
Domestic Mobile:			
Mobile telephone lines in Italy at period-end (thousands)	35,796	36,331	34,312
Prepaid lines at period-end (thousands)(6)	29,927	30,834	29,319
European Broadband:			
Broadband accesses in Europe at period-end (thousands)(7)	2,522	2,537	2,352
Brazil Mobile:			
Mobile telephone lines in Brazil at period-end (thousands)	33,815	31,254	27,478
Media:			
La7 average audience share Free to Air (analog mode) for the period (%)	3.1	3.0	3.1
La7 average audience share Free to Air (analog mode) for the last month of the period (%)	3.2	3.1	3.1

(1) Starting from January 1, 2008, the Liberty Surf group is treated as Discontinued operations/Non-current assets held for sale. All periods presented for comparison purposes have been restated.

(2) The average number of employees in the Telecom Italia Group (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale and including personnel with temporary work contracts) was 76,660 in the six months ended June 30, 2008 and 78,002 in the six months ended June 30, 2007.

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

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

Ordinary Shares was 13,254,975,913 for the six months ended June 30, 2008 and 13,254,926,715 for the six months ended June 30, 2007; and

Savings Shares was 6,026,120,661 for the six months ended June 30, 2008 and 2007.

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

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

(5) Net Financial Debt is a Non-GAAP Financial Measure as defined in Item 10 of Regulation S-K under the 1934 Act. For further details please see Capital Resources Net Financial Debt included elsewhere in this Telecom Italia s 2008 Half-Yearly Financial Report 6-K.

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

(7) The data presented excludes broadband accesses of the Liberty Surf group (973 thousand at June 30, 2008, 902 thousand at December 31, 2007 and 847 thousand at June 30, 2007).

Table of Contents

Index to Financial Statements

TELECOM ITALIA GROUP RESULTS OF OPERATIONS

FOR THE SIX MONTHS ENDED JUNE 30, 2008 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2007

The information in this section should be read in conjunction with the Telecom Italia Group s Unaudited Interim Consolidated Financial Statements, and the Notes thereto, included elsewhere in this Telecom Italia s 2008 Half-Yearly Financial Report 6-K.

¢ Telecom Italia Group Consolidated Results

For the six months ended June 30, 2008, **consolidated profit attributable to equity holders of the Parent** was 1,140 million (profit for the period before Minority Interest was 1,108 million), compared to consolidated profit attributable to equity holders of the Parent of 1,500 million (profit for the period before Minority Interest was 1,502 million) for the six months ended June 30, 2007.

The decrease of 360 million was principally due to the following factors:

operating profit decreased by 946 million;

share of profits of associates and joint ventures accounted for using the equity method decreased by 21 million;

higher finance expenses, net of finance income of 247 million;

lower income tax expense of 845 million;

higher loss from Discontinued operations/Non-current assets held for sale of 25 million;

higher loss attributable to Minority Interest (an increase of 34 million).

Table of Contents

Index to Financial Statements

The following table summarizes the main factors which affected the change in consolidated profit attributable to equity holders of the Parent in the six months ended June 30, 2008:

***v* REVENUES**

Our **consolidated revenues** in the six months ended June 30, 2008 were 14,838 million, a decrease of 499 million compared to 15,337 million in the six months ended June 30, 2007.

In the six months ended June 30, 2008, in particular, revenues for the **Domestic Business Unit** decreased by 718 million and were partly adversely affected by the following regulatory changes:

application of the Bersani Decree starting from March 2007 (a decrease in revenue of 125 million);

reduction in the termination rates which occurred in the second half of 2007 (a decrease in revenue of 131 million);

rate adjustments for international roaming traffic within the EU, in accordance with European Commission rulings (a decrease in revenue of 90 million);

change in the prices of regulated wholesale bitstream services (interconnection services which consist of the supply, by Telecom Italia, of the transmission capacity between the location of an end customer and an interconnection point of an OLO which, in turn, offers broadband services), unbundling and shared access (a decrease in revenue of 48 million).

Overall, compared to the six months ended June 30, 2007, these regulatory changes generated a decrease in revenues of 394 million. Other factors which caused a reduction in revenues are the renegotiation of the national roaming contract with H3G (a negative effect of 31 million) and the termination of certain international wholesale transit contracts from the second quarter of 2007 (a negative effect of 166 million).

Table of Contents

Index to Financial Statements

In addition to the impact of the above :

in fixed telecommunications, the increase in Internet revenues as a result of the continuing and strong growth of broadband and Content and the increase in national Wholesale service revenues, thanks mainly to regulated services, did not compensate for the contraction in Retail Telephone revenues, particularly pertaining to access and traffic. With regard to traffic, this decrease comes from volumes and prices mainly relating to fixed-mobile domestic traffic: minor volumes reflect the migration of traffic from the fixed to the mobile network and the reduction in the average customer base; while prices, instead, are affected by the reduction in fixed-mobile termination rates and higher penetration of flat offers. As for access, the reduction is entirely due to the contraction of the average customer base. Data Business revenues were also down due to stronger competition on the Corporate client market and the revision of contract prices with the Public Administration which were only compensated in part by a positive performance by ICT services and products. A decline was also recorded in international Wholesale services due to the reduction in transit revenues generated by the termination of some contracts during the second quarter of 2007;

in mobile telecommunications, there was a positive trend in value-added service revenues, particularly interactive services and mobile broadband, countered by the effects of the application of the new termination rates, the Bersani Decree and the adjustment of international roaming traffic rates.

The **European BroadBand Business Unit** contributed to higher revenues in the six months ended June 30, 2008.

The growth of the **Brazil Mobile Business Unit** was driven by the expansion of voice and value-added services supported by the increase of the customer base.

The **Media Business Unit** had an increase in revenues, reflecting the increase in revenues from Digital Terrestrial TV following the positive contribution resulting from the agreements reached with Mediaset and Telecom Italia for broadcasting the audio-visual content of Premier League soccer games on the DTT and DVBH platforms.

The **Olivetti Business Unit** revenues recorded a slight decrease compared to the same period of the prior year: the improvement in the special printers segment owing to an important supply contract for postal printers was offset by the reduction in the sales of traditional ink-jet products, faxes and accessories.

The table below sets forth, for the periods indicated, gross revenues and consolidated revenues by Business Unit and the percentage of their contributions to our consolidated revenues:

	Six months ended June 30,					
	2008			2007		
	Gross Revenues (1)	Consolidated Revenues (2)	% of Consolidated Revenues	Gross Revenues (1)	Consolidated Revenues (2)	% of Consolidated Revenues
	(millions of Euro, except percentages)					
Domestic	11,420	11,331	76.4	12,182	12,124	79.0
European BroadBand	642	635	4.3	512	512	3.3
Brazil Mobile	2,537	2,533	17.1	2,322	2,318	15.1
Media	148	130	0.9	125	116	0.8
Olivetti	180	157	1.0	192	165	1.1
Other Operations(3)	98	52	0.3	109	102	0.7

Total revenues	**15,025**	**14,838**	**100.0**	**15,442**	**15,337**	**100.0**

(1) Gross revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).
(2) Data include revenues recorded by each business area on a consolidated basis after elimination of intercompany sales.
(3) The Other Operations of the Telecom Italia Group consist of the financial companies and other minor companies not associated with the core business of the Telecom Italia Group.

Table of Contents

Index to Financial Statements

Foreign revenues (based on customer geographical location) amounted to 4,268 million in the six months ended June 30, 2008 (4,249 million in the six months ended June 30, 2007); 58.8% of the total came from Brazil (54.2% in the six months ended June 30, 2007).

The table below sets forth, for the periods indicated, revenues by geographical area and the percentage of total consolidated revenues:

Geographical area	Six months ended June 30, 2008		2007	
	(millions of Euro, except percentages)			
Italy	**10,570**	**71.2%**	**11,088**	**72.3%**
Other European countries	1,257	8.5%	1,328	8.7%
Latin America	2,639	17.8%	2,463	16.1%
Other countries	372	2.5%	458	2.9%
Total outside Italy	**4,268**	**28.8%**	**4,249**	**27.7%**
Total consolidated revenues	**14,838**	**100%**	**15,337**	**100%**

v OTHER INCOME

Other income amounted to 158 million in the six months ended June 30, 2008, a decrease of 6 million compared to 164 million in the six months ended June 30, 2007.

Details are as follows:

	Six months ended June 30, 2008	2007
	(millions of Euro)	
Compensations for late payment of regulated telephone services	46	46
Recovery of employee benefits expenses and services rendered	28	20
Grants related to assets and grants related to income	24	18
Damage compensations and penalties	40	34
Sundry income	20	46
Total	**158**	**164**

v OPERATING EXPENSES

The table below sets forth, for the periods indicated, total consolidated **operating expenses** by major components and expressed as a percentage of total consolidated revenues.

	Six months ended June 30, 2008		2007	
	(millions of Euro, except percentages)			
Acquisition of goods and services	6,610	44.6%	6,739	44.0%
Employee benefits expenses	2,274	15.3%	1,893	12.3%
Other operating expenses	865	5.8%	824	5.4%
Changes in inventories	(17)	(0.1)%	(21)	(0.1)%
Internally generated assets	(271)	(1.8)%	(269)	(1.8)%
Depreciation and amortization	2,952	19.9%	2,793	18.2%
(Gains) losses on disposals of non-current assets	(26)	(0.2)%	(12)	(0.1)%
Impairment (reversals) losses on non-current assets	1			
Total operating expenses	**12,388**	**83.5%**	**11,947**	**77.9%**

Our operating expenses increased by 441 million in the six months ended June 30, 2008 compared to the six months ended June 30, 2007; such increase is detailed as follows:

Acquisition of goods and services decreased by 129 million, or 1.9%, from 6,739 million in the six months ended June 30, 2007 to 6,610 million in the six months ended June 30, 2008.

The reduction in costs for the portion of revenues to be paid to other operators and for commercial and advertising expenses of the Domestic Business Unit were partly compensated by the increase in the interconnection costs of the European Broadband and Brazil Mobile Business Units in particular.

The percentage of the acquisition of goods and services to revenues was 44.6% (44.0% in the six months ended June 30, 2007);

Employee benefits expenses increased by 381 million, or 20.1%, from 1,893 million in the six months ended June 30, 2007 to 2,274 million in the six months ended June 30, 2008.

Such increase relates to employees in Italy (366 million) and outside Italy (15 million).

In particular, with regard to the employee benefits expenses in Italy, the lower costs arising from the reduction in the average number of the salaried workforce (a decrease of 1,899 units compared to the first half of 2007 on a comparable consolidation basis) was countered by higher costs due to the effect of the increase in the minimum labor contract terms of October 2007 and June 2008 established by the July 31, 2007 Agreement for the TLC collective national labor contract, for the two economic years 2007 and 2008.

Moreover, expenses were recognized for:

- 287 million, following the start of the mobility procedures under Law 223/91 begun at the end of June by the Parent, Telecom Italia;
- 24 million for inclusion in the scope of consolidation of the company Shared Service Center.

It should also be noted that employee benefits expenses in the first six months of 2007 included the positive effect of the profit bonus accrued in 2006 and then eliminated as a result of agreements reached with the unions in June 2007 (a decrease of 79 million), in addition to the positive impact of the new law regarding supplementary pension benefits on the actuarial calculation of the provision for employee severance indemnity (a decrease of 31 million).

As for employees outside Italy, employee benefit expenses were impacted by the increase in the number of the workforce of the Tim Brasil group and BBNed and the effect of the consolidation of AOL Germany for the entire first half of 2008 (in the first half of 2007 it had been consolidated for only four months). Such effects are partly compensated by lower costs as a result of the deconsolidation of Entel Bolivia starting April 1, 2008.

As of June 30, 2008 the number of employees was 80,508 units (excluding employees related to Discontinued operations/Non-current assets held for sale and including personnel with temp work contracts) compared to 82,069 units as of December 31, 2007. The breakdown by geographic area is as follows:

15

Table of Contents

Index to Financial Statements

2008 Half-Yearly Financial Report **Telecom Italia Group Results Of Operations For The Six Months Ended June 30, 2008**

	As of June 30, 2008	As of December 31, 2007
	(Units)	
Italy	66,787	66,951
Outside Italy	13,721	15,118
Total employees (excluding employees related to Discontinued operations/Non-current assets held for sale) (*)	**80,508**	**82,069**
Employees related to Discontinued operations/Non-current assets held for sale (outside Italy)	1,292	1,360
Total employees	**81,800**	**83,429**

-

(*) Includes employees with temp work contracts: 1,861 as of June 30, 2008 and 1,969 as of December 31, 2007.

Excluding employees relating to Non-current assets held for sale (Liberty Surf group), the employees of the Group shows a reduction of 1,561 employees, compared to December 31, 2007, due to:

- the exclusion from the scope of consolidation of Entel Bolivia (1,475 employees);
- the sale of the On Air business by MTV Italia (14 employees);
- the hiring of 2,848 employees and the termination of 2,812 employees;
- the reduction of 108 employees with temp work contracts.

The percentage of employee benefits expenses to revenues was 15.3% (12.3% in the six months ended June 30, 2007).

Other operating expenses increased by 41 million (or 5%), from 824 million in the six months ended June 30, 2007 to 865 million in the six months ended June 30, 2008.

Such operating expenses consist of the following:

	Six months ended June 30, 2008	Six months ended June 30, 2007
	(millions of Euro)	
Impairments for bad debts and charges for non-financial credit management	373	338
Provision charges	71	81
TLC operating fees	159	130

Taxes on revenues of South American companies	135	122
Duties and indirect taxes	72	72
Penalties, compensations and administrative fines	21	25
Association fees, donations scholarships and traineeships	13	13
Other expenses	21	43
Total other operating expenses	**865**	**824**

Impairments for bad debts and charges for non-financial credit management include 172 million referring to the Domestic Business Unit (201 million in the first six months of 2007) and 183 million to the Brazil Mobile Business Unit (126 million in the first six months of 2007).

Provision charges, recognized mainly for pending disputes, include 48 million referring to the Domestic Business Unit (68 million in the first six months of 2007, comprising an accrual of 20 million for the fine levied against Telecom Italia by the Antitrust) and 20 million to the Brazil Mobile Business Unit (8 million in the first six months of 2007).

Table of Contents

Index to Financial Statements

Depreciation and amortization increased by 159 million (or 5.7%), from 2,793 million in the six months ended June 30, 2007 to 2,952 million in the six months ended June 30, 2008. Such increase was due to amortization of intangible assets with a finite useful life (88 million) and depreciation of tangible assets (owned and held under finance lease) (71 million).

The percentage of depreciation and amortization to revenue was 19.9% in the six months ended June 30, 2008 (18.2% in the six months ended June 30, 2007).

(Gains) losses on disposals of non-current assets changed from a net gain of 12 million in the six months ended June 30, 2007 to a net gain of 26 million in the six months ended June 30, 2008 (a change of 14 million), mainly due to disposals of property.

v Operating profit

Operating profit decreased by 946 million (or 26.6%), from 3,554 million in the six months ended June 30, 2007 to 2,608 million in the six months ended June 30, 2008. As a percentage of revenues, operating profit was 17.6% in the six months ended June 30, 2008 (23.2% in the six months ended June 30, 2007).

v Share Of Profits (Losses) of associates And Joint Ventures Accounted For Using The Equity Method

The **Share of profits (losses) of associates and joint ventures accounted for using the equity method** recorded profits of 37 million in the six months ended June 30, 2008 (profits of 58 million in the six months ended June 30, 2007).

This item covers the following investments:

	Six months ended June 30, 2008	2007
	(millions of Euro)	
ETECSA.	29	26
Sofora Telecomunicaciones S.A.	14	10
Tiglio I and Tiglio II	(3)	19
Other investments	(3)	3
Total share of profits (losses) of associates and joint ventures accounted for using the equity method	**37**	**58**

v Finance Income And Expenses, Net

Total finance income and expenses showed a net expense balance of 1,216 million in the six months ended June 30, 2008 (a net expense balance of 969 million in the six months ended June 30, 2007).

The percentage of net finance expenses to revenues was 8.2% in the six months ended June 30, 2008 compared with 6.3% in the six months ended June 30, 2007.

The financial management balance was influenced by the following factors:

the valuation at fair value of the call options on 50% of the share capital of Sofora Telecomunicaciones, resulting in a negative adjustment of 110 million in the six months ended June 30, 2008 (a positive adjustment of 93 million in the six months ended June 30, 2007);

an increase in interest rates on floating rate debt and the change in the fair value of derivatives recorded under hedge accounting.

It should also be noted that the first six months of 2008 include income on the repurchase of own bonds by the Parent, Telecom Italia, for 46 million; in the six months ended June 30, 2007, income included 36 million from the closing of cash-flow hedge derivatives put into place following the early redemption of 1,000 million of underlying debt.

Table of Contents

Index to Financial Statements

2008 Half-Yearly Financial Report **Telecom Italia Group Results Of Operations For The Six Months Ended June 30, 2008**

v PROFIT BEFORE TAX FROM CONTINUING OPERATIONS

Profit before tax from continuing operations decreased by 1,214 million, from 2,643 million in the six months ended June 30, 2007 to 1,429 million in the six months ended June 30, 2008.

As a percentage of revenues, profit before tax from continuing operations was 9.6% in the six months ended June 30, 2008 (17.2% in the six months ended June 30, 2007).

v INCOME TAX EXPENSE

Income tax expense decreased by 845 million, from 1,018 million in the six months ended June 30, 2007 to 173 million in the six months ended June 30, 2008.

The reduction is due to lower profit before taxes from continuing operations, lower tax rates and, for 515 million, deferred income taxes on accelerated depreciation recorded in prior years reversed to income, net of the substitute tax, as allowed by the 2008 Budget Law.

The percentage of income tax expense to revenues was 1.2% in the six months ended June 30, 2008 (6.6% in the six months ended June 30, 2007).

v PROFIT FROM CONTINUING OPERATIONS

Profit from continuing operations decreased by 369 million, from 1,625 million in the six months ended June 30, 2007 to 1,256 million in the six months ended June 30, 2008.

As a percentage of revenues, profit from continuing operations was 8.5% in the six months ended June 30, 2008 (10.6% in the six months ended June 30, 2007).

v PROFIT (LOSS) FROM DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE

Loss from Discontinued operations/Non-current assets held for sale increased by 25 million, from 123 million in the six months ended June 30, 2007 to 148 million in the six months ended June 30, 2008 and included the loss of the Liberty Surf group.

v PROFIT FOR THE PERIOD

Profit for the period decreased by 394 million, from 1,502 million in the six months ended June 30, 2007 to 1,108 million in the six months ended June 30, 2008.

As a percentage of revenues, profit for the period was 7.5% in the six months ended June 30, 2008 (9.8% in the six months ended June 30, 2007).

In particular:

profit attributable to equity holders of the Parent was 1,140 million in the six months ended June 30, 2008 and 1,500 million to in the six months ended June 30, 2007, a decrease of 360 million;

profit (loss) attributable to Minority Interest was a loss of 32 million in the six months ended June 30, 2008 compared to a profit of 2 million in the six months ended June 30, 2007.

Table of Contents

Index to Financial Statements

2008 Half-Yearly Financial Report **Telecom Italia Group Results Of Operations For The Six Months Ended June 30, 2008**

¢ Business Units Financial Data

The Telecom Italia Group is organized by business segment as follows:

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

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

Brazil Mobile Business Unit: includes Mobile Telecommunications operations in Brazil;

Media Business Unit: comprises Television and News activities;

Olivetti Business Unit: includes operations for the manufacture of digital printing systems, ink-jet office products, ink-jet print heads and Micro Electro-Mechanical Systems (MEMS);

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

The table below sets forth revenues, operating profit (loss), capital expenditures and number of employees by Business Units, for the periods indicated.

		Domestic	European Broad Band	Brazil Mobile	Media	Olivetti	Other Operations	Adjustments and eliminations	Consolidated Total
		(millions of Euro, except number of employees)							
Revenues(1)	2008 first half	11,420	642	2,537	148	180	98	(187)	14,838
	2007 first half	12,182	512	2,322	125	192	109	(105)	15,337
Operating profit (loss)	2008 first half	2,679	2	(2)	(69)	(16)	14		2,608
	2007 first half	3,456	52	69	(52)	(24)	25	28	3,554
Capital expenditures	2008 first half	1,952	189	824	27	1	1	(38)	2,956
	2007 first half	1,895	190	271	46	5	5		2,412

Number of employees(2)	As of June 30, 2008	64,234	3,081	10,239	1,032	1,239	683	80,508
	As of Dec.31,2007(3)	64,362	3,191	10,030	1,016	1,279	2,191	82,069

(1) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) The number of employees at period-end excludes employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale, and includes personnel with temp work contracts.

(3) For purposes of comparison, the data at December 31, 2007 have been restated in order to exclude 1,360 employees of the Liberty Surf group which starting from January 1, 2008, are considered as Discontinued operations/Non-current assets held for sale.

v DOMESTIC

The following table sets forth, for the periods indicated, certain financial and other data for the Domestic Business Unit.

	Six months ended June 30, 2008	2007
	(millions of Euro, except percentage and employees)	
Gross revenues	11,420	12,182
Operating profit	2,679	3,456
% of gross revenues	23.5	28.4
Number of employees at period end	64,234	64,362

Gross revenues decreased by 762 million, from 12,182 million in the six months ended June 30, 2007 to 11,420 million in the six months ended June 30, 2008.

Gross revenues were negatively impacted by 394 million as a result of certain already described regulatory changes , such as: reduction in the termination rates, application of the Bersani Decree , rate adjustments for international roaming traffic within the EU, change in the prices of regulated wholesale bitstream services, unbundling and shared access.

Gross revenues also decreased following the renegotiation of the national roaming contract with H3G (a negative effect of 31 million) and the termination of certain international wholesale transit contracts from the second quarter of 2007 (a negative effect of 166 million).

The further reduction in the Business Unit s revenues basically comes from the retail telephone area of fixed telecommunications, especially traffic (lower volumes and prices) and access (contraction of the average customer base).

A breakdown of the various components of the Business Unit s revenues is as follows:

	Six months ended June 30, 2008	2007
	(millions of Euro)	
Gross revenues	11,420	12,182
of which:		
- *Fixed Telecommunications*	*7,485*	*7,983*
- *Mobile Telecommunications*	*4,669*	*4,916*
- *Eliminations and central functions contribution*	*(734)*	*(717)*

An analysis of the main components of the Business Unit s revenues is as follows:

Revenues from Fixed Telecommunications decreased by 498 million, from 7,983 million in the six months ended June 30, 2007 to 7,485 million in the six months ended June 30, 2008.
The performance of the major business areas was as follows:

Retail Telephone

Retail Telephone services consist mainly of services offered using traditional technology (PSTN and ISDN) as well as innovative technology (VoIP). Retail telephone services include: access to the network, traffic (in terms of minutes of retail traffic and tariff packages), equipment rental and assurance and value added services for voice. Retail Telephone revenues consist mainly of traffic revenues, fee revenues and sales revenues. In particular, traffic revenues are directly related to traffic volumes, tariffs and fees for tariff packages; fees are attributable to access fees, fees for additional services and for equipment rental and assurance; sales revenues are related to sales of equipment (telephones).

Table of Contents

Index to Financial Statements

Revenues from Retail Telephone services decreased by 390 million, from 4,285 million in the six months ended June 30, 2007 to 3,895 million in the six months ended June 30, 2008.

Such reduction was mainly due to traffic (a decrease of 195 million, or 10.7%) and access (a decrease of 120 million, or 6.0%). With respect to traffic, the decrease was due to lower volumes and prices, especially on fixed-mobile traffic and national traffic. The first was affected by the migration of volumes from fixed to mobile traffic and the reduction of the average customer base while the second was hurt by the cut in fixed-mobile termination rates and by the decline in the prices associated with a higher penetration of flat rate plans. The smaller customer base also led to a strong contraction in traditional access revenues.

Internet

Revenues from Retail Internet consist primarily of revenues from ADSL (mass market broadband access) for access fees and traffic, and revenues from Internet dial-up traffic revenues.

Revenues generated by the Internet area increased by 94 million, from 716 million in the six months ended June 30, 2007 to 810 million in the six months ended June 30, 2008. The increase is due to the continuing growth of broadband (an increase of 12.6%) and content (an increase of 90%) revenues.

The overall portfolio of broadband accesses on the domestic market reached 7.8 million customers, of which 6.5 million were Retail. The strategy encouraging the migration of customers to innovative broadband access solutions continues; in particular, Flat rate plans reached 75% of the entire retail customer base and the VoIP customer portfolio grew to 1.7 million accesses representing about 25% of total Retail broadband accesses. Expansion is also moving forward in IPTV services on the Consumer market (a portfolio of 180,000 customers, an increase of 100,000 compared to December 31, 2007) and in the development of web content and services through Virgilio/Alice website.

Data Business

Data Business consist primarily of data transmission and network services for business customers and leased lines (trunk lines offering a customer-subscriber a permanent connection for telecommunication services between two geographically separate points). This kind of connection can be used to handle high volume voice, data or video transmission.

Revenues from the Data Business area, equal to 801 million in the six months ended June 30, 2008, declined by 40 million (4.8%) compared to the six months ended June 30, 2007. This decline is due to ever-fiercer competition on the Corporate client market and the revision of contract prices with the Public Administration. ICT services continued to register dynamic growth, with an increase of 14 million (4.4%) compared to the six months ended June 30, 2007.

Wholesale

Wholesale consists of domestic and international services to other domestic and international operators. Services offered to other domestic operators (wireline and wireless operators as well as Internet service providers) consist mainly of interconnection to Telecom Italia s network, in terms of access and traffic (carried traffic and transits), broadband access (ADSL and XDSL access), and leased lines. Services offered to international operators consist mainly of traffic (carried traffic and transits) and data access.

Revenues from Wholesale services amounted to 1,814 million in the six months ended June 30, 2008 and showed an overall decrease of 136 million (or 7.0%) compared to 1,950 million in the six months ended June 30, 2007.

Revenues from national Wholesale services amount to 1,165 million, which is in line with the corresponding period of 2007. Excluding the change in regulations, national Wholesale revenues would increase by 49 million due to a growth in the customer base of the regulated Data and Services component. Revenues from international Wholesale services total 649 million and decreased by 137 million, or 17.4%, compared to the first half of 2007 due to the decline in revenues from transit traffic generated by the termination of some contracts starting from the second quarter of 2007.

Table of Contents

Index to Financial Statements

Revenues from Mobile Telecommunications decreased by 247 million, or 5%, from 4,916 million in the six months ended June 30, 2007 to 4,669 million in the six months ended June 30, 2008.
The reduction of 247 million is entirely due to changes that are unrelated to market competition dynamics and refer to the regulatory scenario (the Bersani Decree, the reduction in incoming termination rates and international roaming rates in the EU, all of which caused a negative impact of 316 million), in addition to the renegotiation of the roaming contract with H3G (with a negative effect of 31 million compared to 2007).

Excluding these items, revenues would have increased thanks to a higher usage of traditional voice services and higher revenues from value-added services (**VAS**). The latter total 1,037 million and record an increase of 13.2% compared to the first half of 2007 owing to the greater penetration of interactive services, especially Mobile broadband (revenues from domestic browsing are up +45%). The percentage of VAS revenues to total service revenues is now 23.9% (19.9% in the first half of 2007). Telephone revenues (related to incoming and outgoing traffic) amount to 3,148 million, with a decrease of 314 million (or 9%) compared to the first half of 2007. This reduction is entirely attributable to the aforementioned negative impact of regulatory changes.

Revenues from the sale of handsets total 325 million; this is a slight increase of 3 million compared to the same period of 2007 owing to a better mix of products sold.

At June 30, 2008, the number of Telecom Italia mobile lines was 35.8 million (of which 6.5 million were UMTS, accounting for 18.2% of total lines), with a decrease of 1.5% compared to December 31, 2007, and a market share at 39.4%. The changes in the customer portfolio in the first half of 2008 feature a higher percentage of subscriptions and on the business segment. This is part of the strategy directed to higher-value customers.

The contribution of the Domestic Business Unit to our consolidated revenues amounted to 11,331 million in the six months ended June 30, 2008 and 12,124 million in the six months ended June 30, 2007.

Operating profit decreased by 777 million, or 22.5%, from 3,456 million in the six months ended June 30, 2007 to 2,679 million in the six months ended June 30, 2008, with the percentage of Operating profit to revenues at 23.5% (28.4% in the six months ended June 30, 2007).

Operating profit was adversely impacted by the above-mentioned regulatory changes which reduced operating profit by 292 million, in addition to the effect of the renegotiation of the roaming contract with H3G for 31 million and employee benefits expenses linked to the start of the mobility procedures under Law 223/91 for 287 million.

With respect to changes in costs:

- acquisition of goods and services decreased by 361 million, or 7.4% in the six months ended June 30, 2008, from 4,901 million in the six months ended June 30, 2007 to 4,540 million in the six months ended June 30, 2008. The decline is mainly due to the reduction in the portion to be paid to other operators and lower international Wholesale transit traffic. Furthermore, commercial costs recorded a reduction;

- employee benefits expenses increased by 335 million, or 20.4% in the six months ended June 30, 2008, from 1,641 million in the six months ended June 30, 2007 to 1,976 million in the six months ended June 30, 2008 mainly as a result of the recognition of expenses and charges for accruals for 287 million owing to the start, at the end of June, of the mobility procedures under Law 223/91. It should also be noted that employee benefits expenses in the first six months of 2007 included the positive effect, for a total of 106 million, of the profit bonus accrued in 2006 and then eliminated as a result of agreements reached with the unions in June 2007, in addition to the positive impact of the new law regarding supplementary pension benefits on the actuarial calculation of the provision for Employee severance indemnity;

other operating expenses decreased by 64 million in the six months ended June 30, 2008, from 416 million in the six months ended June 30, 2007 to 352 million in the six months ended June 30, 2008. The change is principally attributable to lower expenses connected with credit management and lower provision (in the first half of 2007, a charge for an accrual was recorded for 20 million as a result of the fine levied against Telecom Italia by the Antitrust).

Table of Contents

Index to Financial Statements

Operating profit performance was also impacted by:

- the increase in depreciation and amortization charges by 103 million. Such increase was due to amortization of intangible assets with a finite useful life (31 million) and depreciation of tangible assets (owned and held under finance lease) (72 million);

- the increase by 14 million in the net balance of gains/losses realized on non-current assets.

v EUROPEAN BROADBAND

The following table sets forth, for the periods indicated, certain financial and other data for the European BroadBand Business Unit.

	Six months ended June 30, 2008	2007
	(millions of Euro, except percentages and employees)	
Gross revenues	642	512
Operating profit	2	52
% of gross revenues	0.3	10.2
Number of employees at period end	3,081	3,191

Gross revenues increased by 130 million, or 25.4% from 512 million in the six months ended June 30, 2007 to 642 million in the six months ended June 30, 2008.

The broadband customer portfolio at June 30, 2008 reached 2.5 million accesses. The Narrowband customer portfolio reached 0.6 million accesses at June 30, 2008 compared to 0.8 million at December 31, 2007.

Revenues from business conducted in Germany increased by 125 million, or 26.3% from 476 million in the six months ended June 30, 2007 to 601 million in the six months ended June 30, 2008. The broadband customer portfolio in Germany at June 30, 2008 reached 2.4 million accesses, stable in respect to December 31, 2007.

Revenues from business conducted in The Netherlands increased by 5 million, or 13.9% from 36 million in the six months ended June 30, 2007 to 41 million in the six months ended June 30, 2008. The customer portfolio in The Netherlands at June 30, 2008 reached 161 thousand units, with a reduction of 11 thousand in respect to June 30, 2007, due to the loss of ADSL Wholesale lines (a decrease of 48 thousand lines), Fiber Wholesale and Voice (a decrease of 8 thousand customers), which was partly compensated by the increase in the Retail area in both ADSL (an increase of 37 thousand lines) and Fiber (an increase of 8 thousand units).

The contribution of the European BroadBand Business Unit to our consolidated revenues amounted to 635 million in the six months ended June 30, 2008 and 512 million in the six months ended June 30, 2007.

Operating profit decreased by 50 million, or 96.2%, from 52 million in the six months ended June 30, 2007 to 2 million in the six months ended June 30, 2008.

Such decrease was due to a considerable increase in costs. The increase in costs was attributable to the following:

acquisition of goods and services increased by 132 million, or 40.1% from 329 million in the six months ended June 30, 2007 to 461 million in the six months ended June 30, 2008, due in part to the growth of business and in part to the change in the scope of consolidation as a result of the acquisition of AOL Germany in March 2007;

Table of Contents

Index to Financial Statements

employee benefits expenses increased by 6 million, or 10.2% from 59 million in the six months ended June 30, 2007 to 65 million in the six months ended June 30, 2008, as a result of the acquisition of AOL Germany;

depreciation and amortization increased by 41 million, or 53.9%, from 76 million in the six months ended June 30, 2007 to 117 million in the six months ended June 30, 2008. Such charges were due to both significant investments in network infrastructures and information support systems made at the end of 2007 and costs incurred for the activation of new customers.

v BRAZIL MOBILE

The following table sets forth, for the periods indicated, certain financial and other data for Brazil Mobile Business Unit.

	Six months ended June 30,			
	2008	2007	2008	2007
	(millions of Euro, except percentage and employees)		(millions of BRL, except percentage and employees)	
Gross revenues	2,537	2,322	6,582	6,313
Operating profit (loss)	(2)	69	(6)	189
% of gross revenues	(0.1)	3.0	(0.1)	3.0
Number of employees at period end	10,239	10,030	10,239	10,030

Gross revenues increased by BRL269 million, or 4.3%, from BRL6,313 million in the six months ended June 30, 2007 to BRL6,582 million in the six months ended June 30, 2008, recording an increase of 6.7% in revenues from services alone compared to the same period of 2007. The strong increase in the customer base, especially in the prepaid area, greater penetration in the customer bracket with lower purchasing power and competitive factors such as promotions, especially on net offerings, led to a reduction in ARPU of BRL 5.2 (from BRL 36.7 in the six months ended June 30, 2007 to BRL 31.5 in the six months ended June 30, 2008).

The contribution of the Brazil Mobile Business Unit to our consolidated revenues amounted to 2,533 million in the six months ended June 30, 2008 and 2,318 million in the six months ended June 30, 2007.

Operating profit (loss) was a loss of BRL6 million in the six months ended June 30, 2008, compared to a profit of BRL189 million in the six months ended June 30, 2007, a decrease of BRL195 million.

The reduction was mainly due to the competition which generated an erosion of prices and thus of the margins of Services and higher charges for uncollectible receivables in the Televendita sales channel (BRL475 million in the six months ended June 30, 2008 compared to BRL341 million in the six months ended June 30, 2007).

Such decrease was also due to a considerable increase in costs. The increase in costs was attributable to the following:

acquisition of goods and services increased by BRL239 million, or 6.9%, from BRL3,465 million in the six months ended June 30, 2007 to BRL3,704 million in the six months ended June 30, 2008, due to higher interconnection costs and other selling costs;

employee benefits expenses increased by BRL22 million, or 7.6%, from BRL291 million in the six months ended June 30, 2007 to BRL313 million in the six months ended June 30, 2008, as a result of the increase in the workforce numbers. Employee benefits expenses as a percentage of gross revenues were 4.8% in the six months ended June 30, 2008 (4.6% in the six months ended June 30, 2007);

Table of Contents

Index to Financial Statements

other operating expenses increased by BRL235 million, or 22.9%, from BRL1,027 million in the six months ended June 30, 2007 to BRL1,262 million in the six months ended June 30, 2008. They include taxes on revenues, indirect taxes and TLC operating fees (BRL720 million in the six months ended June 30, 2008 compared to BRL634 million in the six months ended June 30, 2007), impairments and losses on receivables (BRL475 million in the six months ended June 30, 2008 compared to BRL341 million in the six months ended June 30, 2007) and other charges for accruals and miscellaneous items (BRL67 million in the six months ended June 30, 2008 compared to BRL52 million in the six months ended June 30, 2007).

v **MEDIA**

The following table sets forth, for the periods indicated, certain financial and other data for the Media Business Unit.

	Six months ended June 30, 2008	2007
	(millions of Euro, except percentage and employees)	
Gross revenues	148	125
Operating loss	(69)	(52)
% of gross revenues	(46.6)%	(41.6)%
Number of employees at period end	1,032	1,016

Gross revenues increased by 23 million, or 18.4%, from 125 million in the six months ended June 30, 2007 to 148 million in the six months ended June 30, 2008.

In particular:

revenues from analog Free to Air amounted to 81 million in the six months ended June 30, 2008, a decrease of 5 million, or 5.2%, compared to the six months ended June 30, 2007, as a result of the reduction in advertising on MTV (a decrease of 12.5%);

revenues from the Multimedia sector amounted to 16 million in the six months ended June 30, 2008, an increase of 25.8% compared to the six months ended June 30, 2007. The sector benefits from the increase in the activities of the Content Competence Center (3 million), operational since April 2007, and higher revenues from the Sky Satellite Channels which now air five channels (three in 2007);

revenues from Digital Terrestrial TV (**DTT**) operations amounted to 46 million in the six months ended June 30, 2008, an increase of 24 million, or 110.5% compared to the six months ended June 30, 2007. The increase in revenues benefited from development of the commercial La7 Cartapiù offering and was achieved partly as a result of the positive contribution deriving from the agreements reached with Mediaset and Telecom Italia for broadcasting the audio-visual content of Premier League soccer games on the DTT and DVB-H platforms;

revenues from the News sector amounted to 5 million in the six months ended June 30, 2008, an increase of 2.1% compared to the six months ended June 30, 2007.

The contribution of the Media Business Unit to our consolidated revenues amounted to 130 million in the six months ended June 30, 2008 and 116 million in the six months ended June 30, 2007.

Operating loss increased by 17 million, or 32.7%, from 52 million in the six months ended June 30, 2007 to 69 million in the six months ended June 30, 2008.

In particular:

Free to Air activities, besides being affected by the reduction in revenues noted above, showed a decrease in margins due to higher costs connected with developing and improving the program

Table of Contents

Index to Financial Statements

scheduling and a strengthening of audience share with higher investments by La7 in Entertainment and Sport programs (audience share in early evening programs increased by 20%, from 2.2% in the first half of 2007 to 2.7% in the first half of 2008).

MTV was also hurt by higher costs for program scheduling owing to the launch of new programs compared to the first half of 2007. In 2007, instead, programming was concentrated in the second half in conjunction with the tenth anniversary of the channel.

The operating performance of Digital Terrestrial TV activities, which decreased by 1 million compared to the same period of 2007, was particularly impacted by higher costs incurred for the acquisition of Pay Per View soccer rights, which were only partly compensated by the improvement in the margins of the activities of the network operator.

Profitability of the Multimedia sector recorded an improvement of 2 million, from 4 million in the six months ended June 30, 2007 to 6 million in the six months ended June 30, 2008.

The increase in operating loss, was also due to higher amortization charges for television rights on La7 and depreciation charges for DTT infrastructures.

v OLIVETTI

The following table sets forth, for the periods indicated, certain financial and other data for the Olivetti Business Unit.

	Six months ended June 30, 2008	2007
	(millions of Euro, except percentage and employees)	
Gross revenues	180	192
Operating loss	(16)	(24)
% of gross revenues	(8.9)%	(12.5)%
Number of employees at period end	1,239	1,279

Gross revenues decreased by 12 million, or 6.3%, from 192 million in the six months ended June 30, 2007 to 180 million in the six months ended June 30, 2008.

During the first half of 2008 there was a reduction in the sales of traditional inkjet products, faxes and accessories due to the fewer faxes installed.

The sales volumes of multi-functional ink-jet products were stable as a result of a supply contract with an important customer which will be completed by the end of 2008.

Printers for banking teller applications, although they decreased in price owing to the reduction in the value of the U.S. dollar against the euro, grew by 20% in terms of sales volumes during the first half of 2008 compared to the corresponding period of 2007, thanks especially to the results reached on foreign markets.

The improvement in the results reached in the Italian market is due to the supply of 9,000 printers to Poste Italiane S.p.A. and the growing importance of the volumes of fiscal cash registers.

Professional products for the office, copiers and relative accessories were in line with the first half of 2007, with a sharp increase in the color laser copier segment (+31% in quantity) and a reduction in the black and white models.

The contribution of the Olivetti Business Unit to our consolidated revenues was 157 million in the six months ended June 30, 2008 and 165 million in the six months ended June 30, 2007.

Operating loss decreased by 8 million, or 33.3% , from 24 million in the six months ended June 30, 2007 to 16 million in the six months ended June 30, 2008. The improvement is essentially due to the reduction in fixed overheads. At the product level, the reduction in the sales volumes of ink-jet fax accessories and the negative effect of greater competition in the office segment were compensated by the good results achieved in the specialized printers segment.

Table of Contents

Index to Financial Statements

LIQUIDITY

The Telecom Italia Group s primary source of liquidity is cash generated from operations and its principal uses of funds are the payment of operating expenses, capital expenditures and investments, the servicing of debt and the payment of dividends to shareholders.

The table below summarizes, for the periods indicated, the Telecom Italia Group s cash flows.

	Six months ended June 30, 2008	2007
	(millions of Euro)	
Cash flows from (used in) operating activities	3,621	4,351
Cash flows from (used in) investing activities	(2,780)	(2,947)
Cash flows from (used in) financing activities	(2,969)	(5,019)
Cash flows from (used in) Discontinued operations/Non-current assets held for sale	(26)	52
Aggregate cash flows (A)	**(2,154)**	**(3,563)**
Net cash and cash equivalents (*) at beginning of the period (B)	**6,204**	**6,960**
Net foreign exchange differences on net cash and cash equivalents (C)	7	21
Net cash and cash equivalents (*) at end of the period (D=A+B+C)	**4,057**	**3,418**

(*) For further details please see the Unaudited Interim Consolidated Cash Flow Statements for the six months ended June 30, 2008 and 2007 in the Unaudited Interim Consolidated Financial Statements included elsewhere herein in this Telecom Italia s 2008 Half-Yearly Financial Report 6-K.

Cash flows from operating activities. Cash flows from operating activities were 3,621 million in the six months ended June 30, 2008 and decreased by 730 million compared to the six months ended June 30, 2007 (4,351 million) primarily as a result of the following:

- the negative effect of the net change in deferred tax assets and liabilities equal to 1,391 million (from a net source of 925 million in the six months ended June 30, 2007 to a net use of 466 million in the six months ended June 30, 2008);

- the negative effect of change in trade payables of 896 million (from a net use of 180 million in the six months ended June 30, 2007 to a net use of 1,076 million in the six months ended June 30, 2008);

- a reduction of 369 million in profit from continuing operations (from a profit of 1,625 million in the six months ended June 30, 2007 to a profit of 1,256 million in the six months ended June 30, 2008).

Such reductions in cash flows were partially offset by:

- the positive effect of net change in miscellaneous receivables/payables and other assets/liabilities of 657 million (from a net use of 77 million in the six months ended June 30, 2007 to a net source of 580 million in the six months ended June 30, 2008);

the positive effect of change in trade receivables and net receivables on construction contracts of 559 million (from a net use of 503 million in the six months ended June 30, 2007 to a net source of 56 million in the six months ended June 30, 2008);

the positive effect of change in employee benefits of 323 million (from a net use of 31 million in the six months ended June 30, 2007 to a net source of 292 million in the six months ended June 30, 2008);

a positive effect of 214 million in impairment losses (reversals) on non current assets (including investments) (from a net use of 103 million in the six months ended June 30, 2007 to a net source of 111 million in the six months ended June 30, 2008);

an increase in depreciation and amortization of 159 million (from a net source of 2,793 million in the six months ended June 30, 2007 to a net source of 2,952 million in the six months ended June 30, 2008).

Table of Contents

Index to Financial Statements

Cash flows used in investing activities. Cash flows used in investing activities were 2,780 million in the six months ended June 30, 2008 and decreased by 167 million compared to the six months ended June 30, 2007 (2,947 million) primarily as a result of the following:

- a decrease in acquisitions of subsidiaries and businesses, net of cash acquired of 669 million (no acquisitions occurred in the six months ended June 30, 2008, compared to the purchase of the controlling interest of the Internet activities of AOL Germany in the six months ended June 30, 2007).

Such effects were partially offset by:

- an increase in capital expenditures on a cash basis (tangible and intangible assets) of 228 million (from 2,725 million in the six months ended June 30, 2007 to 2,953 million in the six months ended June 30, 2008);
- a decrease in change in financial receivables and other financial assets of 292 million (from a net source of 405 million in the six months ended June 30, 2007 to a net source of 113 million in the six months ended June 30, 2008).

Cash flows used in financing activities. Cash flows used in financing activities were 2,969 million in the six months ended June 30, 2008 and decreased by 2,050 million compared to the six months ended June 30, 2007 (5,019 million).

Cash flows used in financing activities in the six months ended June 30, 2008 reflected the following:

- a decrease in financial liabilities and other of 1,305 million, mainly as a result of repayments of non-current financial liabilities (2,997 million) partially offset by the proceeds arising from the issuance of new debt (1,918 million);
- the payment of dividends of 1,664 million.

Cash flows used in financing activities in the six months ended June 30, 2007 reflected the following:

- a decrease in financial liabilities and other of 2,189 million, mainly as a result of repayments of non-current financial liabilities (3,230 million) partially offset by the proceeds arising from the issuance of new debt (1,454 million);
- the payment of dividends of 2,830 million.

***Cash flows from (used in) Discontinued operations/Non-current assets held for sale*.**

Cash flows used in Discontinued operations/Non-current assets held for sale were 26 million in the six months ended June 30, 2008 compared to a Cash flows from Discontinued operations/Non-current assets held for sale of 52 million in the six months ended June 30, 2007.

28

CAPITAL RESOURCES

¢ NET FINANCIAL DEBT

Net Financial Debt is a non-GAAP financial measure as defined in Item 10 of Regulation S-K under the 1934 Act, but is widely used in Italy by financial institutions to assess liquidity and the adequacy of a company s financial structure. Telecom Italia believes that Net Financial Debt provides an accurate indicator of the ability to meet financial obligations (represented by gross debt) by available liquidity, represented by the other items shown in the reconciliation table. Net Financial Debt allows Telecom Italia to show investors the trend in net financial condition over the periods presented. The limitation on the use of Net Financial Debt is that it effectively assumes that gross debt can be reduced by cash and other liquid assets. In fact, it is unlikely that Telecom Italia would use all of its liquid assets to reduce its gross debt all at once, as such assets must also be available to pay employees, suppliers, and taxes, and to meet other operating needs and capital expenditure requirements. Net Financial Debt and its ratio to equity (including Minority Interest), or leverage, are used to evaluate financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether financial structure is adequate to achieve business plan and financial targets (which include debt ratio, or Net Financial Debt divided by net invested capital, the latter meaning net assets excluding Net Financial Debt).

Telecom Italia management monitors the Net Financial Debt and leverage or similar measures as reported by other telecommunications operators in Italy and outside Italy, and by other major listed companies in Italy, in order to assess its liquidity and financial structure relative to such companies. Telecom Italia also monitor the trends in its Net Financial Debt and leverage in order to optimize the use of internally generated funds versus funds from third parties.

On a consolidated basis, at June 30, 2008 Net Financial Debt was 37,172 million compared to 35,701 million at December 31, 2007 (an increase of 1,471 million).

Table of Contents

Index to Financial Statements

Net Financial Debt is detailed in the following table:

	As of June 30, 2008 (Unaudited)	As of December 31, 2007
	(millions of Euro)	
GROSS FINANCIAL DEBT		
Non-current financial liabilities (Long-term debt)		
Financial payables	35,459	35,241
Finance lease liabilities	1,766	1,809
Other financial liabilities	1	1
	37,226	**37,051**
Current financial liabilities (Short-term debt), excluding financial liabilities directly associated with Discontinued operations/Non current assets held for sale		
Financial payables	5,330	6,315
Finance lease liabilities	260	262
Other financial liabilities	7	8
	5,597	**6,585**
Financial liabilities directly associated with Discontinued operations/Non current assets held for sale	**823**	
TOTAL GROSS FINANCIAL DEBT (A)	**43,646**	**43,636**
FINANCIAL ASSETS		
Non-current financial assets		
Securities other than investments	14	9
Financial receivables and other non-current financial assets	727	686
	741	**695**
Current financial assets, excluding financial assets classified under Discontinued operations/Non-current assets held for sale		
Securities other than investments	166	390
Financial receivables and other current financial assets	1,124	377
Cash and cash equivalents	4,413	6,473
	5,703	**7,240**
Financial assets classified under Discontinued operations/Non-current assets held for sale	**30**	
TOTAL FINANCIAL ASSETS (B)	**6,474**	**7,935**
NET FINANCIAL DEBT (A-B)	**37,172**	**35,701**

30

[Table of Contents](#)

[Index to Financial Statements](#)

In particular, besides the positive cash flows from operating activities and the payment of the dividends (for a total amount of 1,664), in the six months ended June 30, 2008 net financial debt was impacted by the following:

capital expenditures on an accrual basis, were 2,956 million in the six months ended June 30, 2008, an increase of 544 million, or 22.6%, compared to the six months ended June 30, 2007 (2,412 million), mainly as a result of the purchase of the mobile licenses for the 3G service by the Brazil Mobile Business Unit (477 million).

Details are as follows

	Six months ended June 30, 2008	2007
	(millions of Euro)	
Domestic	1,952	1,895
European BroadBand	189	190
Brazil Mobile	824	271
Media, Olivetti and other activities	29	56
Adjustments	*(38)*	
Total	**2,956**	**2,412**

Sale of investments and other disposals of 60 million in the six months ended June 30, 2008 (41 million in the six months ended June 30, 2007) mainly referring to the sale of non-current assets, reimbursements of capital and dividends distributed by associates.

There were no financial investments during the six months ended June 30, 2008 whereas in the same period of the prior year financial investments totaled 669 million and referred to the acquisition of the AOL internet activities in Germany.

¢ Gross Financial Debt

On a consolidated basis, at June 30, 2008, our gross financial debt amounted to 43,646 million (46,636 million at December 31, 2007) and included non-current financial liabilities (long-term debt) of 37,226 million (37,051 million at December 31, 2007), current financial liabilities (short-term debt) of 5,597 million (6,585 million at December 31, 2007), and financial liabilities directly associated with Discontinued operations/Non current assets held for sale of 823 million (nil at December 31, 2007).

As of June 30, 2008 approximately 68% of our gross financial debt was denominated in Euro, while the remainder was primarily denominated in U.S. Dollars, Pound Sterling, Brazilian Reais and Japanese Yen.

For information regarding the currency composition of our gross financial debt, and the analysis of gross financial debt by effective interest rate please see Note Financial liabilities (current and non-current) of the Notes to the Unaudited Interim Consolidated Financial Statements included elsewhere herein in this Telecom Italia s 2008 Half-Yearly Financial Report 6-K.

Long-term debt includes notes we have issued in order to reduce our dependence on short-term debt, extend the average life of our financial debt and expand our investor base. For this purpose, we have issued long-term debt in the capital markets under, among others:

the Telecom Italia Euro Medium Term Note (**EMTN**) Programme. On December 21, 2005, the Board of Directors of Telecom Italia S.p.A. set a new maximum ceiling for its EMTN Programme, which regulates the placement, also for more than one transaction, for more than one tranche and for more than one currency, of bonds by Telecom Italia S.p.A. and/or its wholly-owned subsidiary Telecom Italia Finance S.A. under a guarantee by Telecom Italia S.p.A. The new maximum ceiling was raised to 15 billion against the previous 10 billion;

the Form F-3 registration statement, filed with the Securities and Exchange Commission on August 9, 2005 and effective as of August 30, 2005 which allows issuances for a total amount of U.S.$10 billion in debt at various terms, rates and maturities;

Table of Contents

Index to Financial Statements

the Olivetti Euro Medium Term Note Programme, as updated and amended on June 8, 2001 and May 14, 2002, which allowed for the issuance of a total amount of 15 billion in debt (or the equivalent in other currencies), at various terms, rates and maturities;

the Old Telecom Italia Global Medium Term Note Program (**Global Note Program**), which allowed for the issuance of a total amount of U.S.$12 billion in debt (or the equivalent in other currencies), at various terms, rates and maturities.

¢ Notes And Bonds (Including Convertible Bonds)

As of June 30, 2008 the non-current and current portions of notes and bonds (including convertible bonds) amounted to 29,671 million (32,080 million at December 31, 2007) and consisted of the following:

	As of June 30, 2008			As of December 31, 2007		
	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
	(millions of Euro)			(millions of Euro)		
Notes and bonds	26,015	3,127	29,142	27,048	4,514	31,562
Convertible bonds	526	3	529	511	7	518
Total	**26,541**	**3,130**	**29,671**	**27,559**	**4,521**	**32,080**

As of June 30, 2008 the nominal repayment amount for notes and bonds (including convertible bonds) amounted to 29,269 million (31,286 million at December 31, 2007) and consisted of the following:

	As of June 30, 2008	As of December 31, 2007
	(millions of Euro)	
Notes and bonds	28,695	30,712
Convertible bonds	574	574
Total	**29,269**	**31,286**

With regard to notes and bonds (including convertible bonds), the related changes occurred during the six months ended June 30, 2008 are analyzed as follows.

Repayments

During the six months ended June 30, 2008 the following notes and bonds reached maturity and were repaid:

Telecom Italia Finance S.A. 5.875% due 2008 : on January 24, 2008, Telecom Italia Finance S.A. repaid the bonds for an amount of 1,659 million (the originally issued amount of 1,750 million was reduced as a result of the repurchase of bonds on the market and their subsequent cancellation);

Telecom Italia S.p.A. Floating Rate Notes Euribor 3M+ 0.22% due 2008: on June 9, 2008, Telecom Italia S.p.A. repaid the 750 million notes.

Repurchase of the bonds Telecom Italia S.p.A., euro 850 million 5.25% due 2055

During the six months ended June 30, 2008 Telecom Italia S.p.A. repurchased its bonds for a total nominal amount of 170 million and recorded a gain in the income statement for 46 million.

New issue of Telecom Italia Capital S.A. bonds for a total of U.S.$2 billion

On June 4, 2008, Telecom Italia Capital S.A. placed two tranches for U.S.$1 billion each on the USA bond market. The bonds are guaranteed by Telecom Italia S.p.A. and mature on June 4, 2018 and June 4, 2038, respectively.

The two tranches pay a coupon interest rate of 6.999% and 7.721%, respectively. The bonds were issued under the Group s U.S.$10 billion Shelf Registration Statement (Form F-3).

32

Table of Contents

Index to Financial Statements

Other

the Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, total 334 million (nominal amount) at June 30, 2008 and increased by 37 million during the first half of 2008 (297 million at December 31, 2007);

with regard to Telecom Italia Finance S.A. bonds (2,000 million, rate 7.25% with a maturity date of April 2011), the coupons were increased by 0.25% due to a change in the credit rating by S&P s in March 2008. The step-up applies beginning from the April 2008 coupon; the new rate thus is equal to 7.50%;

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

¢ **Revolving Credit Facility and Term Loan**

The composition and the draw down of the syndicated committed credit lines available at June 30, 2008, represented by the *Term Loan* of 1.5 billion expiring January 2010 and the *Revolving Credit Facility* of 8 billion expiring August 2014, are presented as follows:

	Term Loan expiring 2010		Revolving Credit Facility expiring 2014		Total	
(billions of Euro)	**Committed**	**Drawn down**	**Committed**	**Drawn down**	**Committed**	**Drawn down**
As of December 31, 2007	**1.5**	**1.5**	**8.0**	**1.5**	**9.5**	**3.0**
As of June 30, 2008	**1.5**	**1.5**	**8.0**	**1.5**	**9.5**	**3.0**

¢ **Debt to Equity Ratio**

The Telecom Italia Group s debt to equity ratio, calculated as the ratio of consolidated net financial debt to equity (including Minority Interest), was 140.5% as of June 30, 2008 and 132.3% as of December 31, 2007.

¢ **Ratio of Earnings to Fixed Charges**

Our consolidated ratios of earnings to fixed charges calculated in accordance with IFRS for the six months ended June 30, 2008 and 2007 and for the fiscal years ended December 31, 2007, 2006, 2005 and 2004 are as follows:

Six months ended June 30, (1)		Year ended December 31, (1) (2)			
2008	2007	2007	2006	2005	2004
(Unaudited)					

2.25	3.14	2.75	3.27	3.15	3.39

–

(1) Starting from January 1, 2008, the Liberty Surf group is treated as Discontinued operations/Non-current assets held for sale. All periods presented for comparison purposes have been restated.

(2) Pursuant to SEC Release No. 33-8567, First-Time Application of International Financial Reporting Standards , Telecom Italia is only required to include financial information for 2007, 2006, 2005 and 2004 and subsequent periods (earlier periods are not required to be included).

33

Table of Contents

Index to Financial Statements

For purposes of calculating the ratio of earnings to fixed charges :

Earnings is calculated by adding:

- profit before tax from continuing operations;
- fixed charges (as defined below);
- amortization of capitalized interest and issue debt discounts or premiums;
- dividends from associates and joint ventures accounted for using the equity method; and
- share of losses of associates and joint ventures accounted for using the equity method;
- and then subtracting:
- capitalized interest for the applicable period; and
- share of earnings of associates and joint ventures accounted for using the equity method.

Fixed charges is calculated by adding:

- interest expenses (both expensed and capitalized);
- issue costs and any original issue debt discounts or premiums; and
- an estimate of the interest within rental expense for operating leases.

¢ **CREDIT RATINGS**

As of June 30, 2008 the Telecom Italia S.p.A. credit ratings were as follows:

- Moody s: Baa2 , stable outlook (change the outlook from negative to stable on May 12, 2008);
- Standard and Poor s: BBB , stable outlook (change from BBB+ to BBB and change the outlook from negative to stable on March 17, 2008);
- Fitch Ratings: BBB+ , stable outlook (rating confirmed on September 5, 2008).

For a discussion on financial instrument contractual clauses related to credit rating changes, please see the Note Financial liabilities (current and non-current) of the Notes to the Unaudited Interim Consolidated Financial Statements included elsewhere herein in this Telecom Italia s 2008 Half-Yearly Financial Report 6-K.

¢ OFF-BALANCE SHEET ARRANGEMENTS

Please see Note 18 Potential liabilities and assets, commitments and other guarantees of the Notes to the Unaudited Interim Consolidated Financial Statements included elsewhere herein in this Telecom Italia s 2008 Half-Yearly Financial Report 6-K.

Table of Contents

Index to Financial Statements

¢ CONTRACTUAL OBLIGATIONS AND COMMITMENTS

The following tables aggregate our contractual obligations and commitments with definitive payment terms which will require significant cash outlays in the future in terms of nominal amounts and carrying values.

The average maturity of non-current financial liabilities was equal to 8.01 years.

As of June 30, 2008, the carrying amounts of payables and the relating expiration dates were as follows:

Maturities of gross financial debt carrying amount(1) (2):

	Amounts due as of June 30,						
	2009(3)	2010	2011	2012	2013	After 2013	Total
	(millions of Euro)						
Notes and bonds	3,130	4,535	3,454	3,281	1,843	13,428	29,671
Loans and other debts	785	2,036	523	420	151	5,789	9,704
Finance lease liabilities	260	220	174	145	114	1,113	2,026
Total non-current financial liabilities	**4,175**	**6,791**	**4,151**	**3,846**	**2,108**	**20,330**	**41,401**
Current financial liabilities	**1,422**						**1,422**
Total, excluding financial liabilities directly associated with discontinued operations/Non-current assets held for sale	**5,597**	**6,791**	**4,151**	**3,846**	**2,108**	**20,330**	**42,823**
Financial liabilities directly associated with discontinued operations/Non-current assets held for sale (4)	**823**						**823**
Total gross financial debt	**6,420**	**6,791**	**4,151**	**3,846**	**2,108**	**20,330**	**43,646**

(1) Carrying amounts take into account fair value adjustments and amortized cost.
(2) Financial commitments include accrued expenses and deferred income, of which 1 million is in non-current financial liabilities maturing besides 12 months and 821 million is in non-current financial liabilities maturing within 12 months and 18 million is in current financial liabilities.
(3) Of which 362 million matures on September 14, 2008 and refers to Telecom Italia Finance S.A. extendable bonds on which the bondholders renounced the possibility of extending the maturity date.
(4) These represent payables of the Liberty Surf group to companies of the Telecom Italia group for 811 million and others for 12 million.

Table of Contents

Index to Financial Statements

2008 Half-Yearly Financial Report **Capital Resources**

As of June 30, 2008, the **nominal repayment amounts** of payables and the relating expiration dates were as follows:

Maturities of gross financial debt nominal repayment amount:

	Amounts due as of June 30,						
	2009(1)	2010	2011	2012	2013	After 2013	Total
	(millions of Euro)						
Notes and bonds	2,605	4,566	3,448	3,265	1,850	13,535	29,269
Loans and other debts	513	2,030	517	409	150	5,782	9,401
Finance lease liabilities	242	220	174	145	114	1,113	2,008
Total non-current financial liabilities	**3,360**	**6,816**	**4,139**	**3,819**	**2,114**	**20,430**	**40,678**
Current financial liabilities	**1,386**						**1,386**
Total, excluding financial liabilities directly associated with discontinued operations/Non-current assets held for sale	**4,746**	**6,816**	**4,139**	**3,819**	**2,114**	**20,430**	**42,064**
Financial liabilities directly associated with discontinued operations/Non-current assets held for sale (2)	**815**						**815**
Total gross financial debt	**5,561**	**6,816**	**4,139**	**3,819**	**2,114**	**20,430**	**42,879**

(1) Of which 360.84 million matures on September 14, 2008 and refers to Telecom Italia Finance S.A. extendable bonds on which the bondholders renounced the possibility of extending the maturity date.

(2) These represent payables of the Liberty Surf group to companies of the Telecom Italia group for 803 million and others for 12 million.

¢ **CURRENT FINANCIAL ASSETS**

As of June 30, 2008, current financial assets amounted to 5,703 million (7,240 million at December 31, 2007) and together with the total unused committed credit lines of 6.5 billion permit a broad coverage of estimated maturities. Furthermore, 811 million (of which 16 million classified as Cash and cash equivalents and 795 million as Financial receivables and other current financial assets), refer to financial assets of the Group companies due from the Liberty Surf group, classified in Discontinued operations/non-current assets held for sale .

Current financial assets at June 30, 2008 included:

- *cash and cash equivalents* amounting to 4,413 million (6,473 million at December 31, 2007). The different technical forms used for the investment of available resources at June 30, 2008 can be analyzed as follows:

Maturities: investments have a maximum maturity date of three months;

Counterpart risk: investments are made with leading banks and financial institutions with high creditworthiness with at least an A rating;

Country risk: investments are mainly made on major European financial markets;

- *financial receivables and other current financial assets* amounting to 1,124 million (377 million at December 31, 2007). They include the current portion of loans receivable from employees (13 million), the current portion of financial receivables for lessors net investments (147 million), hedging derivatives classified as current assets/liabilities of a financial nature (144 million), non-hedging derivatives (5 million), other current financial assets (20 million) and financial receivables from the Liberty Surf group (795 million);

- *securities other than investments*, maturing beyond three months, equal to 166 million (390 million at December 31, 2007), referring to bonds issued by counterparts with at least an A rating with different maturities, but all with an active trading market and therefore readily convertible into cash.

Table of Contents

Index to Financial Statements

RESEARCH, DEVELOPMENT AND INNOVATION

¢ TELECOM ITALIA LAB

Telecom Italia Lab (**TILab**) is the Department whose remit is the supervision of technological innovation for the Group, scouting for new technologies and engineering operations for services and network platforms.

The technological innovation of the Telecom Italia Group is also the outcome of strategic partnerships with the main producers of telecommunications equipment and systems and with Research Centres of excellence at the most highly qualified national and international academic institutions (Turin and Milan Polytechnics, Berkley University, MIT). In this sphere, in the first six months of 2008, 15 new contracts were concluded with as many universities, covering research into various types of technology, encryption algorithms, services concepts, new paradigms of communication.

Scrolling through the various technological areas across which TILab s innovative operations range, reveals the areas of mobile access and fixed access, terminals and the home network, transport, control and tiers of services.

In the course of the first six months of 2008, in the field of mobile phone access, solutions were developed based on *femtocell*, which is an innovative way of making radio access possible.

In the sphere of the evolution of the converging Network architectures and of the diffusion of broadband, work has been conducted on the determination of likely solutions to support the evolution of optical access under the various scenarios available in the coming years.

In the sphere of the development of services based on content and applications, the development of innovations for specific groups of clients has continued. In particular:

- the e-tourism solutions have been upgraded with a solution that allows access to and visualization of the tourist portal in a dynamic way, based on the profile of the terminal used;

- preparations have been made for the first trials of solutions based on Mobile Payment s SIM tool kit (based on SMS);

- the new approach of the TIM service has been developed, providing the inclusion of all services within the native contacts list of the telephone, allowing the client to see immediately and directly from the list which services are available;

- the TIM SKY Mobile TV/Radio has been launched allowing the client to enjoy 10 SKY channels and 25 radio stations for 2G and 3G users, with the conversion of the radio/TV channels from ON AIR DVB broadcast on IP format to 3GPP on IP;

- preparations have been made for the evolution of high quality video communication by ADSL 2+ and NGN 2 access, with the evolution of the graphic interface and the improvement of its usability;

- the first steps have been taken towards a new broadband television with the launch of Yalp (www.yalp.it) the first Community TV on the Internet;

new Alice for business solutions have been developed;

preparations have been made for a demonstrator version of the system of monitoring consumption in the domestic environment by means of a videophone using intelligent sockets (Energy@Home);

on the international level, TILab has pledged a substantial commitment to the task of standardization, through which future solutions will be made possible, influencing the manufacturers roadmap.

¢ **OLIVETTI GROUP**

The Olivetti Group devotes a significant share of its resources to the technological Research and Development sector. In its research centres in Italy and abroad, it employs more than 200 people, equal to more than 16% of its entire workforce.

In the course of the first six months of 2008, Olivetti s research centres worked on the development of products and terminals for automating counters and on ink-jet technology.

37

Table of Contents

Index to Financial Statements

RECENT DEVELOPMENTS

Sale of Alice France to Iliad

On August 26, 2008, the sale of Liberty Surf group to Iliad S.A. has been completed, after having received the authorization from the French Antitrust Authority.

The sale of Liberty Surf group, the Internet Service Provider that operates in France mainly with Telecom Italia s Alice brand, was carried out on the basis of an enterprise value of 800 million with a net debt reduction for the Telecom Italia Group of approximately 750 million.

Agreement reached with trade unions for 5,000 redundancies

On September 19, 2008, that the final meeting between Telecom Italia and trade unions regarding redundancy proceeding *ex lege* 223/1991, begun on June 26, 2008 for 5,000 employees in excess of the company s technical needs, took place at the Ministry for Labor.

The meeting ended with the signing of a union agreement in which the parties established that by December 31, 2010, 5,000 employees, among those who attain the requisite pension contributions during the redundancy period, will be made redundant. The Company will complete the redundancy package with a sum that will guarantee that 90% of an employee s regular monthly pay cheque is received.

In the context of the overall agreement, Telecom Italia has committed to recruiting 600 workers in the two-year period 2009-2010 and from January 1, 2009 to convert 300 temporary contracts into permanent ones. Further, the Company will transfer 1,600 workers at the Telecontact center from 50% part-time contracts to 75% part-time contracts over the period 2009 2010.

The parties also agreed to a detailed programme of training and professional re-training interventions.

The agreement is part of the efficiency and re-organization plan announced on June 4, 2008 and will bring a cost reduction of approximately 300 million a year upon completion. The agreement entails a one-time restructuring charge of 287 million, as already announced, which was already recorded in the unaudited interim consolidated financial statements at June 30, 2008.

Shares buy-back

On September 26, 2008, Telecom Italia announced that it has purchased the maximum number of own shares authorized by the Shareholders Meeting on April 16, 2007, concluding the first tranche of the buy-back plan announced on August 8, 2008 in service of the plan for the free assignment of Telecom Italia ordinary shares reserved for the Group s top management.

The 25,000,000 Telecom Italia ordinary shares were purchased through an intermediary on the regulated Italian electronic share market *Mercato Telematico Azionario* (**MTA**), operated by Borsa Italiana.

The price per share was between a minimum and maximum corresponding to the weighted average of the official prices of the shares being purchased recorded by Borsa Italiana during the last ten days of trading prior to the date of purchase, decreased or increased by 10%, respectively. Financial coverage of the entire buy-back plan (for a total value of 27,099,200.00, plus commissions) did not require recourse to additional gross financial debt.

When the plan was initiated, Telecom Italia held 1,272,014 ordinary own shares (corresponding to 0.01% of the share class). At the conclusion of the foregoing transactions, it held 26,272,014 (corresponding to 0.20% of the share class). The Luxembourg-based Telecom Italia Finance S.A., fully owned by Telecom Italia, holds a further 124,544,373 ordinary shares in the Parent Company (corresponding to 0.93% of the share class).

Furthermore, the second tranche of the aforementioned plan to buy back own shares has not yet been executed by Telecom Italia. This second tranche refers to a maximum of an additional 11,400,000 ordinary own shares to be bought back by October 14, 2009 (as authorized by the

Shareholders Meeting on April 14, 2008) in service of the stock option plan reserved for the top management of Telecom Italia.

38

Table of Contents

Index to Financial Statements

For a description of other recent developments please see Note Events Subsequent to June 30, 2008 of the Notes to the Unaudited Interim Consolidated Financial Statements included elsewhere herein in this Telecom Italia s 2008 Half-Yearly Financial Report 6-K.

LEGAL PROCEEDINGS

WIND

In August 2008 Telecom Italia and Wind signed an agreement for the out-of-court settlement of various disputes and, in particular, of the action against Telecom Italia before the Milan Court of Appeal for anti-competitive conduct (following Antitrust Authority Case A/351, which ended with Telecom Italia being ordered to pay for alleged abuses of dominant position).

The settlement agreement does not cover the action brought by Wind in January of 2008 related to the alleged abuse by Telecom Italia in the market for the supply of wholesale services and in the market for retail services to residential and micro-business customers, as further described in Note 18 Potential liabilities and assets, commitments and other guarantees of the Notes to the Unaudited Interim Consolidated Financial Statements included elsewhere herein in this Telecom Italia s 2008 Half-Yearly financial Report 6-K.

Argentina

On October 6, 2008, Telecom Italia S.p.A., Telecom Italia International N.V. and some board members of the companies of the Telecom Argentina group nominated by Telecom Italia were notified of a lawsuit filed by W de Argentina Inversiones SL, Adrián Werthein, Gerardo Werthein, Daniel Werthein and Darío Werthein before the commercial court of Buenos Aires, before which the companies of the Telecom Argentina group are also defendants. The plaintiffs requested a declaration by the commercial court of the existence of an alleged permanent conflict of interest (in relation to the indirect participation of Telefónica in the share capital of Telecom Italia) of Telecom Italia, Telecom Italia International N.V. and their nominees to the boards of directors of the companies of the Telecom Argentina group and of a consequent prohibition on participating in meetings of shareholders and boards of directors.

With reference to the related preliminary injunction proceedings previously filed against the Telecom Argentina group companies (as described further in Notes 18 Potential liabilities and assets, commitments and other guarantees of the Notes to the Unaudited Interim Consolidated Financial Statements included elsewhere herein in this Telecom Italia s 2008 Half-Yearly Financial Report 6-K), in which Telecom Italia and Telecom Italia International have not been formally notified, an interventor informante with supervisory duties in the Telecom Argentina group companies, has been appointed by the judge.

* * *

For a description of other legal proceedings please see Note 18 Potential liabilities and assets, commitments and other guarantees of the Notes to the Unaudited Interim Consolidated Financial Statements included elsewhere herein in this Telecom Italia s 2008 Half-Yearly Financial Report 6-K.

Table of Contents

Index to Financial Statements

TELECOM ITALIA S.P.A.

UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Table of Contents

Index to Financial Statements

Unaudited Interim Consolidated Financial Statements Consolidated Balance Sheets

CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2008 AND

AS OF DECEMBER 31, 2007 ASSETS

	Note	As of June 30, 2008 Unaudited	As of December 31, 2007
		(millions of Euro)	
NON CURRENT ASSETS			
Intangible assets			
Goodwill	4	44,222	44,420
Intangible assets with a finite useful life	5	7,052	6,985
		51,274	**51,405**
Tangible assets	6		
Property, plant and equipment owned		15,029	15,484
Assets held under finance leases		1,412	1,450
		16,441	**16,934**
Other non current assets			
Investments in associates and joint ventures accounted for using the equity method	7	472	484
Other investments	7	59	57
Securities, financial receivables and other non current financial assets	7	741	695
Miscellaneous receivables and other non current assets	7	786	866
Deferred tax assets		238	247
		2,296	**2,349**
TOTAL NON CURRENT ASSETS (A)		**70,011**	**70,688**
CURRENT ASSETS			
Inventories		327	308
Trade and miscellaneous receivables and other current assets	8	8,953	9,088
Current income tax receivables		104	101
Investments		39	
Securities other than investments		166	390
Financial receivables and other current financial assets		1,124	377
Cash and cash equivalents		4,413	6,473
Current assets sub total		**15,126**	**16,737**
Discontinued operations/Non current assets held for sale	9		
- of a financial nature		30	
- of a non financial nature		701	

	731	
TOTAL CURRENT ASSETS (B)	**15,857**	**16,737**
TOTAL ASSETS (A+B)	**85,868**	**87,425**

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

Table of Contents

Index to Financial Statements

Unaudited Interim Consolidated Financial Statements — Consolidated Balance Sheets

CONSOLIDATED BALANCE SHEETS AS OF JUNE 30, 2008 AND

AS OF DECEMBER 31, 2007 EQUITY AND LIABILITIES

	Note	As of June 30, 2008 Unaudited	As of December 31, 2007
		(millions of Euro)	
EQUITY	10		
Share capital issued		10,674	10,674
Less: treasury shares		(69)	(69)
Share capital		10,605	10,605
Paid in capital		1,689	1,689
Other reserves and retained earnings (accumulated losses) including profit for the period		13,278	13,628
Equity attributable to equity holders of the Parent		**25,572**	**25,922**
Equity attributable to Minority Interest		**886**	**1,063**
TOTAL EQUITY (A)		**26,458**	**26,985**
NON CURRENT LIABILITIES			
Non current financial liabilities	11	37,226	37,051
Employee benefits	12	1,350	1,151
Deferred tax liabilities		109	586
Provisions	13	775	903
Miscellaneous payables and other non current liabilities	15	1,629	1,587
TOTAL NON CURRENT LIABILITIES (B)		**41,089**	**41,278**
CURRENT LIABILITIES			
Current financial liabilities	11	5,597	6,585
Trade and miscellaneous payables and other current liabilities	14	11,183	12,380
Current income tax payables	15	501	197
Current liabilities sub total		**17,281**	**19,162**
Liabilities directly associated with Discontinued operations/Non current assets held for sale	9		
- of a financial nature		823	
- of a non financial nature		217	
		1,040	
TOTAL CURRENT LIABILITIES (C)		**18,321**	**19,162**
TOTAL LIABILITIES (D=B+C)		**59,410**	**60,440**

TOTAL EQUITY AND LIABILITIES (A+D)	**85,868**	**87,425**

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

Table of Contents

Index to Financial Statements

Unaudited Interim Consolidated Financial Statements Consolidated Income Statements

CONSOLIDATED INCOME STATEMENTS FOR THE SIX MONTHS ENDED

JUNE 30, 2008 AND 2007

	Note	Six months ended June 30, 2008	2007
		Unaudited (millions of Euro)	
Revenues		14,838	15,337
Other income		158	164
Total operating revenues and other income		**14,996**	**15,501**
Acquisition of goods and services		(6,610)	(6,739)
Employee benefits expenses		(2,274)	(1,893)
Other operating expenses		(865)	(824)
Changes in inventories		17	21
Internally generated assets		271	269
Depreciation and amortization		(2,952)	(2,793)
Gains (losses) on disposals of non current assets		26	12
Impairment reversals (losses) on non current assets		(1)	
Operating profit		**2,608**	**3,554**
Share of profits (losses) of associates and joint ventures accounted for using the equity method		37	58
Finance income	19	1,515	1,256
Finance expenses	20	(2,731)	(2,225)
Profit before tax from continuing operations		**1,429**	**2,643**
Income tax expense		(173)	(1,018)
Profit from continuing operations		**1,256**	**1,625**
Profit (loss) from Discontinued operations/Non current assets held for sale		(148)	(123)
Profit for the period		**1,108**	**1,502**
Of which:			
Profit attributable to equity holders of the Parent		*1,140*	*1,500*
Profit (loss) attributable to Minority Interest		*(32)*	*2*

	Six months ended June 30, 2008	2007
Basic and Diluted Earnings Per Share (EPS)	(Euro)	
- Ordinary Share	0.06	0.07
- Savings Share	0.07	0.08
Of which:		
- *From continuing operations*		
- *Ordinary Share*	*0.07*	*0.08*

- *Savings Share*	*0.07*	*0.08*
- *From Discontinued operations/Non current assets held for sale*		
- *Ordinary Share*	*(0.01)*	*(0.01)*
- *Savings Share*		

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

F-4

Table of Contents

Index to Financial Statements

Unaudited Interim Consolidated Financial Statements Consolidated Statements of Changes in Equity

Consolidated Cash Flow Statements

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED

JUNE 30, 2007 AND 2008

	Equity attributable to equity holders of the Parent						
	Share capital	**Paid in capital**	**Exchange differences on translating foreign operations**	**Other reserves and retained earnings (accumulated losses) including profit for the period**	**Total**	**Equity attributable to Minority Interest**	**Total equity**
				Unaudited (millions of Euro)			
Balance at December 31, 2006	**10,605**	**1,689**	**686**	**13,038**	**26,018**	**1,080**	**27,098**
Changes in equity in the first half of 2007:							
Available for sale financial assets:							
Valuation gains or losses taken to equity				(17)	(17)		(17)
Gains or losses transferred to the income statement				1	1		1
Cash flow hedges:							
Gains or losses taken to equity				39	39		39
Gains or losses transferred to the income statement				39	39		39
Exchange differences on translating foreign operations			241		241	64	305
Tax on items taken directly to or transferred from equity				(17)	(17)		(17)
Net income (loss) recognized directly in equity			241	45	286	64	350
Profit for the period				1,500	1,500	2	1,502
Total recognized income and expense for the period			241	1,545	1,786	66	1,852
Dividends approved				(2,766)	(2,766)	(73)	(2,839)
Other changes				(9)	(9)	(1)	(10)
Balance at June 30, 2007	**10,605**	**1,689**	**927**	**11,808**	**25,029**	**1,072**	**26,101**

	Equity attributable to equity holders of the Parent						
	Share capital	**Paid in capital**	**Exchange differences on translating foreign operations**	**Other reserves and retained earnings (accumulated losses) including**	**Total**	**Equity attributable to Minority Interest**	**Total equity**

				profit for the period Unaudited (millions of Euro)			
Balance at December 31, 2007	**10,605**	**1,689**	**834**	**12,794**	**25,922**	**1,063**	**26,985**
Changes in equity in the first half of 2008:							
Available for sale financial assets:							
Valuation gains or losses taken to equity				4	4		4
Gains or losses transferred to the income statement							
Cash flow hedges:							
Gains or losses taken to equity				(363)	(363)		(363)
Gains or losses transferred to the income statement				381	381		381
Exchange differences on translating foreign operations			94		94	29	123
Tax on items taken directly to or transferred from equity				(3)	(3)		(3)
Net income (loss) recognized directly in equity			94	19	113	29	142
Profit for the period				1,140	1,140	(32)	1,108
Total recognized income and expense for the period			94	1,159	1,253	(3)	1,250
Dividends approved				(1,609)	(1,609)	(59)	(1,668)
Change in the scope of consolidation						(117)	(117)
Other changes				6	6	2	8
Balance at June 30, 2008	**10,605**	**1,689**	**928**	**12,350**	**25,572**	**886**	**26,458**

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

F-5

CONSOLIDATED CASH FLOW STATEMENTS FOR THE SIX MONTHS ENDED

JUNE 30, 2008 AND 2007

	Note	Six months ended June 30, 2008	2007
		Unaudited (millions of Euro)	
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit from continuing operations		1,256	1,625
Adjustments for:			
Depreciation and amortization		2,952	2,793
Impairment losses (reversals) on non current assets (including investments)		111	(103)
Net change in deferred tax assets and liabilities		(466)	925
Losses (gains) realized on disposals of non current assets (including investments)		(26)	(14)
Share of losses (profits) of associates and joint ventures accounted for using the equity method		(37)	(58)
Change in employee benefits		292	(31)
Change in inventories		(21)	(26)
Change in trade receivables and net receivables on construction contracts		56	(503)
Change in trade payables		(1,076)	(180)
Net change in miscellaneous receivables/payables and other assets/liabilities		580	(77)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES (A)		**3,621**	**4,351**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of intangible assets on an accrual basis	5	*(1,432)*	*(1,003)*
Purchase of tangible assets on an accrual basis	6	*(1,524)*	*(1,409)*
Total purchase of intangible and tangible assets on an accrual basis		(2,956)	(2,412)
Change in amounts due to fixed asset suppliers		*3*	*(313)*
Total purchase of intangible and tangible assets on a cash basis		(2,953)	(2,725)
Acquisitions of subsidiaries and businesses, net of cash acquired			(669)
Change in financial receivables and other financial assets		113	405
Proceeds from sale of subsidiaries, net of cash disposed of			1
Proceeds from sale/repayments of intangible, tangible and other non current assets		60	41
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B)		**(2,780)**	**(2,947)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Change in current financial liabilities and other		(226)	(413)
Proceeds from non current financial liabilities (including current portion)		1,918	1,454
Repayments of non current financial liabilities (including current portion)		(2,997)	(3,230)
Dividends paid		(1,664)	(2,830)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C)		**(2,969)**	**(5,019)**

CASH FLOWS FROM (USED IN) DISCONTINUED OPERATIONS/NON CURRENT ASSETS HELD FOR SALE (D)	9	**(26)**	**52**
AGGREGATE CASH FLOWS (E=A+B+C+D)		**(2,154)**	**(3,563)**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD (F)		**6,204**	**6,960**
Net foreign exchange differences on net cash and cash equivalents (G)		7	21
NET CASH AND CASH EQUIVALENTS AT END OF THE PERIOD (H=E+F+G)		**4,057**	**3,418**

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

Table of Contents

Index to Financial Statements

CONSOLIDATED CASH FLOW STATEMENTS FOR THE SIX MONTHS ENDED

JUNE 30, 2008 AND 2007

	Six months ended June 30, 2008	2007
	Unaudited	
	(millions of Euro)	
ADDITIONAL CASH FLOW INFORMATION:		
Income taxes (paid) received	(84)	(67)
Interest expense paid	(1,728)	(2,230)
Interest income received	418	805
Dividends received	22	13
ANALYSIS OF NET CASH AND CASH EQUIVALENTS:		
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE PERIOD:		
Cash and cash equivalents from continuing operations	6,449	7,260
Bank overdrafts repayable on demand from continuing operations	(275)	(258)
Cash and cash equivalents from Discontinued operations/Non current assets held for sale	30	5
Bank overdrafts repayable on demand from Discontinued operations/Non current assets held for sale		(47)
	6,204	**6,960**
NET CASH AND CASH EQUIVALENTS AT END OF THE PERIOD:		
Cash and cash equivalents from continuing operations	4,413	3,662
Bank overdrafts repayable on demand from continuing operations	(360)	(254)
Cash and cash equivalents from Discontinued operations/Non current assets held for sale	20	14
Bank overdrafts repayable on demand from Discontinued operations/Non current assets held for sale	(16)	(4)
	4,057	**3,418**

The accompanying notes are an integral part of these unaudited interim consolidated financial statements

Table of Contents

Index to Financial Statements

Unaudited Interim Consolidated Financial Statements Notes to the Unaudited Interim Consolidated Financial Statements

NOTE 1 FORM AND CONTENT AND OTHER GENERAL INFORMATION

Form and Content

Telecom Italia S.p.A. is a corporation organized under the laws of the Republic of Italy. Telecom Italia S.p.A. and its subsidiaries (the **Telecom Italia Group** or the **Group**) operate mainly in Europe, the Mediterranean Basin and South America.

The Group is engaged principally in the communications sector and, particularly, in telephone and data services on fixed lines, for final retail customers and other national wholesale providers, in the development of fiber optic networks for wholesale customers, in broadband services, in Internet services, in domestic and international mobile telecommunications (especially in Brazil), in the television sector using both analog and digital terrestrial technology and in the office products sector.

The head office of the Parent, Telecom Italia, is located in Milan, Italy.

The unaudited interim consolidated financial statements of the Telecom Italia Group are expressed in millions of euro which is also the currency of the primary economies in which the Group operates. Foreign subsidiaries are included in the unaudited interim consolidated financial statements in accordance with the accounting policies described in the Note Accounting policies in the consolidated financial statements at December 31, 2007.

The unaudited interim consolidated financial statements at June 30, 2008 of the Telecom Italia Group have been prepared in accordance with International Financial Reporting Standards issued by the IASB - International Accounting Standards Board (**IFRS**).

In the first half of 2008, the Group did not elect the early adoption of any IFRS.

The unaudited interim consolidated financial statements at June 30, 2008 of the Telecom Italia Group have been prepared in accordance with IAS 34 (*Interim Financial Reporting*) and, as permitted by this standard, do not include all the information that would be required in annual financial statements; accordingly, these financial statements should be read together with the 2007 consolidated financial statements of the Telecom Italia Group.

For purposes of comparison, the balance sheet at December 31, 2007, the income statement and the cash flow statement in the first half of 2007 as well as the statement of changes in equity in the first half of 2007 have been presented in accordance with IAS 1 (*Presentation of Financial Statements*).

Financial Statement Formats

The financial statement formats adopted are consistent with those indicated in IAS 1. In particular:

- the **consolidated balance sheet** has been prepared by classifying assets and liabilities according to current and non-current criterion and separately indicating on two lines Discontinued operations/Non-current assets held for sale and Liabilities directly associated with Discontinued operations/Non-current assets held for sale as required by IFRS 5 (*Non-Current Assets Held for Sale and Discontinued Operations*);

- the **consolidated income statement** has been prepared by classifying the operating expenses by nature of expense, since this form of presentation is considered more appropriate and representative of the specific business of the Group, conforms to internal reporting and is in line with the industrial sector of reference. Moreover, results from continuing operations are shown separately from the Profit (loss) from Discontinued operations/Non-current assets held for sale as required by IFRS 5;

the **consolidated cash flow statement** has been prepared by presenting cash flows from operating activities according to the indirect method, as permitted by IAS 7, and separately showing cash flows from Discontinued operations/Non-current assets held for sale, as required by IFRS 5.

F-8

Table of Contents

Index to Financial Statements

Unaudited Interim Consolidated Financial Statements Notes to the Unaudited Interim Consolidated Financial Statements

SEGMENT INFORMATION

The Telecom Italia Group is organized by business segment as follows:

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

European Broadband Business Unit: comprises Broadband services in Germany and the Netherlands;

Brazil Mobile Business Unit: includes Mobile Telecommunications operations in Brazil;

Media Business Unit: includes Television and News activities;

Olivetti Business Unit: includes activities for the manufacture of digital printing systems, ink-jet office products, ink-jet print heads and Micro Electro-Mechanical Systems (MEMS);

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

SEASONAL FACTORS AFFECTING REVENUES

Domestic

The trend of revenues from basic subscription charges and traffic relating to fixed telecommunications was not significantly affected by seasonal factors in the comparison between the first half of 2008 and the first half of 2007.

The trend of voice traffic relating to domestic mobile telephony in the comparison of the first half of 2008 and the first half of 2007 was not influenced by seasonal factors associated with marketing campaigns, which, however have an effect on the level of revenues from sales and marginally also on revenues from Valued-Added Services (VAS). Nevertheless, there are seasonal phenomena in connection with changes in the number of holidays during the months or periods in the reporting calendar.

Brazil Mobile

The trend of revenues relating to the Brazil Mobile business was only marginally affected by seasonal factors connected with marketing campaigns but were influenced by seasonal phenomena relating to changes in the number of holidays during the months or periods in the reporting calendar.

SCOPE OF CONSOLIDATION

Changes in the scope of consolidation at June 30, 2008, excluding Discontinued operations/Non-current assets held for sale (analyzed later in the notes) are listed below.

Compared to December 31, 2007:

(a) included in the scope of consolidation - none;

(b) exclusions from the scope of consolidation:

- Entel S.A. Empresa Nacional de Telecomunicaciones - Bolivia (together with its subsidiary Datacom S.A.), classified, as Available-for-sale financial assets, in Current assets (effective April 2008);
- Mediterranean Nautilus Inc. (liquidated and cancelled from the register of companies in May 2008);
- Milano Design Studio S.r.l. (sold in January 2008);

- Olivetti Colombiana S.A. (liquidated and cancelled from the register of companies at the beginning of 2008);
- Saturn Venture Partners LLC (liquidated in May 2008);
- SCS Comunicazione Integrata S.p.A. (liquidated and cancelled from the register of companies in March 2008);
- Telsi Unlimited (liquidated in May 2008);

(c) merged:

- Telecom Italia America Latina S.A. merged with Telecom Italia Latam S.A. ex-Olivetti do Brasil S.A. (effective January 2008);
- Tiemme Sistemi S.r.l. merged with Olivetti S.p.A. (effective April 2008);
- Tim International N.V. merged with Telecom Italia International N.V. (effective January 2008).

Compared to June 30, 2007, in addition to the above mentioned information:

(a) inclusions in the scope of consolidation:

- InterNLnet B.V. (acquired in July 2007);
- Milano Design Studio S.r.l. (set up in December 2007);
- Shared Service Center S.r.l. (for the acquisition of 50% of the company from the other shareholder after the end of the reorganization process in October 2007);

(b) exclusions from the scope of consolidation:

- Olivetti Chile S.A. (liquidated and cancelled from the register of companies in July 2007);
- Olivetti Mexicana S.A. (liquidated and cancelled from the register of companies at the end of 2007);

- Liberty Surf Communications Ltd (liquidated and cancelled from the register of companies in August 2007);

- O&B Costruzioni Generali S.r.l. (liquidated and cancelled from the register of companies in November 2007);

- Trainet S.p.A. (liquidated and cancelled from the register of companies in December 2007);

(c) merged: