Item 3. KEY INFORMATION

3.1 RISK FACTORS

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

RISKS RELATED TO THE TELECOM ITALIA GROUP

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

On February 25, 2011, we set out our strategic priorities for the 2011-2013 period. Our strategy confirms the strategic priorities that the Telecom Italia Group set in April 2010, and in particular that we will:

- focus on core markets (Italy, Brazil and Argentina) to enhance free cash flow generation; and
- continue capital discipline to generate sustainable dividend growth and to complete the ongoing deleveraging of the Group's balance sheet through the further reduction of outstanding debt.

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

- increasing competition from global and local OTT (Over The Top) players (operators offering contents and services on the internet without owning a proprietary TLC network infrastructure);
- regulatory decisions and change in the regulatory environment in Italy and other countries in which we operate;
- increasing numbers of competitors in the Italian telecommunications market which could cause us to lose further market share;
- increasing and stronger market competition in our principal markets with a consequent decline in the prices of services;
- our ability to strengthen our competitive position in Italy through our focus on related markets and in international markets, particularly in Brazil and Argentina for mobile telecommunications;
- our ability to develop and introduce new technologies which are attractive in our principal markets, to manage innovation, to supply value added services and to increase the use of our fixed and mobile networks;
- the success of "disruptive" new technologies which could cause significant reductions in revenues from fixed and mobile telephony;
- our ability to manage costs;
- the continuing effects of the global credit crisis and weak economic conditions in the major markets in which we operate;
- our ability to refinance existing indebtedness when due under the uncertain conditions in the capital and bank markets;
- our ability to attract and retain highly qualified employees; and
- the effect of exchange rate fluctuations on our operating revenues, margins and financial management.

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

The global economic crisis adversely affected our business in 2009 and 2010 and continuing global economic weakness could further adversely affect our businesses and therefore have a negative impact on our operating results and financial condition.

The continuing effects of the global economic crisis which began in late 2008 continued during 2010. Although the global economy began to recover during 2010, such recovery varied between geographic areas and European economies, including Italy, were affected by the sovereign debt crisis and continuing concerns about the strength of certain economies, in particular Ireland, Greece, Portugal and Spain. The continuing economic weakness was reflected in the general contraction in consumer spending, with the impact on consumer spending varying between geographic areas and different markets. Economic weakness, particularly in our domestic market, is expected to continue for at least the whole of 2011.

In Italy, the recession has had the greatest impact on the demand for investments and on the purchase of consumer durable goods and items of mass-consumption, with Gross Domestic Product ("**GDP**") declining in 2009. In 2010, GDP improved slightly compared to 2009. In 2010, in both Brazil and Argentina there was a recovery in GDP growth, which is expected to continue in 2011.

However, in Brazil, the contribution of raw materials to export growth increased in 2010; a fall in the price of raw materials may have a material adverse effect on Brazil's economic growth. In Argentina, as has been the case in the last few years, the level of inflation has been high, and the expected growth of the economy may generate further inflation in the medium term. Such inflation may negatively affect the Argentina Business Unit's margins.

Although telecommunications has proven to be one of the industrial segments least affected by pro-cyclical trends since our society has an increasing need to communicate, recessionary conditions have weighed, and may continue to weigh, heavily on the development prospects of our domestic market, particularly with regard to the penetration of the next phase of value-added services and the volume of business, key elements of the Group's strategic plan. This applies particularly to the business clientele segment (professionals and small and medium-size businesses), where it is more likely that continuing weak economic conditions could have a negative effect on revenues. Declines in the growth in the economies of Brazil and Argentina could also reduce the demand for our products and services in those markets.

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

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

Our gross financial debt was 41,230 million euros at December 31, 2010 compared with 44,397 million euros at December 31, 2009 and our net financial debt was 32,087 million euros at December 31, 2010 compared with 34,747 million euros as of December 31, 2009.

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

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

Factors which are beyond our control such as deterioration in performance by the telecommunications sector, unfavorable fluctuations in interest rates and/or exchange rates, further disruptions in the capital markets, particularly debt capital markets, and, in a broader sense, deterioration in general economic conditions also as a result of the continuing effects of the economic and financial crisis, could have a significant effect on our ability to reduce our debt, or the ability of the Telecom Italia Group to refinance existing debt through further access to the financial markets. As a result of the reduction of debt being a key element of the Group's strategy, the failure to reduce debt could be viewed negatively and adversely affect our credit ratings.

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

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

We are subject to numerous risks relating to legal, competition and regulatory proceedings in which we are currently a party or which could develop in the future. We are also the subject of a number of investigations by judicial authorities. Such proceedings and investigations are inherently unpredictable. Legal, competition and regulatory proceedings and investigations in which we are, or may become, involved (or settlements thereof) may have a material adverse effect on our results of operations and/or financial condition. Furthermore, our involvement in such proceedings and investigations may adversely affect our reputation. For information concerning the most significant legal, competition and regulatory proceedings and investigations in which we are involved, see "Note—Contingent liabilities, other information, commitments and guarantees" of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

The Italian Collective Action for Damages for the Protection of Consumers Law (the **"Collective Action Law"**) was passed in December 2007 and, after undergoing substantial modifications by the Italian Parliament, entered into force on January 1, 2010. The law allows collective action lawsuits and is similar in many respects to common law class actions. Contracts between public utilities and consumers and the business practices of companies that provide public services (such as Telecom Italia) are covered by the Collective Action Law. Therefore there is a risk of claims against Telecom Italia by consumers' associations on behalf of broad classes of consumers, although no such actions have yet been brought against Telecom Italia.

Operational risks could adversely affect our reputation and our profitability.

We face numerous operational risks inherent in our business, including those resulting from inadequate internal and external processes, fraud, employee errors or misconduct, failure to comply with applicable laws, failure to document transactions properly or systems failures. These events can result in direct or indirect losses and adverse legal and regulatory proceedings, and harm our reputation and our operational effectiveness. In recent years the Company has been the subject of a number of frauds, including matters relating to its Telecom Italia Sparkle subsidiary, which resulted in the restatement of our financial statements in connection with the 2009 financial year.

We have risk management practices designed to detect, manage and monitor at top level the evolution of these operational risks, and for this purpose we have recently established a group risk management committee.

However, there is no guarantee that these measures will be successful in effectively controlling the operational risks that we face and such failures could have a material adverse effect on our results of operations and could harm our reputation.

Risks associated with Telecom Italia's ownership chain.

Telco S.p.A. ("**Telco**")—a company in which interests are held by the Generali group (30.58%), Intesa Sanpaolo S.p.A. (11.62%), Mediobanca S.p.A. (11.62%), and Telefónica S.A. ("**Telefónica**") (46.18%)—is Telecom Italia's largest shareholder, holding an interest of approximately 22.40% of the voting rights.

The shareholders in Telco are parties to an amended shareholders agreement dated April 28, 2010 (as amended and supplemented from time to time the "**Shareholders Agreement**") which is effective through April 27, 2013.

The Shareholders’ Agreement defines, inter alia, the criteria for drawing up the slate of candidates for the appointment of the Board of Directors of Telecom Italia:

- Telefónica, insofar as it holds at least 30% of Telco’s share capital, will be entitled to designate two candidates;
- the other shareholders of Telco, as they hold the absolute majority of its share capital, have the right to designate the other members on the slate, of whom three candidates unanimously and the others on a proportional basis.

The Shareholders’ Agreement provides that the Telecom Italia Group and the Telefónica Group are managed autonomously and independently.

Although Telco does not own a controlling interest in Telecom Italia’s voting shares, Telco may exert a significant influence on all matters to be decided by a vote of shareholders, including appointment of directors (in the Shareholders’ Meeting on April 14, 2008 12 out of 15 Board members were elected, as a result of the proposal by Telco, which has deposited its slate for the appointment of the new Board, to be resolved upon by the Shareholders’ Meeting to be held on April 12, 2011; other lists were proposed by Findim S.A., which is the second largest shareholder, with a stake of approximately 4.9% of the Company’s ordinary share capital, and a group of asset management companies, with an overall stake of little more than 1%). It is expected that Telco nominated directors will make up a similar number of directors as those that are represented on the current Board of Directors. In principle, the interests of Telco in deciding shareholder matters could be different from the interests of our other Ordinary Shareholders, and it is possible that certain decisions could be taken that may be influenced by the needs of Telco.

In addition, Telefónica is the largest shareholder of Telco. Presently Telefónica and Telecom Italia are direct competitors in certain countries outside of their respective domestic markets; nevertheless, the agreement among the above mentioned parties provides that the Telecom Italia and Telefónica groups will be managed autonomously and independently. Such agreements provide—among other things—that the directors designated by Telefónica in Telco and Telecom Italia shall be directed by Telefónica to neither participate nor vote at board of directors meetings which discuss matters relating to members of the Group in countries where Telefónica and Telecom Italia compete. Specific additional matters have been agreed with respect to Telecom Italia’s operations in Brazil and Argentina. The presence of Telefónica in Telco could, however, result in legal or regulatory proceedings or affect regulatory decisions in countries where we may wish to operate if Telefónica is also an operator/competitor in such jurisdictions. For further information, please see “Item 7 Major Shareholders and Related-Party Transactions—7.1 Major Shareholders—7.1.1 Shareholders’ Agreements” and “Item 10. Additional Information—10.1 Corporate Governance”. See also “Note—Contingent liabilities, other information, commitments and guarantees” of the Notes to the Consolidated Financial Statements included elsewhere herein.

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

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

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

On March 26, 2009, the European Court of Justice declared that Italy, through the special powers, failed to comply with its obligations under the EC Treaty. According to the Court’s ruling, the alleged infringement of the EC Treaty arose due to the applicable Italian legal provisions not making sufficiently clear the conditions for the exercise of the Treasury’s special powers, so that investors would not be in a position to know in what situations the powers will be used. Through a decree passed on May 20, 2010, the Italian Government amended the criteria under which it may exercise such special powers. In any event, the ruling by the European Court of Justice does not have any immediate or direct impact on Telecom Italia's bylaws.

For further information, please see "Item 7 Major Shareholders and Related-Party Transactions—7.1 Major Shareholders—7.1.3 Continuing Relationship with the Italian Treasury".

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

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

Our business depends on the upgrading of our existing networks.

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

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

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

RISKS RELATED TO THE TELECOMMUNICATIONS INDUSTRY AND FINANCIAL MARKETS

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

Our business is dependent to a large degree on general economic conditions in Italy and our other principal markets, Brazil and Argentina, including levels of interest rates, inflation, taxes and general business conditions. A significant deterioration in economic conditions could adversely affect our business and results of operations. The continuing weak economic conditions in 2010 following on from 2009 had an adverse impact on our business, particularly in Italy. We may also be adversely affected by political developments in other countries where we have made significant investments. Certain of these countries have political and legal systems that are unpredictable. Political or economic upheaval or changes in laws or their application in these countries may harm the operations of the companies in which we have invested and impair the value of these investments.

Continuing uncertainty about current global economic conditions poses a significant risk as consumers and businesses postpone spending in response to tighter credit, negative financial news (including high levels of unemployment) or declines in income or asset values, which could have a material negative effect on the demand for our products and services. Although global economic conditions began to improve in 2010 such improvement varied in different parts of the world and recovery, particularly in Europe, remained weak. Economic difficulties in the credit markets and other economic conditions may reduce the demand for or the timing of purchases of our products and services. A loss of customers or a reduction in purchases by our current customers could have a material adverse effect on our financial condition, results of operations and cash flow and may negatively affect our ability to meet our growth targets. Other factors that could influence customer demand include access to credit, consumer confidence and other macroeconomic factors.

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

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

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

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

Included within the regulatory framework is the obligation on the part of the Italian regulator responsible for the regulation of the telecommunications, radio and television broadcasting sector ("**AGCom**") to identify operators with "significant market power" ("**SMP**") based on market analyses in relevant separate retail and wholesale markets, identified in an EC Recommendation, in which it is considered necessary to intervene to protect free competition. The framework established criteria and procedures for identifying remedies applicable to operators with "significant market power" in various markets.

The second round of market analyses was concluded during 2010. To date, AGCom has focused on wholesale obligations while relaxing retail regulations.

In particular, Telecom Italia was confirmed as having SMP in both call origination and termination services provided at a fixed location while Other Licensed Operators ("**OLOs**") were confirmed as having SMP in wholesale call termination services. Telecom Italia's wholesale voice services are therefore set by AGCom according to a price control mechanism. For the years 2010 and 2011 prices have been set on the basis of Telecom Italia's regulatory accounting costs and at an efficient level. For the following years prices will be set according to the outcome of a bottomup long-run incremental cost ("**BU-LRIC**") model.

OLOs' termination prices also are set by AGCom according to a price control mechanism. For the year 2010, AGCom set the main ("infrastructure-based") OLOs' termination price symmetric with Telecom Italia's termination price for the SGT (transit exchange) level starting from July 1, 2010. Non infrastructure-based OLOs will be subject to price regulation from the year 2011. The European Commission criticised AGCom's Decision, noting, among other things, that the price symmetry could possibly be achieved with Telecom Italia's local level (SGU), by applying lower fixed termination rates ("**FTR**") for OLOs. Due to the lack of FTR symmetry between Telecom Italia and OLOs at local level, Telecom Italia has filed an extraordinary appeal to the President of the Italian Republic that is expected to be heard before the end of Summer 2011. On March 4, 2011 AGCom notified the European Commission of its draft decision concerning the definition of fixed termination charges for Telecom Italia and OLOs in the year 2011. AGCom's orientation is to set 2011 prices at the same level of 2010, therefore maintaining OLOs asymmetric prices equal to Telecom Italia's termination charge for the SGT level. The final AGCom Decision will be published in April /May 2011 following EU comments.

Following certain AGCom decisions as well as criticisms from the European Commission, Telecom Italia continues to pay a rate to terminate traffic on OLOs' network which is equal to almost twice the rate paid by OLOs for terminating their traffic on Telecom Italia's network. The lack of fixed termination rates symmetry between Telecom Italia and OLOs at local level increased Telecom Italia's 2010 costs by about 30 million euros and will entail a similar negative impact also in 2011 if AGCom's draft decision is confirmed.

The regulatory approach to Next Generation Access Network ("**NGAN**") is still under consideration. With Decision 1/11/CONS of January 11, 2011, AGCom launched a public consultation on the regulation of access to the next generation network. The proceeding is expected to conclude by the end of spring 2011 although implementing measures will not be published before the second half of 2011. As Next Generation Access will require significant investments, the regulatory uncertainty regarding the obligations which could be imposed on Telecom Italia could have an adverse effect on the Group's cash flows and financial condition.

On January 19, 2011, with respect to the annual contribution to the AGCom, AGCom commenced an audit of the Company's compliance with the requirements relating to the payments for 2006, 2007, 2008, 2009 and 2010. The AGCom audit on the annual contribution to the AGCom is part of a general audit of all companies in the Telecommunications ("**TLC**") industry. AGCom released its findings on March 1, 2011, holding that Telecom Italia did not properly fulfil its obligation to pay the contribution in the 2006-2010 period. The estimated cost for the company is the payment of an estimated amount of more than 11 million euros.

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

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

For further information regarding the matters discussed above and other aspects of the regulatory environments in which Telecom Italia's businesses operates, see "Item 4.3 Regulation".

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

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

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

Strong competition in Italy may further reduce our core market share for telecommunication services and may cause further reductions in prices and margins thereby having a material adverse effect on our results of operations and financial condition.

Strong competition exists in all of the principal telecommunications business areas in Italy in which we operate, including, most significantly, the fixed-line and mobile voice telecommunications and BroadBand businesses. The use of the single European currency and the liberalization of the Italian telecommunication market (since January

1998) have intensified competition by facilitating international operators' entry into the Italian market and direct competition with Telecom Italia's fixed-line and mobile telephony businesses, particularly in the local and long-distance markets, and for BroadBand services.

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

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

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

Competition in our principal lines of business could lead to:

- further price and margin erosion for our products and services;
- a loss of market share in our core markets;
- loss of existing or prospective customers and greater difficulty in retaining existing customers;
- obsolescence of existing technologies and more rapid deployment of new technologies;
- an increase in costs related to investments in new technologies that are necessary to retain customers and market share; and
- difficulties in reducing debt and funding strategic and technological investments if we cannot generate sufficient profits and cash flow.

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

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

In order to sustain growth in revenues despite increased competition eroding our market shares and lower prices, particularly in our core Italian domestic market, our strategy has been to introduce new services in our fixed-line, wireless and BroadBand business and in new addressable closely related markets (IPTV, ICT, Online advertising, Digital Home and Service Exposure). In recent years our strategy to reverse the trend which has led to continuing revenue declines has been to focus on increasing the loyalty of our customer base, increasing penetration of the BroadBand retail market and IPTV and fostering the growth of mobile interactive services. These markets have been growing in recent years in line with increased use of the Internet and the enhanced services offered by mobile operators. However, if these markets do not continue to expand and our other strategies to slow or reverse declines in revenues from our traditional fixed line businesses are unsuccessful our revenues may continue to decrease.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

There is no assurance that the services offered will be successful; as a result our revenues generation could be negatively affected.

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

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

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

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

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

We generally hedge our foreign exchange exposure, but do not cover translation risk relating to our foreign subsidiaries. Movements in exchange rates of the Euro relative to other currencies (in particular the Brazilian Real and Argentine Peso) may adversely affect our consolidated results. A rise in the value of the Euro relative to other currencies in certain countries in which we operate or have made investments will reduce the relative value of the revenues or assets of our operations in those countries and, therefore, may adversely affect our operating results or financial position.

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

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

3.2 EXCHANGE RATES

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

For convenience only (except where noted otherwise), certain euro figures have been translated into dollars at the rate (the "Euro/Dollar Exchange Rate") of €1.00= U.S.$ 1.3269, using the last noon buying rate in The City of New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the "**Noon Buying Rate**") on December 31, 2010.

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

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

The following table sets forth for the years 2006 to 2010 and for the beginning of 2011 certain information regarding the Noon Buying Rate for Dollars expressed in U.S.$ per €1.00.

Calendar Period	High	Low	Average(1)	At Period end
2006	1.3327	1.1860	1.2563	1.3197
2007	1.4862	1.2904	1.3705	1.4603
2008	1.6010	1.2446	1.4725	1.3919
2009	1.5100	1.2547	1.3936	1.4332
2010	1.4536	1.1959	1.3262	1.3269
2011 (through April 1, 2011)	1.4215	1.2944	1.3707	1.4215

Monthly Rates	High	Low	Average(1)	At Period end
November 2010	1.4224	1.3036	1.3654	1.3036
December 2010	1.3395	1.3089	1.3221	1.3269
January 2011	1.3715	1.2944	1.3371	1.3715
February 2011	1.3794	1.3474	1.3648	1.3757
March 2011	1.4212	1.3813	1.4020	1.4183
April 2011 (through April 1, 2011)	1.4215	1.4215	1.4215	1.4215

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

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

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

3.3 SELECTED FINANCIAL AND STATISTICAL INFORMATION

The selected financial data set forth below is consolidated financial data of the Telecom Italia Group as of and for each of the years ended December 31, 2010, 2009, 2008, 2007 and 2006, which have been extracted or derived, with the exception of amounts presented in United States dollars, financial ratios and statistical data, from the Consolidated Financial Statements of the Telecom Italia Group prepared in accordance with IFRS as issued by IASB and which have been audited by Reconta Ernst & Young with respect to 2007, 2008 and 2009. 2010 has been audited by the independent auditor PricewaterhouseCoopers S.p.A., which replaced Reconta Ernst & Young as part of the normal required rotation of auditors. Due to the restatement of prior year financial statements in 2009 (which affected 2008 and 2007) the information included under the year 2006 in the selected financial data below is unaudited.

In 2010, the Group applied the accounting policies on a basis consistent with the previous year and did not elect the early adoption of any IFRS.

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

	2010 (millions of U.S. dollars, except percentages, ratios, employees and per share amounts)(2)	2010	2009	2008	2007	2006 (unaudited)
		Year ended December 31, (millions of euros, except percentages, ratios, employees and per share amounts)				
Consolidated Income Statement Data:						
Revenues(1)	**36,584**	**27,571**	**26,894**	**28,746**	**29,554**	**29,575**
Operating profit	**7,713**	**5,813**	**5,493**	**5,437**	**5,738**	**7,269**
Profit before tax from continuing operations	**5,476**	**4,127**	**3,339**	**2,894**	**4,120**	**5,366**
Profit from continuing operations	**4,749**	**3,579**	**2,218**	**2,217**	**2,459**	**2,855**
Profit (loss) from Discontinued operations/Non-current assets held for sale	(9)	(7)	(622)	(39)	(99)	(159)
Profit for the year	**4,740**	**3,572**	**1,596**	**2,178**	**2,360**	**2,696**
· *Profit attributable to owners of the Parent(3)*	*4,141*	*3,121*	*1,581*	*2,177*	*2,353*	*2,707*
Capital expenditures	**6,081**	**4,583**	**4,543**	**5,040**	**5,031**	**4,698**
Financial Ratios:						
· Operating profit/Revenues (ROS)(%)	21.1%	21.1%	20.4%	18.9%	19.4%	24.6%
· Ratio of earnings to fixed charges(4)	2.84	2.84	2.51	2.21	2.67	3.13
Employees, average number in the Group, including personnel with temporary work contracts:						
Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (average number)	70,150	70,150	69,964	73,508	75,735	77,374
Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (average number)	—	—	2,168	3,277	3,893	2,898
Basic and Diluted earnings per Share (EPS)(5):						
· **Ordinary Share**	**0.21**	**0.16**	**0.08**	**0.11**	**0.12**	**0.14**
· **Savings Share**	**0.23**	**0.17**	**0.09**	**0.12**	**0.13**	**0.15**
Of which:						
— *From continuing operations:*						
· *Ordinary Share*	*0.21*	*0.16*	*0.11*	*0.11*	*0.12*	*0.15*
· *Savings Share*	*0.23*	*0.17*	*0.12*	*0.12*	*0.13*	*0.16*
— *From Discontinued operations/Non-current assets held for sale:*						
· *Ordinary Share*	—	—	*(0.03)*	—	—	*(0.01)*
· *Savings Share*	—	—	*(0.03)*	—	—	*(0.01)*
Dividends:						
· per Ordinary Share	0.077	0.058(6)	0.0500	0.0500	0.0800	0.1400
· per Savings Share	0.092	0.069(6)	0.0610	0.0610	0.0910	0.1510

	As of December 31,					
	2010	2010	2009	2008	2007	2006 (unaudited)
	(millions of U.S. dollars, except employees)(2)	(millions of euros, except employees)				
Consolidated Statement of Financial Position Data:						
Total Assets	**118,268**	**89,131**	**86,267**	**86,223**	**88,593**	**90,322**
Equity:						
· Equity attributable to owners of the Parent	38,240	28,819	25,952	25,598	25,431	25,622
· Non-controlling interests	5,030	3,791	1,168	730	1,063	1,080
Total Equity	**43,270**	**32,610**	**27,120**	**26,328**	**26,494**	**26,702**
Total liabilities	**74,998**	**56,521**	**59,147**	**59,895**	**62,099**	**63,620**
Total equity and liabilities	**118,268**	**89,131**	**86,267**	**86,223**	**88,593**	**90,322**
Share capital(7)	**14,065**	**10,600**	**10,585**	**10,591**	**10,605**	**10,605**
Net Financial Debt(8)	**42,576**	**32,087**	**34,747**	**34,039**	**35,701**	**37,301**
Employees, number in the Group at year-end, including personnel with temporary work contracts:						
· Employees (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale) (number at year-end)	84,200	84,200	71,384	75,320	79,238	80,373
· Employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale (number at year-end)	—	—	2,205	2,505	4,191	2,836

	As of December 31,				
	2010	2009	2008	2007	2006
Statistical Data:					
Fixed-line network connections Business Unit Domestic at year-end (thousands)	17,609	18,525	20,031	22,124	23,698
Physical accesses (Consumer and Business) Business Unit Domestic at year-end (thousands)	15,351	16,097	17,352	19,221	20,540
Fixed-line network connections Business Unit Argentina at year-end (thousands)	4,107	4,060	4,010	3,918	3,821
Mobile lines Business Unit Domestic at year-end (thousands)	31,018	30,856	34,797	36,331	32,450
Mobile lines Business Unit Brazil at year-end (thousands)	51,015	41,102	36,402	31,254	25,410
Mobile customers Business Unit Argentina at year-end (thousands)(9)	18,211	16,281	14,390	12,292	9,589
BroadBand accesses Business Unit Domestic at year-end (thousands)	9,058	8,741	8,134	7,590	6,770
Of which retail BroadBand accesses (thousands)	*7,175*	*7,000*	*6,754*	*6,427*	*5,600*
BroadBand accesses Business Unit Argentina at year-end (thousands)	1,380	1,214	1,032	768	448

(1) Starting from the year 2010, following a detailed review of the indirect taxes paid by the Group in the different fiscal jurisdictions, certain taxes paid in Brazil have been reclassified from “Other operating expenses” to “Revenues” and “Other income” as deductions. Specifically, these reclassifications, which also have been made in connection with the adoption of IFRS by the TIM Brasil group, bring the Telecom Italia Group’s accounting presentation in line with other major telecommunications operators. This will ensure greater comparability and a better understanding of the economic and financial information presented.

The amounts which have been reclassified are the followings:

	Year ended December 31,				
	2010	2009	2008 (millions of euros)	2007	2006
Taxes on revenues and on other income of the companies in Brazil (PIS and COFINS)	(334)	(271)	(282)	(266)	(221)

(2) For the convenience of the reader, Euro amounts for 2010 have been converted into U.S. dollars using the Euro/Dollar Exchange Rate in effect on December 31, 2010, of €1.00 = U.S.$ 1.3269.

(3) For the purposes of IFRS, “Parent”, as used in this Annual Report, means Telecom Italia S.p.A.

(4) For purposes of calculating the ratio of “earnings to fixed charges”:

- “Earnings” is calculated by adding:
  - profit before tax from continuing operations;
  - “fixed charges” (as defined below);
  - amortization of capitalized interest and debt issue 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 debt issue discounts or premiums; and
  - an estimate of the interest within rental expense for operating leases.

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

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

- Ordinary Shares was 13,239,883,276 for the year ended December 31, 2010, 13,220,792,908 for the year ended December 31, 2009, 13,246,643,947 for the year ended December 31, 2008, 13,254,934,303 for the year ended December 31, 2007 and 13,254,860,233 for the year ended December 31, 2006;
- Savings Shares was 6,026,120,661 for the years ended December 31, 2010, 2009, 2008, 2007 and 2006.

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

(6) Telecom Italia’s dividend coupons for the year ended December 31, 2010, will be clipped on April 18, 2011, and will be payable from April 21, 2011.

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

(8) Net Financial Debt is a “Non-GAAP Financial Measure” as defined in Item 10 of Regulation S-K under the 1934 Act. For further details please see “Item 5. Operating and Financial Review and Prospects—5.2 Results of Operations for the Three Years Ended December 31, 2010—5.2.3 Non-GAAP Financial Measures”.

(9)Includes 10,000, 12,000, 15,000 and 7,000 Internet customers provided with Wimax technology as of December 31, 2010, 2009, 2008, and 2007, respectively.

3.4 DIVIDENDS

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

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

	Dividends on Ordinary Shares			Dividends on Savings Shares		
Year ended December 31,	Euros per Share	U.S. dollars per Share(1)	(millions of euros)	Euros per Share	U.S. dollars per Share(1)	(millions of euros)
2006	0.1400	0.1903	1,873.13	0.1510	0.2052	909.94
2007	0.0800	0.1253	1,070.36	0.0910	0.1426	548.38
2008	0.0500	0.0661	667.16	0.0610	0.0807	367.59
2009	0.0500	0.0634	667.16	0.0610	0.0774	367.59
2010(2)	0.0580	0.0824	775.48	0.0690	0.0981	415.80

(1) Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on the respective payment dates. As far as year ended December 31, 2010 is concerned, Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on April 1, 2011.

(2) Subject to approval at the Annual Shareholders' Meeting to be held on April 12, 2011. Pursuant to Italian Stock Exchange rules, dividends on the Ordinary Shares and the Savings Shares are payable from the fourth trading day after the third Friday of each month, and in any case, at least four business days after the Shareholders' Annual Meeting approving the dividends. Telecom Italia's dividend coupons for the year ended December 31, 2010 will be clipped on April 18, 2011, and will be payable from April 21, 2011.

Payment of annual dividends is subject to approval by the holders of Ordinary Shares at the annual general shareholders' meeting, which must be held within 180 days after the end of the financial year to which it relates (pursuant to article 18, second paragraph, of the Company's Bylaws, as it will be amended by the shareholders' meeting on April 12, 2011). In addition, Article 21 of the Company's Bylaws gives the Board of Directors the power to approve the distribution of "interim dividends". Pursuant to Italian law, the distribution may be approved after the final approval of the preceding year's financial statements, and the interim dividends may not exceed the lower of (i) the difference between profits from the preceding fiscal year and amounts required to be attributed to legal and statutory reserves and (ii) available reserves. Once paid in compliance with applicable laws, shareholders cannot be required to repay interim dividends to the Company if the shareholders collected such dividends in good faith. Dividends not collected within five years from the date they become payable will be forfeited in favor of the Company. If profits are not fully distributed, additional reserves are created.

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

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

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

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

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

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