TELECOM ITALIA S P A
Form 6-K
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

UNDER THE SECURITIES EXCHANGE ACT OF 1934

FOR THE MONTH OF SEPTEMBER 2011

Telecom Italia S.p.A.

(Translation of registrant s name into English)

Piazza degli Affari 2

20123 Milan, Italy

(Address of principal executive offices)

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

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

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

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

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

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

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

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

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

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

- our ability to successfully implement our strategy over the 2011-2013 period;

- our ability to successfully achieve our debt reduction targets;

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Half-year Financial

Report

at June 30, 2011

Contents

Interim Management Report

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

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

Key Operating and Financial Data -

Telecom Italia Group

Half-year 2011 Highlights

The Group continues its repositioning on markets which offer better prospects for growth. Thanks to the consolidation of Argentina and the strong gains by Brazil, consolidated revenues are up 10% to 14.5 billion euros compared to the corresponding period of the previous year.

At the end of the period, operations in South America account for, in organic terms, 34% of the Group s revenues and 20% of its operating free cash flow (EBITDA-Capital Expenditures).

Cash flows generated by the Group continue to be solid, thanks in part to the huge commitment to improve efficiency, above all in the Domestic market. These results enable the Group to continue to reduce Adjusted Net Financial Debt which at June 30, 2011 is 349 million euros lower than at December 31, 2010 and about 2.5 billion euros down from June 30, 2010.

The Domestic market continues to feature a declining business trend due to the difficult macroeconomic situation and fierce competition in the market. Competitive repositioning begun last year is nevertheless starting to produce results; the contraction in revenues is slowing down particularly on account of the stabilization of prices in the mobile area and protection of value in the fixed client base.

The impairment test conducted at June 30, 2011 led to an impairment charge of 3.2 billion euros on the Goodwill allocated to the Core Domestic business. Such Goodwill, which originated during the period 1999-2005 as a result of acquisitions and the shortening of the Company s chain of command, was recalculated at 38.3 billion euros.

The consolidated net loss for the period attributable to owners of the Parent of 2.0 billion euros thus reflects the impact of the Goodwill impairment charge, which is countered by a current operating trend that remains positive. Excluding the negative impact of the Goodwill impairment charge, the profit for the period would have been 1.2 billion euros, which is basically in line with that of the prior year.

The Goodwill impairment charge has no financial effect and therefore does not have any consequences on the Company s debt deleveraging plans and the dividend payment policy which will be decided in conformity with the indications already announced to the market and taking into account the distributable reserves of the Parent which amount to more than 10 billion euros at June 30, 2011.

The trend of the key operating and financial indicators in the first half of 2011 can be summarized as follows:

Reported consolidated Revenues**:** amount to 14,543 million euros. This is an increase of 10.0% (+1,320 million euros) thanks to the revenues contributed by Latin American operations, which benefited from the entry of the Argentina Business Unit in the scope of consolidation, and the positive performance by the Brazil Business Unit. The change in organic consolidated Revenues(1) is equal to +1.0% compared to the same period of the prior year.

More to the point:

the organic reduction in Domestic Business Unit Revenues is 6.7%; as for the performance by customer segment, compared to the same period of the prior year, the first half of 2011 posted a reduction in revenues of 7.8% in the Consumer segment, 7.1% in the Business segment and 5.3% in the Top Clients segment.

Revenues in Brazil report an organic growth of 16.8% compared to the first half of 2010 (+503 million euros).

Organic Revenues in Argentina grew 27.8% over the first half of 2010 (328 million euros); in particular, Revenues of the Mobile business are up 34.4% while the Fixed-line area expanded by 15.4% compared to the corresponding period of the prior year.

Reported EBITDA: rose 244 million euros (from 5,733 million euros in the first half of 2010 to 5,977 million euros in the first half of 2011); a positive contribution was made to this result by the entry of the Argentina Business Unit in the scope of consolidation. Reported consolidated EBITDA margin fell 2.3 percentage points, settling at 41.1% in the first half of 2011 (43.4% in the first half of 2010).

Organic consolidated EBITDA margin is down 1.2 percentage points to 41.4% in the first half of 2011 (42.6% in the first half of 2010). Such performance is linked to higher revenues to total revenues by South America where margins are lower than those of the Domestic Business. In terms of the amount, organic EBITDA totals 6,021 million euros (6,143 million euros in the same period of the prior year).

Reported consolidated EBIT: is a negative of 51 million euros in the first half of 2011 (profit of 2,881 million euros in the first half of 2010) and is penalized by the impact of the impairment charge of 3,182 million euros on the goodwill allocated to the Domestic business.

Organic consolidated EBIT: amounts to 3,174 million euros in the first half of 2011 (+4.0% compared to the first half of 2010). Organic consolidated EBIT margin is 21.8%, gaining 0.6 percentage points compared to the same period of last year (21.2%).

Finance income/expenses and Investment Results: show the finance component, investment management and the equity valuation of associates basically in line with the same period of the prior year. The investment results, in particular, include the positive impact of 17 million euros from the January 31, 2011 sale of the entire investment held in EtecSA (Cuba), which is in addition to the benefit of the impairment reversal of 30 million euros that had been recorded in 2010.

Loss for the period attributable to owners of the Parent: is 2,013 million euros, with a reduction of 3,224 million euros compared to the first half of 2010 (profit of 1,211 million euros). Excluding the impact of the goodwill impairment charge, the profit for the period would have amounted to 1,169 million euros, a figure basically in line with that of the corresponding period of the prior year.

Operating free cash flow: is 2,512 million euros in the first half of 2011, increasing 360 million euros over the corresponding period of the prior year, confirming the Group s growing ability to generate cash

flows, thanks to the positive contribution of the Domestic and Brazil markets and also the entry of the Argentina Business Unit in the scope of consolidation.

Adjusted net financial debt: is 31,119 million euros at June 30, 2011, down 349 million euros compared to December 31, 2010 (31,468 million euros). Better cash generation from operating activities, together with the receipt of 386 million euros from the sale of the investment in EtecSA (Cuba), amply covered the payment of dividends (1,325 million euros, of which 1,183 million euros was paid to the market by the Parent) and the purchase of shares which in the first half of 2011 enabled the Telecom Italia Group to increase its economic stake in the Telecom Argentina group from 16.2% to 21.1%.

Compared to June 30, 2010, adjusted net financial debt decreased by about 2.5 billion euros, confirming the positive advances in deleveraging forecast for the entire year 2011 of a reduction in debt of approximately 2 billion euros by the end of the year.

Liquidity margin: liquidity amounts to 5.1 billion euros at June 30, 2011. During the first half of 2011, two new bond issues were placed on the European market for a total of 1.75 billion euros while about 3.5 billion euros of debt was repaid or repurchased. There is also another 7.8 billion euros of liquidity in long-term irrevocable credit lines (mainly 6.5 billion euros expiring in 2014 and 1.25 billion euros expiring in 2013), not subject to events which limit utilization. In the present environment of financial market uncertainty, the Telecom Italia Group keeps a high level of financial coverage, optimizing, at the same time, the average cost of debt.

The Half-year Financial Report at June 30, 2011 of the Telecom Italia Group has been prepared as set out in art. 154-ter (Financial Reports) of Legislative Decree 58/1998 (Consolidated Law on Finance TUF), and subsequent amendments and additions and has been drawn up in accordance with international accounting standards issued by the International Accounting Standards Board and endorsed by the European Union (denominated IFRS), as well as the measures enacted implementing art. 9 of Legislative Decree 38/2005.

The Half-year Financial Report includes:

the Interim Management Report;

the Half-year Condensed Consolidated Financial Statements;

the Certification of the Half-year Condensed Consolidated Financial Statements pursuant to art. 81-ter of Consob Regulation 11971 dated May 14, 1999, with amendments and additions.

The accounting principles and consolidation principles adopted in the preparation of the Half-year Condensed Consolidated Financial Statements at June 30, 2011 have been applied on a basis consistent with those adopted in the Annual Consolidated Financial Statements at December 31, 2010, to which reference can be made, except for new standards and interpretations adopted by the Group beginning from January 1, 2011. Such new standards and interpretations did not have any impact on the Half-year Condensed Consolidated Financial statements at June 30, 2011.

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

Furthermore, the part entitled Business Outlook for the Year 2011 contains forward-looking statements in relation to the Group s intentions, beliefs or current expectations regarding financial performance and other aspects of the Group s operations and strategies. Readers of the Half-year Financial Report are reminded not to place undue reliance on forward-looking statements; actual results may differ significantly from forecasts owing to numerous factors, the majority of which is beyond the scope of the Group s control.

PRINCIPAL CHANGES IN THE SCOPE OF CONSOLIDATION

On October 13, 2010, the Sofora group Telecom Argentina entered the scope of consolidation following the increase, from 50% to 58%, in the stake held by the Telecom Italia Group in the share capital of Sofora Telecomunicaciones S.A., the controlling holding company, of the Telecom Argentina group. In January and in March

2011, further shares were acquired which increased the economic stake in the Telecom Argentina group from 16.2% to 21.1%.

The data of the Sofora group are represented in the Telecom Italia Group by the new business unit denominated Argentina Business Unit .

During 2010 the following companies exited the scope of consolidation: HanseNet Telekommunikation GmbH (a company operating in the broadband sector in Germany), which had already been classified in Discontinued operations/Non-current assets held for sale, whose sale took place on February 16, 2010; Elettra (a company included in the Domestic Business Unit International Wholesale) sold on September 30, 2010 and the BBNed group (included in Other Operations) sold on October 5, 2010.

Consolidated Operating and Financial Data

(millions of euros)	1st Half 2011	1st Half 2010	Change %
Revenues	14,543	13,223	10.0
EBITDA (1)	5,977	5,733	4.3
EBIT(1)	(51)	2,881	n.s.
Profit (loss) before tax from continuing operations	(1,009)	1,924	n.s.
Profit (loss) from continuing operations	(1,786)	1,242	n.s.
Profit (loss) from Discontinued operations/Non-current assets held for sale	(11)	(2)	n.s.
Profit (loss) for the period	(1,797)	1,240	n.s.
Profit (loss) for the period attributable to owners of the Parent	(2,013)	1,211	n.s.
Capital expenditures	2,037	2,021	0.8

Consolidated Financial Position Data

(millions of euros)	6/30/2011	12/31/2010	Change
Total assets	82,305	89,131	(6,826)
Total equity	29,354	32,610	(3,256)
- attributable to owners of the Parent	25,761	28,819	(3,058)
- attributable to non-controlling interests	3,593	3,791	(198)
Total liabilities	52,951	56,521	(3,570)
Total equity and liabilities	82,305	89,131	(6,826)
Share capital	10,600	10,600	-
Net financial debt carrying amount (1)	31,505	32,087	(582)
Adjusted net financial debt (1)	31,119	31,468	(349)
Adjusted net invested capital (2)	60,473	64,078	(3,605)
Debt Ratio (Adjusted net financial debt /Adjusted net invested capital)	51.5%	49.1%	2.4pp

Consolidated Profit Ratios

	1st Half 2011	1st Half 2010	Change
EBITDA(1)/Revenues	41.1%	43.4%	(2.3)pp
EBIT(1)/Revenues (ROS)	n.s.	21.8%	n.s.

Headcount, number in the Group at period-end(3)

(number)	6/30/2011	12/31/2010	Change
Headcount	84,335	84,200	135

Headcount, average number in the Group[(3)]

(equivalent number)	1st Half 2011	1st Half 2010	Change
Headcount	77,985	67,130	10,855

(1)

Details are provided in the section Alternative Performance Measures .

(2)

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

(3)

Headcount includes the number of persons with temp work contracts.

Half-year 2011 Consolidated Operating Performance

The key operating indicators for the first half of 2011 compared to the corresponding period of 2010 are as follows:

(millions of euros)	1st Half 2011 (a)	1st Half 2010 (b)	Change (a-b) amount	%	% organic
Revenues	**14,543**	**13,223**	1,320	10.0	1.0
EBITDA	**5,977**	**5,733**	244	4.3	(2.0)
EBITDA margin	*41.1%*	*43.4%*	*(2.3)pp*		
Organic EBITDA margin	*41.4%*	*42.6%*	*(1.2)pp*		
Depreciation and amortization, losses on disposals and other impairment losses on non-current assets	(2,846)	(2,852)	6		
Impairment loss on Core Domestic goodwill	(3,182)	-	(3,182)		
EBIT	**(51)**	**2,881**	(2,932)	n.s.	4.0
EBIT margin	*n.s.*	*21.8%*	*n.s.*		
Organic EBIT margin	*21.8%*	*21.2%*	*0.6 pp*		
Profit (loss) before tax from continuing operations	**(1,009)**	**1,924**	(2,933)	n.s.	
Profit (loss) from continuing operations	**(1,786)**	**1,242**	(3,028)	n.s.	
Profit (loss) from Discontinued operations/non-current assets held for sale	(11)	(2)	(9)	n.s.	
Profit (loss) for the period	**(1,797)**	**1,240**	(3,037)	n.s.	
Profit (loss) for the period attributable to owners of the Parent	**(2,013)**	**1,211**	(3,224)	n.s.	

Revenues

Revenues amount to 14,543 million euros in the first half of 2011, increasing 10.0% compared to 13,223 million euros in the first half of 2010 (+1,320 million euros). In terms of the organic change, consolidated revenues increased 1.0% (+137 million euros).

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

considering the effect of the change in the scope of consolidation (1,104 million euros, principally in reference to the consolidation of the Argentina Business Unit);

considering the effect of exchange differences (+114 million euros, almost entirely due to the positive exchange rate effect of the Brazil Business Unit [1], equal to +121 million euros);

excluding other non-organic revenues, equal to 35 million euros in the first half of 2010, relating to the termination, in the first half of 2010, of the 1001TIM loyalty program which had produced an increase in revenues from award credits previously suspended because not used by the customer.

The breakdown of revenues by operating segment is the following:

(millions of euros)	1st Half 2011		1st Half 2010		Change		
		% of total		% of total	amount	%	% organic
Domestic	9,356	*64.3*	10,091	76.3	(735)	(7.3)	(6.7)
Core Domestic	*8,953*	*61.6*	*9,563*	*72.3*	*(610)*	*(6.4)*	*(6.0)*
International Wholesale	*642*	*4.4*	*805*	*6.1*	*(163)*	*(20.2)*	*(17.5)*
Brazil	3,499	*24.1*	2,875	21.7	624	21.7	16.8
Argentina	1,511	*10.4*	-	-	1,511	-	27.8
Media, Olivetti and Other Operations	280	*1.9*	346	2.6	(66)	(19.1)	(7.9)
Adjustments and Eliminations	*(103)*	*(0.7)*	*(89)*	*(0.6)*	*(14)*		
Total consolidated revenues	14,543	100.0	13,223	100.0	1,320	10.0	1.0

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

The Domestic Business Unit (divided into Core Domestic and International Wholesale) reports a declining trend in organic Revenues of 6.7% compared to the first half of 2010. This is an improvement over the first quarter of the year (-7.4%) thanks to the initial results from the repositioning strategy undertaken in the mobile business and the defense of value of the fixed customer base.

The organic services component (8,995 million euros in the first half of 2011) records a contraction of 6.9% and confirms the improving trend over the prior year (-7.6% in the first quarter of 2011 compared to -6.2% in the second quarter of 2011), driven by the mobile area (-10.2% in the first half of 2011, -8.7% in the second quarter of 2011), where the efforts made to competitively reposition TIM s rate plans are still being felt but to a lesser degree. The fixed area, with a contraction in revenues of 332 million euros (-4.9% in the first half of 2011, in line with the first quarter of 2011), reflects the performance of the International Wholesale voice business. Revenues in that area were penalized by strong price pressure caused by market competition and also rationalization measures undertaken to achieve a more selective approach to the client portfolio, recording a reduction of 21.8% in the first half of 2011, although there was no significant impact on the margin. Retail customer Revenues also contracted from the prior year (-6.2%) but improved during the first half (-6.3% in the first quarter of 2011; -6.0% in the second quarter of 2011).

As for handset sales, revenues total 361 million euros in the first half of 2011, displaying an increase driven entirely by the mobile area which benefits from a greater sales push on terminals offering mobile internet services.

As for the Brazil Business Unit, organic revenues grew 16.8% in the first half of 2011 compared to the first half of 2010. Service revenues confirm the positive trend (+10.4% in the first half of 2011) that was seen in the first quarter of 2011 (+9.0%), propelled by the growth of the customer base (55.5 million lines at June 30, 2011). Handset sales also show a significant increase (+142% in the first half of 2011) boosted, like the domestic business, by the strategy focusing on smartphones and webphones as the lever for the growth of mobile data traffic revenues.

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

EBITDA

EBITDA is 5,977 million euros, increasing 244 million euros (+4.3%) compared to the same period of the prior year; the EBITDA margin is 41.1% (43.4% in the first half of 2010). In organic terms, EBITDA decreased 2.0% and the EBITDA margin is down 1.2 percentage points (41.4% in the first half of 2011 vs. 42.6% in the first half of 2010).

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

(millions of euros)	1st Half 2011		1st Half 2010		Change		
		% of total		% of total	amount	%	% organic
Domestic	4,547	*76.1*	4,920	85.8	(373)	*(7.6)*	(6.2)
EBITDA margin	*48.6*		*48.8*		*(0.2) pp*		*0.3 pp*
Brazil	948	*15.9*	823	14.4	125	15.2	10.6
EBITDA margin	*27.1*		*28.6*		*(1.5) pp*		*(1.5) pp*
Argentina	506	*8.5*	-	-	506		*23.8*
EBITDA margin	*33.5*		-	-			
Media, Olivetti and Other Operations	(24)	*(0.5)*	(11)	(0.2)	(13)		
Adjustments and Eliminations	-	-	*1*	-	(1)		
Total consolidated EBITDA	5,977	100.0	5,733	100.0	244	4.3	(2.0)
EBITDA margin	*41.1*		*43.4*		*(2.3) pp*		*(1.2) pp*

The following chart summarizes the changes in organic EBITDA:

(Revenues and income) / Costs and expenses excluded from the calculation of organic EBITDA are the following:

(millions of euros)	1st Half 2011	1st Half 2010	Change
Non-organic revenues	-	(35)	35
Disputes and settlements	8	4	4
Other	36	12	24
Total net non-organic (revenues and income) / costs and expenses	44	(19)	63

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

Acquisition of goods and services: the increase of 864 million euros is largely due to the entry of the Argentina Business Unit in the scope of consolidation (an impact of 617 million euros in the first half of 2011) and the surge in the sales and technical costs of the Brazil Business Unit due mainly to an overall increase of +574 million euros needed to support the growth of the customer base and sales. Countering these charges is the performance of the domestic business which benefits from cost cutting actions which contributed to a reduction in purchases of 274 million euros compared to the first half of 2010 (-7.6%);

Employee benefits expenses: record a total increase of 119 million euros. The increase largely reflects the entry of the Argentina Business Unit in the scope of consolidation (an impact of 208 million euros in the first half of 2011); in contrast, the Italian component of ordinary employee benefits expenses is down 98 million mainly due to the reduction in the average headcount of the salaried workforce of 4,176 persons compared to the first half of 2010 (of whom -1,497 are under so-called solidarity contracts in Telecom Italia S.p.A. and Shared Service Center S.r.l.);

Other operating expenses: grew 274 million euros compared to the first half of 2010 largely on account of the entry of the Argentina Business Unit in the scope of consolidation (an impact of 157 million euros in the first half of 2011), the increase of the Brazil Business Unit (+47 million euros including an exchange rate effect of 12 million euros) and the Domestic Business Unit (+73 million euros). In particular:

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writedowns and expenses in connection with credit management include 180 million euros referring to the Domestic Business Unit (154 million euros in the first half of 2010), 47 million euros to the Brazil Business Unit (77 million euros in the first half of 2010) and 15 million euros to the Argentina Business Unit;

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provision charges recorded mainly for pending disputes include 43 million euros referring to the Domestic Business Unit (19 million euros in the first half of 2010), 30 million euros to the Brazil Business Unit (17 million euros in the first half of 2010) and 5 million euros to the Argentina Business Unit;

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telecommunications operating fees and charges show an increase of 93 million euros referring primarily to the Brazil Business Unit (+60 million euros, including a positive exchange rate effect of 7 million euros), as well as the entry of the Argentina Business Unit in the scope of consolidation (28 million euros).

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

Acquisition of goods and services

(millions of euros)	1st Half 2011	1st Half 2010	Change
Purchases of goods	1,162	559	603
Portion of revenues to be paid to other operators and interconnection costs	2,088	2,154	(66)
Commercial and advertising costs	1,125	987	138
Power, maintenance and outsourced services	707	595	112
Rent and leases	316	289	27
Other service expenses	834	784	50
Total acquisition of goods and services	6,232	5,368	864
% of Revenues	*42.9*	*40.6*	*2.3 pp*

Employee benefits expenses

(millions of euros)	1st Half 2011	1st Half 2010	Change
Employee benefits expenses - Italy	1,576	1,674	(98)
Employee benefits expenses Outside Italy	388	171	217
Total employee benefits expenses	1,964	1,845	119
% of Revenues	*13.5*	*14.0*	*(0.5) pp*

Average headcount of the salaried workforce

(equivalent number)	1st Half 2011	1st Half 2010	Change
Average salaried headcount Italy	53,555	57,731	(4,176)

Average salaried headcount Outside Italy[1]	24,430	9,399	15,031
Total average salaried headcount [2]	77,985	67,130	10,855

(1)

The increment in the average headcount of the salaried workforce is primarily attributable to the entry of the Argentina Business Unit in the scope of consolidation (14,993 average headcount in the first half of 2011).

(2)

Includes the average headcount with temp work contracts: 95 in the first half of 2011 (78 in Italy and 17 outside Italy). In the first half of 2010, the headcount was 77 (64 in Italy and 13 outside Italy).

Headcount at period-end

(number)	6/30/2011	12/31/2010	Change
Headcount Italy	57,853	58,045	(192)
Headcount Outside Italy	26,482	26,155	327
Total[1]	84,335	84,200	135

(1)

Includes headcount with temp work contracts: 90 at June 30, 2011 and 71 at December 31, 2010.

Other income

(millions of euros)	1st Half 2011	1st Half 2010	Change
Late payment fees charged for telephone services	36	35	1
Recovery of employee benefit expenses, purchases and services rendered	14	19	(5)
Capital and operating grants	14	17	(3)
Damage compensation, penalties and sundry recoveries	10	7	3
Sundry income	34	26	8
Total	108	104	4

Other operating expenses

(millions of euros)	1st Half 2011	1st Half 2010	Change
Writedowns and expenses in connection with credit management	244	236	8
Provision charges	80	38	42
Telecommunications operating fees and charges	301	208	93
Indirect duties and taxes	167	58	109
Penalties, settlement compensation and administrative fines	21	9	12
Association dues and fees, donations, scholarships and traineeships	11	12	(1)
Sundry expenses	20	9	11
Total	844	570	274

Depreciation and amortization

Details are as follows:

(millions of euros)	1st Half 2011	1st Half 2010	Change
Amortization of intangible assets with a finite useful life	1,092	1,183	(91)
Depreciation of property, plant and equipment owned and leased	1,751	1,662	89
Total	2,843	2,845	(2)

The increase in amortization and depreciation charges is due to the entry of the Argentina Business Unit in the scope of consolidation (an impact of 261 million euros in the first half of 2011) countered by the decrease in amortization and depreciation charges of the Domestic Business Unit (-111 million euros) and the Brazil Business Unit (-149 million euros, including the effect of the change in the real/euro exchange rate of +28 million euros).

Impairment reversals (losses) on non-current assets

The impairment losses on non-current assets amount to 3,182 million euros in the first half of 2011 following the impairment charge to Goodwill allocated to the Core Domestic cash-generating unit of the Domestic Business Unit.

Specifically, in the first half of 2011, the Group, as in prior years, repeated the impairment test on goodwill. The results of the test led to an impairment charge to the goodwill allocated to the Core Domestic cash-generating unit of 3,182 million euros. The impairment test, according to the Group s specific testing procedure, took into account the worsening of the financial market context both in general terms, with reference to the trend of interest rates, and in specific terms, according to the expectations of analysts about the anticipated performance of the Business Unit in question. For a more detailed analysis, reference should be made to the Note Goodwill in the Telecom Italia Group half-year condensed consolidated financial statements at June 30, 2011.

EBIT

EBIT is a negative 51 million euros, with a negative change of 2,932 million euros compared to the first half of 2010. The organic change in EBIT, calculated by excluding also the above goodwill impairment charge, is a profit of 122 million euros (+4.0%); the organic EBIT margin grew from 21.2% in the first half of 2010 to 21.8% in the first half of 2011.

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

excluding the effect of the change in the scope of consolidation (184 million euros, mainly referring to the consolidation of the Argentina Business Unit);

excluding the effect of the exchange rate changes (+6 million euros);

excluding (revenues and income) / costs and expenses, with details as follows:

(millions of euros)	1st Half 2011	1st Half 2010	Change
Non-organic costs and expenses already described under EBITDA	44	(19)	63
Impairment charge of CGU Core Domestic goodwill	3,182	-	3,182
Other	(1)	-	(1)
Total net non-organic (revenues and income)/costs and expenses	3,225	(19)	3,244

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

Details are as follows:

(millions of euros)	1st Half 2011	1st Half 2010	Change
EtecSA (Cuba)	-	36	(36)
Other	(12)	3	(15)
Total	(12)	39	(51)

The investment in EtecSA (Cuba), which was classified in Non-current assets held for sale starting from the month of October 2010, was sold on January 31, 2011.

Other income (expenses) from investments

In the first half of 2011, Other income (expenses) from investments is an income balance of 15 million euros and refers for 17 million euros to the gain on the sale of the entire 27% investment in the Cuban operator EtecSA. That amount is in addition to the benefit from the impairment reversal of 30 million euros, recorded in 2010.

In the first half of 2010, Other income (expenses) from investments was an income balance of 2 million euros and mainly included the net gains on the sale of minor companies.

Finance income (expenses)

Finance income (expenses) is an expense balance of 961 million euros (an expense balance of 998 million euros in the first half of 2010); this is an improvement of 37 million euros largely arising from lower net debt exposure.

Income tax expense

Income tax expense is 777 million euros and posts an increase of 95 million euros compared to the first half of 2010 (682 million euros) owing to higher taxable profit reported by the South American Business Units.

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

In the first half of 2011, the balance is a loss of 11 million euros and includes expenses incurred in connection with the sales transactions of prior years.

Profit (loss) for the period

The profit (loss) for the period can be analyzed as follows:

(millions of euros)	1st Half 2011	1st Half 2010
Profit (loss) for the period	(1,797)	1,240
Attributable to:		
Owners of the Parent:		
Profit (loss) from continuing operations	(2,002)	1,213
Profit (loss) from Discontinued operations/Non-current assets held for sale	(11)	(2)
Profit (loss) for the period attributable to owners of the Parent	(2,013)	1,211
Non-controlling interests:		
Profit (loss) from continuing operations	216	29
Profit (loss) from Discontinued operations/Non-current assets held for sale	-	-
Profit (loss) attributable to Non-controlling interests	216	29

Consolidated Financial Position Performance

Financial position structure

(millions of euros)	6/30/2011 (a)	12/31/2010 (b)	Change (a-b)
Assets			
Non-current assets	67,793	73,153	(5,360)
Goodwill	*40,691*	*43,912*	*(3,221)*
Other intangible assets	*7,459*	*7,903*	*(444)*
Tangible assets	*15,712*	*16,550*	*(838)*
Other non-current assets	*3,931*	*4,788*	*(857)*
Current assets	14,512	15,589	(1,077)
Inventories, Trade and miscellaneous receivables and other current assets	*8,934*	*8,177*	*757*
Current income tax receivables	*131*	*132*	*(1)*
Securities other than investments, Financial receivables and other current financial assets, Cash and cash equivalents	*5,447*	*7,280*	*(1,833)*
Discontinued operations/Non-current assets held for sale	-	389	(389)
of a financial nature	-	-	-
of a non-financial nature	-	*389*	*(389)*
	82,305	89,131	**(6,826)**
Equity and liabilities			
Equity	29,354	32,610	(3,256)
Non-current liabilities	36,932	38,450	(1,518)
Current liabilities	16,019	18,071	(2,052)
Liabilities directly associated with Discontinued operations/Non-current assets held for sale			
of a financial nature	-	-	-
of a non-financial nature	-	-	-
	82,305	89,131	**(6,826)**

Non-current assets

Goodwill: decreased 3,221 million euros due not only to the previously mentioned impairment charge of 3,182 million euros but also to fluctuations in the exchange rates of the companies in Brazil and Argentina.

Other intangible assets: decreased 444 million euros, from 7,903 million euros at the end of 2010 to 7,459 million euros at June 30, 2011, being the balance of the following:

additions (+853 million euros);

amortization charge for the period (-1,092 million euros);

disposals, exchange differences, other changes in the scope of consolidation, reclassifications and other movements (for a net balance of -205 million euros).

Tangible assets: decreased 838 million euros from 16,550 million euros at the end of 2010 to 15,712 million euros at June 30, 2011, being the balance of the following:

additions (+1,184 million euros);

depreciation charge for the period (-1,751 million euros);

disposals, exchange differences, other changes in the scope of consolidation, reclassifications and other movements (for a net balance of -271 million euros).

Discontinued operations/Non-current assets held for sale

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

Consolidated equity

Consolidated equity amounts to 29,354 million euros (32,610 million euros at December 31, 2010), of which 25,761 million euros is attributable to owners of the Parent (28,819 million euros at December 31, 2010) and 3,593 million euros is attributable to Non-controlling interests (3,791 million euros at December 31, 2010).

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

(millions of euros)	6/30/2011	12/31/2010
At the beginning of the period	**32,610**	27,120
Total comprehensive income (loss) for the period	(1,868)	4,568
Dividends declared by:	(1,257)	(1,164)
Telecom Italia S.p.A.	*(1,184)*	*(1,029)*
Other Group companies	*(73)*	*(135)*
Effect of capital transactions by Telecom Italia Media	-	47
Issue of equity instruments	4	32
Effect of increase in economic stake in Argentina BU	(153)	-
Change in scope of consolidation and other changes	18	2,007
At the end of the period	**29,354**	

Cash flows

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

Change in adjusted net financial debt

(millions of euros)	1st Half 2011	1st Half 2010	Change
EBITDA	5,977	5,733	244
Capital expenditures on an accrual basis	(2,037)	(2,021)	(16)
Change in net operating working capital:	(1,381)	(1,518)	137
Change in inventories	*(73)*	*109*	*(182)*
Change in trade receivables and net amounts due on construction contracts	*(278)*	*(598)*	*320*
Change in trade payables (*)	*(843)*	*(1,025)*	*182*
Other changes in operating receivables/payables	*(187)*	*(4)*	*(183)*
Change in provisions for employees benefits	(55)	(5)	(50)
Change in operating provisions and Other changes	8	(37)	45
Net operating free cash flow	**2,512**	**2,152**	**360**
% of Revenues	*17.3*	*16.3*	*1.0 pp*
Sale of investments and other disposals flow	392	812	(420)
Financial investments	(156)	(4)	(152)
Telecom Italia Media capital increase	-	44	(44)
Dividend payment	(1,325)	(1,060)	(265)
Finance expenses, income taxes and other net non-operating requirements flow	(1,074)	(1,574)	500
Reduction/(Increase) in adjusted net financial debt	**349**	**370**	**21**

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

In addition to what has already been described with reference to EBITDA, net operating free cash flow during the first half of 2011 has been particularly impacted by the following:

Capital expenditures on an accrual basis

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

(millions of euros)	1st Half 2011	% of total	1st Half 2010	% of total	Change
Domestic	1,358	*66.7*	1,487	*73.6*	(129)
Brazil	444	*21.8*	507	*25.1*	(63)
Argentina	205	*10.1*	-	-	205
Media, Olivetti and Other Operations	30	*1.4*	27	*1.3*	3
Adjustments and Eliminations	-	-	-	-	-
Total consolidated capital expenditures	2,037	100.0	2,021	100.0	16

% of Revenues	*14.0*	*15.3*	*(1.3) pp*

Capital expenditures in the first half of 2011 total 2,037 million euros and are basically unchanged compared to the first half of 2010. Specifically, the reduction in the capital expenditures of the Domestic Business Unit (-129 million euros; -8.7%), which also benefits from the effects of the programs to cut costs and capital expenditures, and of the Brazil Business Unit (-63 million euros) is offset by the entry of the Argentina Business Unit in the scope of consolidation (+205 million euros).

Sale of investments and other disposals flow

Sale of investments and other disposals flow totals 392 million euros and 386 million euros of that amount refers to the portion already received, net of related accessory charges, from the sale of EtecSA (Cuba). The transaction specifically provides that the Telecom Italia Group will receive a total of 706 million U.S. dollars, of which 500 million U.S. dollars has already been paid by the buyer on

January 31, 2011; the remaining amount will be paid by EtecSA in 36 monthly installments. The receivable is secured by specific guarantees.

Financial investments: acquisition of stakes in the Sofora Telecom Argentina group

During the first half of 2011, the Telecom Italia Group increased the stakes held in Sofora Telecomunicaciones S.A. and in Nortel Inversora S.A. (the controlling holding company of the Telecom Argentina group, which, in turn, is controlled by Sofora Telecomunicaciones) for a total investment of 155 million euros.

In particular:

on January 24, 2011, the Telecom Italia Group, through its subsidiary Telecom Italia International N.V., purchased 2,351,752 Nortel American Depositary Shares (ADS), representing *Preferidas B* shares, from Fintech Investment Ltd for 65.8 million U.S. dollars.

The ADSs in question represent 117,587.6 *Preferidas B* shares (without voting rights);

on March 9, 2011, Telecom Italia, through its subsidiary Telecom Italia International N.V., purchased a 10% stake in Sofora Telecomunicaciones S.A. from the local partner Werthein and thus increased its investment holding in Sofora from 58% to 68% of the company s share capital. The transaction did not alter or modify either the governance rights of the Telecom Argentina group established by agreement between the shareholders signed by the Telecom Italia Group and Werthein, which is still in force, or the commitments undertaken by the Telecom Italia Group with the Argentine antitrust authorities.

In view of the above increments in the investments, the economic stake of the Telecom Italia Group in Telecom Argentina rose from 16.2% at December 31, 2010 to the current 21.1%.

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

Finance expenses, income taxes and other net non-operating requirements flow mainly includes the payment, during the first half of 2011, of net finance expenses, income taxes and also the change in non-operating receivables and payables.

During the first half of 2010, the item also included the court ordered deposit of 282 million euros for the precautionary confiscation of liquid resources relating to the Telecom Italia Sparkle case. The seizure order was reversed in August 2010.

Net Financial Debt

Net financial debt is composed as follows:

Net financial debt

(millions of euros)	6/30/2011 (a)	12/31/2010 (b)	Change (a-b)
Non-current financial liabilities			
Bonds	23,153	24,589	(1,436)
Amounts due to banks, other financial payables and liabilities	8,554	8,317	237
Finance lease liabilities	1,379	1,442	(63)
	33,086	34,348	(1,262)
Current financial liabilities (*)			
Bonds	3,675	4,989	(1,314)
Amounts due to banks, other financial payables and liabilities	1,479	1,661	(182)
Finance lease liabilities	254	232	22
	5,408	6,882	(1,474)
Financial liabilities relating to Discontinued operations/Non-current assets held for sale	**-**	**-**	-
Total Gross financial debt	38,494	41,230	(2,736)
Non-current financial assets			
Securities other than investments	(12)	(13)	1
Financial receivables and other non-current financial assets	(1,530)	(1,850)	320
	(1,542)	(1,863)	321
Current financial assets			
Securities other than investments	(1,301)	(1,316)	15
Financial receivables and other current financial assets	(386)	(438)	52
Cash and cash equivalents	(3,760)	(5,526)	1,766
	(5,447)	(7,280)	1,833
Financial assets relating to Discontinued operations/Non-current assets held for sale	-	-	-
Total financial assets	(6,989)	(9,143)	2,154
Net financial debt carrying amount	31,505	32,087	(582)
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(386)*	*(619)*	**233**
Adjusted net financial debt	31,119	31,468	(349)
Breakdown as follows:			
Total adjusted gross financial debt	37,082	39,383	(2,301)
Total adjusted financial assets	(5,963)	(7,915)	1,952
(*) *of which current portion of medium/long-term debt:*			

Bonds	*3,675*	*4,989*	*(1,314)*
Amounts due to banks, other financial payables and liabilities	*998*	*919*	*79*
Finance lease liabilities	*254*	*232*	*22*

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

Furthermore, in order to determine its exposure to interest rates, the Group defines an optimum composition for the fixed-rate and variable-rate debt structure and uses derivative financial instruments to achieve that prefixed composition. Taking into account the Group s operating activities, the optimum mix of medium/long-term non-current financial liabilities has been established, on the basis of the nominal amount, in a range of 60% - 70% for the fixed-rate component and 30% - 40% for the variable-rate component.

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

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

Sales of receivables to factoring companies

The sales of receivables to factoring companies finalized during the first half of 2011 resulted in a positive effect on net financial debt at June 30, 2011 of 815 million euros (1,209 million euros at December 31, 2010).

Gross financial debt

Bonds

Bonds at June 30, 2011 are recorded for 26,828 million euros (29,578 million euros at December 31, 2010). Their nominal repayment amount is 26,041 million euros, decreasing 2,288 million euros compared to December 31, 2010 (28,329 million euros).

The change in bonds during the first half of 2011 is as follows:

(millions of original currency)	Currency	Amount	Issue date

New issues			
Telecom Italia S.p.A. 750 million euros 4.75% maturing 5/25/2018	Euro	750	5/25/2011
Telecom Italia S.p.A. 1,000 million euros 5.125% maturing 1/25/2016	Euro	1,000	1/25/2011

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

[1] Net of repayments by the company for 209 million euros during the years 2009-2011.

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

giving investors a further possibility of monetizing their positions;

partially repaying some debt securities before maturity, increasing the overall return on the Group s liquidity without inviting any additional risks.

In particular, the following bonds were repurchased:

(millions of original currency)	Currency	Amount	Buyback periods
Buybacks			
Telecom Italia Finance S.A. 1,791 million euros 7.50% maturing April 2011 [*]	Euro	93	January - March 2011
Telecom Italia Finance S.A. 813 million euros 7.25% maturing April 2012	Euro	187	January - March 2011

[*]

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

In reference to the Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, the nominal amount at June 30, 2011 is equal to 283 million euros and 22 million euros lower compared to December 31, 2010 (305 million euros).

Revolving Credit Facility

The following table shows the composition and the drawdown of the committed credit lines available at June 30, 2011. These are represented by the Revolving Credit Facility for a total of 8 billion euros expiring August 2014, the syndicated revolving line for a total of 1.25 billion euros expiring February 2013 and the revolving credit line for a total of 200 million euros signed December 20, 2010 and expiring June 19, 2012 (renewable at the discretion of Telecom Italia up to December 18, 2013):

(billions of euros)	6/30/2011		12/31/2010	
	Agreed	Drawn down	Agreed	Drawn down
Revolving Credit Facility expiring February 2013	1.25	-	1.25	--
Revolving Credit Facility expiring August 2014	8.0	1.5	8.0	1.5
Revolving Credit Facility expiring June 2012 (renewable until December 2013)	0.2	0.12	0.2	0.12
Total	9.45	1.62	9.45	1.62

Lehman Brothers Bankhaus AG London Branch bank is the Lender of the Revolving Credit Facility expiring 2014 with a commitment of 19 million euros and an amount disbursed of 3.56 million euros.

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

Maturities of financial liabilities and average cost of debt

The average maturity of non-current financial liabilities (including the current portion of medium/long-term financial liabilities) is 7.67 years.

The average cost of the Group s debt, considered as the cost for the period calculated on an annual basis and resulting from the ratio of debt-related expenses to average exposure, is about 5.4%.

For details of the maturities of financial liabilities in terms of expected nominal repayment amounts, as contractually agreed, reference should be made to the Notes Financial liabilities (current and non-current) and Financial risk management in the Telecom Italia Group first-half condensed consolidated financial statements at June 30, 2011.

Current financial assets and liquidity margin

The Telecom Italia Group s available liquidity margin, calculated as the sum of Cash and cash equivalents and current Securities other than investments, amounts to 5,061 million euros at June 30, 2011 (6,842 million euros at December 31, 2010) which, together with its unused committed credit lines for 7.8 billion euros, allows the Group to amply meet its repayment obligations over the next 24 months

In particular:

Cash and cash equivalents amount to 3,760 million euros (5,526 million euros at December 31, 2010). The different technical forms of investing available cash at June 30, 2011, which include euro commercial paper for 174 million euros, can be analyzed as follows:

Maturities: investments have a maximum maturity of three months;

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

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

Securities other than investments amount to 1,301 million euros (1,316 million euros at December 31, 2010). Such forms of investment represent alternatives to the investment of liquidity with the aim of raising the return. These mainly consist of 1,149 million euros of Italian treasury bonds purchased by Telecom Italia S.p.A. (with an A rating by S&P s) and 150 million euros of bonds (with a rating of at least BBB+ by S&P s) with different maturities, but all with an active market, that is, readily convertible into cash.

In the **second quarter of 2011, adjusted net financial debt** increased 497 million euros: the payment of dividends for a total of 1,325 million euros absorbed the positive effects from positive operating changes.

Adjusted net financial debt

(millions of euros)	6/30/2011	**3/31/2011**	**Change**
Net financial debt carrying amount	31,505	30,972	533
Reversal of fair value measurement of derivatives and related financial assets/liabilities	*(386)*	*(350)*	*(36)*
Adjusted net financial debt	31,119	30,622	497
Detailed as follows:			
Total adjusted gross financial debt	37,082	*38,285*	*(1,203)*
Total adjusted financial assets	(5,963)	*(7,663)*	*1,700*

Events Subsequent to June 30, 2011

With regard to subsequent events, reference should be made to the specific Note Events subsequent to June 30, 2011 in the Telecom Italia Group half-year condensed consolidated financial statements at June 30, 2011.

Business Outlook for the Year 2011

As for the Telecom Italia Group s outlook for the current year, the objectives linked with the principal economic indicators, as outlined in the Business Plan 2011-2013, are, for the full year 2011:

Organic revenues and organic EBITDA: basically stable compared to 2010 (considering the consolidation of the Argentina Business Unit for 12 months);

Capital expenditures: approximately 4.8 billion euros, excluding the impact of the outcome of the bid to use LTE technology for mobile frequencies in the domestic market;

Adjusted net financial debt: about 29.5 billion euros at the end of 2011, excluding the impact of the outcome of the above bid.

Such outlook for the year 2011 could nevertheless be affected by risks and uncertainties caused by multiple factors, the majority of which are outside the control of the Group, some of which are:

changes in the general macroeconomic situation in the Italian and South American markets;

variations in business conditions;

changes to laws and regulations (price and rate variations);

outcomes of disputes and litigations with regulatory authorities, competitors and other parties;

financial risks (interest rate and/or exchange rate trends).

Half-year Condensed Consolidated Financial Statements

Separate Consolidated Income Statements

(millions of euros)	1st Half 2011 (a)	1st Half 2010 (b)	Change (a-b) amount	%
Revenues	14,543	13,223	1,320	10.0
Other income	108	104	4	3.8
Total operating revenues and other income	14,651	13,327	1,324	9.9
Acquisition of goods and services	(6,232)	(5,368)	(864)	(16.1)
Employee benefits expenses	(1,964)	(1,845)	(119)	(6.4)
Other operating expenses	(844)	(570)	(274)	(48.1)
Changes in inventories	81	(125)	206	°
Internally generated assets	285	314	(29)	(9.2)
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)	5,977	5,733	244	4.3
Depreciation and amortization	(2,843)	(2,845)	2	0.1
Gains (losses) on disposals of non-current assets	(3)	(2)	(1)	°
Impairment reversals (losses) on non-current assets	(3,182)	(5)	(3,177)	°
Operating profit (loss) (EBIT)	(51)	2,881	(2,932)	°
Share of profits (losses) of associates and joint ventures accounted for using the equity method	(12)	39	(51)	°
Other income (expenses) from investments	15	2	13	°
Finance income	1,685	3,464	(1,779)	(51.4)
Finance expenses	(2,646)	(4,462)	1,816	40.7
Profit (loss) before tax from continuing operations	(1,009)	1,924	(2,933)	°
Income tax expense	(777)	(682)	(95)	(13.9)
Profit (loss) from continuing operations	(1,786)	1,242	(3,028)	°
Profit (loss) from Discontinued operations/Non-current assets held for sale	(11)	(2)	(9)	°
Profit (loss) for the period	(1,797)	1,240	(3,037)	°
Attributable to:				
Owners of the Parent	(2,013)	1,211	(3,224)	°
Non-controlling interests	216	29	187	°

Consolidated Statements of Comprehensive Income

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

(millions of euros)		1st Half 2011	1st Half 2010
Profit (loss) for the period	(a)	(1,797)	1,240
Other components of the Statements of Comprehensive Income:			
Available-for-sale financial assets:			
Profit (loss) from fair value adjustments		5	15
Loss (profit) transferred to the Separated Consolidated Income Statement		1	5
Income tax expense		(1)	(7)
	(b)	5	13
Hedging instruments:			
Profit (loss) from fair value adjustments		(346)	1,394
Loss (profit) transferred to the Separated Consolidated Income Statement		634	(1,111)
Income tax expense		(80)	(76)
	(c)	208	207
Exchange differences on translating foreign operations:			
Profit (loss) on translating foreign operations		(360)	589
Loss (profit) on translating foreign operations transferred to the Separate Consolidated Income Statement		75	-
Income tax expense		-	-
	(d)	(285)	589
Share of other profits (losses) of associates and joint ventures accounted for using the equity method:			
Profit (loss)		1	54
Loss (profit) transferred to the Separated Consolidated Income Statement		-	-
Income tax expense		-	-
	(e)	1	54
Total	(f=b+c+d+e)	(71)	863
Total Profit (loss) for the period	(a+f)	(1,868)	2,103
Attributable to:			
Owners of the Parent		(1,851)	1,928
Non-controlling interests		(17)	175

Consolidated Statements of Financial Position

(millions of euros)		6/30/2011 (a)	12/31/2010 (b)	Change (a-b)
Assets				
Non-current assets				
Intangible assets				
Goodwill		40,691	43,912	(3,221)
Other intangible assets		7,459	7,903	(444)
		48,150	51,815	(3,665)
Tangible assets				
Property, plant and equipment owned		14,588	15,373	(785)
Assets held under finance leases		1,124	1,177	(53)
		15,712	16,550	(838)
Other non-current assets				
Investments in associates and joint ventures accounted for using the equity method		73	85	(12)
Other investments		44	43	1
Securities, financial receivables and other non-current financial assets		1,542	1,863	(321)
Miscellaneous receivables and other non-current assets		1,131	934	197
Deferred tax assets		1,141	1,863	(722)
		3,931	4,788	(857)
Total Non-current assets	(a)	67,793	73,153	(5,360)
Current assets				
Inventories		460	387	73
Trade and miscellaneous receivables and other current assets		8,474	7,790	684
Current income tax receivables		131	132	(1)
Securities other than investments		1,301	1,316	(15)
Financial receivables and other current financial assets		386	438	(52)
Cash and cash equivalents		3,760	5,526	(1,766)
Current assets sub-total		14,512	15,589	(1,077)
Discontinued operations/Non-current assets held for sale				
of a financial nature		-	-	-
of a non-financial nature		-	389	(389)
		-	389	(389)
Total Current assets	(b)	14,512	15,978	(1,466)
Total Assets	(a+b)	82,305	89,131	(6,826)

(millions of euros)		6/30/2011 (a)	12/31/2010 (b	Change (a-b)
Equity and Liabilities				
Equity				
Equity attributable to owners of the Parent		25,761	28,819	(3,058)
Equity attributable to non-controlling interests		3,593	3,791	(198)
Total Equity	(c)	29,354	32,610	(3,256)
Non-current liabilities				
Non-current financial liabilities		33,086	34,348	(1,262)
Employee benefits		1,068	1,129	(61)
Deferred tax liabilities		894	1,027	(133)
Provisions		825	860	(35)
Miscellaneous payables and other non-current liabilities		1,059	1,086	(27)
Total non-current liabilities	(d)	36,932	38,450	(1,518)
Current liabilities				
Current financial liabilities		5,408	6,882	(1,474)
Trade and miscellaneous payables and other current liabilities		10,409	10,954	(545)
Current income tax payables		202	235	(33)
Current liabilities sub-total		16,019	18,071	(2,052)
Liabilities directly associated with Discontinued operations/Non-current assets held for sale				
of a financial nature		-	-	-
of a non-financial nature		-	-	-
		-	**-**	**-**
Total Current liabilities	(e)	16,019	18,071	(2,052)
Total Liabilities	(f=d+e)	52,951	56,521	(3,570)
Total Equity and Liabilities	(c+f)	82,305	89,131	(6,826)

Consolidated Statements of Cash Flows

(millions of euros)	1st Half 2011	1st Half 2010
Cash flows from operating activities:		
Profit (loss) from continuing operations	(1,786)	1,242
Adjustments for:		
Depreciation and amortization	2,843	2,845
Impairment losses (reversals) on non-current assets (including investments)	3,189	52
Net change in deferred tax assets and liabilities	509	618
Losses (gains) realized on disposals of non-current assets (including investments)	(11)	1
Share of losses (profits) of associates and joint ventures accounted for using the equity method	12	(39)
Change in employee benefits	(55)	(5)
Change in inventories	(73)	109
Change in trade receivables and net amounts due from customers on construction contracts	(278)	(598)
Change in trade payables	(258)	(621)
Net change in current income tax receivables/payables	(53)	(4)
Net change in miscellaneous receivables/payables and other assets/liabilities	2	(626)
Cash flows from (used in) operating activities (a)	4,041	2,974
Cash flows from investing activities:		

Purchase of intangible assets on an accrual basis	*(853)*	*(896)*
Purchase of tangible assets on an accrual basis	*(1,184)*	*(1,125)*
Total purchase of intangible and tangible assets on an accrual basis	(2,037)	(2,021)
Change in amounts due to fixed asset suppliers	*(585)*	*(404)*
Total purchase of intangible and tangible assets on a cash basis	(2,622)	(2,425)
Acquisition of control of subsidiaries or other businesses, net of cash acquired	-	(3)
Acquisitions/Disposals of other investments		

(1)

-

Change in financial receivables and other financial assets

516

(339)

Proceeds from sale that result in a loss of control of subsidiaries or
other businesses, net of cash disposed of

(2)

141

Proceeds from sale/repayment of intangible, tangible and other non-current assets

394

12

Cash flows from (used in) investing activities

(b)

(1,715)

(2,614)

Cash flows from financing activities:

Change in current financial liabilities and other

(874)

		1,281
Proceeds from non-current financial liabilities (including current portion)	2,058	1,457
Repayments of non-current financial liabilities (including current portion)	(3,514)	(4,323)
Consideration paid for equity instruments	-	-
Share capital proceeds/reimbursements (including subsidiaries)	-	44
Dividends paid	(1,325)	(1,060)
Changes in ownership interests in consolidated subsidiaries	(155)	-
Cash flows from (used in) financing activities		

	(c)	**(3,810)**	**(2,601)**
Cash flows from (used in) discontinued operations/non-current assets held for sale	(d)	**-**	**-**
Aggregate cash flows	(e=a+b+c+d)	**(1,484)**	**(2,241)**
Net cash and cash equivalents at beginning of the period	(f)	**5,282**	**5,484**
Net foreign exchange differences on net cash and cash equivalents	(g)	(54)	117
Net cash and cash equivalents at end of the period	(h=e+f+g)	**3,744**	**3,360**

Additional Cash Flow Information

(millions of euros)	1st Half 2011	1st Half 2010
Income taxes (paid) received	(208)	(49)
Interest expense paid	(1,792)	(1,795)
Interest income received	632	618
Dividends received	1	1

Analysis of Net Cash and Cash Equivalents

(millions of euros)	1st Half 2011	1st Half 2010
Net cash and cash equivalents at beginning of the period:		
Cash and cash equivalents - from continuing operations	5,526	5,504
Bank overdrafts repayable on demand from continuing operations	(244)	(101)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	-	81
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale	-	-
	5,282	5,484
Net cash and cash equivalents at end of the period:		
Cash and cash equivalents - from continuing operations	3,760	3,507
Bank overdrafts repayable on demand from continuing operations	(16)	(166)
Cash and cash equivalents - from Discontinued operations/Non-current assets held for sale	-	19
Bank overdrafts repayable on demand from Discontinued operations/Non-current assets held for sale	-	-
	3,744	3,360

Highlights   The Business Units of the Telecom Italia Group

The highlights of the Telecom Italia Group are presented in this Interim Management Report based on the following operating segments:

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

Brazil Business Unit: includes mobile (TIM Brasil) and fixed (Intelig) telecommunications operations in Brazil;

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

Media Business Unit: includes television network operations and management;

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

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

The disclosure by operating segment is as follows:

	Revenues		EBITDA		EBIT		Capital expenditures		Headcount at period-end (number)	
(millions of euros)	1st Half	1st Half	1st Half	1st Half	1st Half	1st Half	1st Half	1st Half	6/30/2011	12/31/2010

	2011	2010	2011	2010	2011	2010	2011	2010		
Domestic	9,356	10,091	4,547	4,920	(686)	2,758	1,358	1,487	56,309	56,530
Brazil	3,499	2,875	948	823	440	165	444	507	10,007	10,114
Argentina	1,511	-	506	-	248	-	205	-	16,090	15,650
Media	118	127	9	9	(20)	(21)	26	21	803	777
Olivetti	161	176	(24)	(16)	(27)	(18)	3	3	1,088	1,090
Other Operations	1	43	(9)	(4)	(9)	(14)	1	3	38	39
Adjustments and Eliminations	(103)	(89)	-	1	3	11	-	-	-	-
Consolidated total	14,543	13,223	5,977	5,733	(51)	2,881	2,037	2,021	84,335	84,200

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

	6/30/2011	12/31/2010	6/30/2010
DOMESTIC FIXED			
Fixed-line network connections in Italy at period-end (thousands)	17,124	17,609	18,062
Physical accesses (Consumer + Business) at period-end (thousands)	14,962	15,351	15,741
Broadband accesses in Italy at period-end (thousands)	9,117	9,058	8,958
of which retail accesses (thousands)	*7,169*	*7,175*	*7,134*
Virgilio average daily page views during period (millions)	48.5	45.5	45.4
Virgilio average daily single visitors (millions)	4.2	3.7	3.6
Network infrastructure in Italy:			
access network in copper (millions of km pair, distribution and connection)	111.9	111.7	110.5
access and carrier network in optical fiber (millions of km - fiber)	4.4	4.3	4.1
Network infrastructure abroad:			
European backbone (km of fiber)	55,000	55,000	55,000
Mediterranean (km of submarine cable)	7,000	7,000	7,000
South America (km of fiber)	30,000	30,000	30,000
Total traffic			
Minutes of traffic on fixed-line network (billions)	55.8	121.5	63.9
Domestic traffic	48.5	104.1	54.6
International traffic	7.3	17.4	9.3
DOMESTIC MOBILE			
Number of lines at period-end (thousands)	31,260	31,018	30,545
Change in lines (%)	0.8	0.5	(1.0)
Churn rate (%) (1)	11.1	22.0	11.5
Total outgoing traffic per month (millions of minutes)	3,608	3,305	3,109
Total average outgoing and incoming traffic per month (millions of minutes)	4,801	4,597	4,405
Average monthly revenues per line (in euros) (2)	17.5	19.7	20.1
BRAZIL			
Number of lines at period-end (thousands)	55,512	51,015	44,413
ARGENTINA (*)			
Number of fixed lines at period-end (thousands	4,119	4,107	4,066

Number of mobile lines at period-end (thousands	19,375	18,212	17,169
Broadband accesses at period-end (thousands)	1,457	1,380	1,274
MEDIA			
La7 audience share Free to Air (analog mode) (average during period, in %)	3.7	3.1	2.8
La7 audience share Free to Air (analog mode) (average of last month of period, in %)	4.4	3.3	3.1

(1)

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

(2)

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

(*)

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

The Business Units of the Telecom Italia Group

Domestic

The Business Unit

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

The structure of the Business Unit

Domestic Business Unit is organized as follows:

(*)

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

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

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

-

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

-

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

-

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

-

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

-

Other (support structures): Other includes:

-

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

-

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

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

Main operating and financial data

Key results for the first half of 2011 by the Domestic Business Unit, overall and by segment of clientele / business area, compared to the first half of 2010 are presented in the following tables.

Domestic Business Unit

(millions of euros)	1st Half 2011	1st Half 2010	Change		
			amount	%	% organic
Revenues	9,356	10,091	(735)	(7.3)	(6.7)
EBITDA	4,547	4,920	(373)	(7.6)	(6.2)
EBITDA margin	*48.6*	*48.8*	*(0.2) pp*		*0.3 pp*
EBIT	(686)	2,758	(3,444)	°	(7.3)
EBIT margin	°	*27.3*	°		
Capital expenditures	1,358	1,487	(129)	(8.7)	
Headcount at period-end (number)	56,309	(*) 56,530	(221)	(0.4)	

(*) Headcount at December 31, 2010.

Core Domestic

(millions of euros)	1st Half 2011	1st Half 2010	Change

			amount	%	% organic
Revenues	8,953	9,563	(610)	(6.4)	(6.0)
Consumer	*4,525*	*4,941*	*(416)*	*(8.4)*	*(7.8)*
Business	*1,658*	*1,784*	*(126)*	*(7.1)*	*(7.1)*
Top	*1,618*	*1,708*	*(90)*	*(5.3)*	*(5.3)*
National Wholesale	*1,054*	*1,029*	*25*	*2.4*	*2.4*
Other	*98*	*101*	*(3)*	*(3.0)*	*(3.0)*
EBITDA	4,432	4,773	(341)	(7.1)	(5.8)
EBITDA margin	*49.5*	*49.9*	*(0.4) pp*		*0.1 pp*
EBIT	(747)	2,672	(3,419)	°	(6.5)
EBIT margin	°	*27.9*	°		
Capital expenditures	1,340	1,460	(120)	(8.2)	
Headcount at period-end (number)	55,269	(*) 55,475	(206)	(0.4)	

(*) Headcount at December 31, 2010.

International Wholesale

(millions of euros)	1st Half 2011	1st Half 2010	Change		
			amount	%	% organic
Revenues	642	805	(163)	(20.2)	(17.5)
of which third parties	*431*	*581*	*(150)*	*(25.8)*	*(20.6)*
EBITDA	121	150	(29)	(19.3)	(17.7)
EBITDA margin	*18.8*	*18.6*	*0.2 pp*		
EBIT	61	84	(23)	(27.4)	(29.1)
EBIT margin	*9.5*	*10.4*	*(0.9) pp*		
Capital expenditures	19	29	(10)	(34.5)	
Headcount at period-end (number)	1,040	(*) 1,055	(15)	(1.4)	

(*) Headcount at December 31, 2010.

Revenues

As regards the market segments, for the first half of 2011, the following changes compared to the corresponding period of 2010 are noted:

Consumer: the reduction in revenues of the Consumer segment is 416 million euros (-8.4%), compared to the first half of 2010. The organic decrease is 381 million euros (-7.8%), displaying a recovery in the second quarter (-6.4% compared to -9.2% in the first quarter of 2011). Specifically, organic revenues were calculated by excluding 35 million euros of revenues in the second quarter of 2010, relating to the termination of the 1001TIM loyalty program which had produced an increase in revenues from award credits suspended earlier because not used by the customer. The organic contraction is entirely attributable to revenues from services (-431 million euros, -8.9%) and can be traced primarily to traditional voice services both on Fixed lines (voice revenues: -148 million euros, of which -77 million euros for traffic and -54 million euros for access revenues) and Mobile lines (voice revenues: -271 million euros, of which -236 million euros organic, -204 million euros for outgoing voice, of which -169 million euros organic, and -67 million euros for incoming voice). Such results are still hurt, although to a progressively lesser degree, by a significant reduction in the average price levels of voice traffic after an in-depth review of the rate plan portfolio (with the introduction of increasingly clearer, more attractive and cheaper rate plans and solutions) in the previous year to meet competitive pressure, stem the loss of the customer base and prompt a recovery and improvement in revenues.

Business: the Business segment, in the first half of 2011, records a reduction in revenues of 126 million euros (-7.1%) with a recovery in the second quarter (-6.7% compared to 7.3% in the first quarter of 2011). Such contraction primarily regards the Mobile area and traditional voice services in the Fixed area, with the latter attributable to an erosion of the customer base (-5% compared to June 30, 2010).

Top: the Top segment posts a contraction in revenues of 90 million euros (-5.3%) compared to the first half of 2010 with a recovery in the second quarter (-4.9% compared to -5.8% in the first quarter of 2011). Such decrease can principally be found in revenues from services (-82 million euros, -5.4%) with an improvement in the second quarter (-3.8% compared to -7.0% in the first quarter of 2011, particularly in the VAS Mobile and ICT Fixed components).

National Wholesale: the increase in revenues (+25 million euros, +2.4%) is generated by the growth of the customer base of OLOs (Other Licensed Operators), regarding services for Local Loop Unbundling, Wholesale Line Rental and Bitstream.

International Wholesale Revenues

In the first half of 2011, International Wholesale (the Telecom Italia Sparkle Group) reported revenues of 642 million euros, down 163 million euros (-20.2%) compared to the same period of 2010. Such decline is almost entirely due to voice services (-146 million euros) which are penalized by strong price pressure caused by market competition and also measures to rationalize the sector based on a more selective approach to the customer portfolio but without significantly impacting margins.

IP&Data revenues are basically in alignment with the prior period whereas Multinational Client Services revenues grew slightly. Moreover, revenues in the first half of 2010 included 20 million euros generated by the subsidiary Elettra which was sold in September 2010.

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

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

(millions of euros)	1st Half 2011			1st Half 2010			Change %		
Market segment	Total	Fixed(*)	Mobile(*)	Total	Fixed(*)	Mobile(*)	Total	Fixed(*)	Mobile(*)
Consumer	4,525	2,195	2,417	4,941	2,383	2,673	(8.4)	(7.9)	(9.6)
Business	1,658	1,116	564	1,784	1,175	634	(7.1)	(5.0)	(11.0)
Top National	1,618	1,250	413	1,708	1,305	452	(5.3)	(4.2)	(8.6)
Wholesale	1,054	1,522	81	1,029	1,450	126	2.4	5.0	(35.7)
Other	98	104	21	101	98	23	(3.0)	6.1	(8.7)
Total Core Domestic	8,953	6,187	3,496	9,563	6,411	3,908	(6.4)	(3.5)	(10.5)
International Wholesale	642	642	-	805	805	-	(20.2)	(20.2)	-
Eliminations	*(239)*	*(138)*	-	*(277)*	*(158)*	-	(13.7)	(12.7)	-
Total Domestic	9,356	6,691	3,496	10,091	7,058	3,908	(7.3)	(5.2)	(10.5)

(*)

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

Fixed-line Telecommunications Revenues

In the first half of 2011, fixed-line telecommunications revenues amount to 6,691 million euros, decreasing 367 million euros (-5.2%) compared to the same period of the prior year. Such shrinkage is largely attributable to the reduction in Retail accesses which at the end of June 2011 are equal to 15 million lines (-2.5% compared to December 31, 2010, -4.9% compared to June 30, 2010). Such declining trend slowed down in the second quarter compared to previous quarters (-183 thousand lines in the second quarter of 2011 compared to 206 thousand lines in the first quarter of 2011 and 233 thousand lines in the fourth quarter of 2010) thanks to sales policies aimed at retaining and recapturing customers. In contrast, as concerns Broadband services, sales are basically stable thanks to a customer portfolio which remains more or less steady in a market which is beginning to show signs of saturation but which is always threaded with decisively fierce competition. The total Broadband portfolio at June 30, 2011 is equal to 9.1 million accesses (+59 thousand accesses compared to December 31, 2010), of which wholesale accesses are about 1.9 million (+65 thousand, compared to the end of 2010).

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

(millions of euros)	1st Half 2011	1st Half 2010	Change		
			amount	%	% organic
Retail Voice	2,863	3,123	(260)	(8.3)	(8.3)
Internet	846	888	(42)	(4.7)	(4.7)
Business Data	763	759	4	0.5	0.5
Wholesale	2,038	2,093	(55)	(2.6)	(2.6)
Other	181	195	(14)		
Total Fixed-line Telecommunications Revenues	**6,691**	**7,058**	**(367)**	**(5.2)**	**(4.8)**

Mobile Telecommunications Revenues

Although there is still a contraction in terms of sales, the mobile sector displays a structural improvement in sales performance which confirms the merit of the repositioning strategy adopted for the mobile business: the customer base grew by almost 243,000 lines from the end of 2010 to about 31.3 million with a churn rate equal to 11.1% in the first half, down from 11.5% in the first half of 2010.

Mobile telecommunications revenues total 3,496 million euros in the first half of 2011, decreasing 412 million euros compared to the first half of 2010 (-10.5%, -9.7% in organic terms) with an improving trend in the second quarter of 2011 (-7.6% compared to -12% in the first quarter of 2011) and prospects of a further gain in the second part of the year thanks to the consolidation of positive trends seen in the operating indicators. Revenues from services show an organic change of -10.2% compared to the first half of 2010 (-8.7% in the second quarter of 2011 compared to -11.7% in the first quarter of 2011).

Revenues in the principal areas of business are the following:

(millions of euros)	1st Half 2011	1st Half 2010	Change		
			amount	%	% organic
Outgoing voice	1,798	2,048	(250)	(12.2)	(10.7)
Incoming voice	593	715	(122)	(17.1)	(17.1)
VAS	978	1,022	(44)	(4.3)	(4.3)
Handsets	127	123	4	3.3	3.3
Total Mobile Telecommunications Revenues	**3,496**	**3,908**	**(412)**	**(10.5)**	**(9.7)**

EBITDA

EBITDA of the Domestic Business Unit is 4,547 million euros in the first half of 2011, decreasing 373 million euros compared to the same period of 2010 (-7.6%). The EBITDA margin is 48.6% and is basically in line with the same period of 2010 (-0.2 percentage points). EBITDA is impacted by the contraction in revenues (-735 million euros compared to the same period of 2010) which is only partly compensated by selective control over fixed costs which has cut and reduced these costs compared to the same period of 2010 (total costs -362 million euros, of which -128 million euros net of cost of goods sold and the share of interconnection costs).

Organic EBITDA is 4,591 million euros (-304 million euros, -6.2% compared to the first half of 2010) and the organic EBITDA margin is 49.1%, improving slightly over the same period of 2010 (+0.3 percentage points). Margins in the second quarter show gains with a considerable reduction in the negative trend compared to 2010: -4.8% in the second quarter of 2011 (-117 million euros) compared to -7.6% in the first quarter 2011 (-187 million euros).

In detail:

(millions of euros)	1st Half 2011	1st Half 2010	Change
Historical EBITDA	4,547	4,920	(373)
Exchange rate effect	-	(2)	2
Changes in the scope of consolidation	-	(4)	4
Non-organic (income) expenses	44	(19)	63
Non-organic revenues	-	*(35)*	*35*
Disputes and settlements	*8*	*4*	*4*
Other	*36*	*12*	*24*
Comparable EBITDA	4,591	4,895	(304)

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

(millions of euros)	1st Half 2011	1st Half 2010	Change
Acquisition of goods and services	3,312	3,586	(274)
Employee benefits expenses	1,529	1,627	(98)
Other operating expenses	341	268	73

In particular:

acquisition of goods and services: shrunk 274 million euros (-7.6%) compared to the same period of 2010. Such contraction is mainly due to a decrease in the amounts to be paid to other operators, owing principally to the reduction in voice call termination rates from fixed and mobile networks, absorbed in part by higher commercial costs following a greater push in the marketing area;

employee benefits expenses: total 1,529 million euros and fell 98 million euros compared to the same period of 2010. The decrease is mostly due to the reduction in the average headcount of the salaried workforce (-4,185 persons compared to the first half of 2010, of whom -1,497 are under solidarity contracts at Telecom Italia S.p.A. and Shared Service Center S.r.l.);

other operating expenses: rose 73 million euros compared to the same period of 2010, mostly on account of the increase in provision charges connected with credit management, particularly the Business clientele.

EBIT

EBIT is a negative 686 million euros, with a negative change of 3,444 million euros. EBIT is particularly affected by the goodwill impairment charge of 3,182 million euros by the Core Domestic CGU, which is more fully described in the Review of Operating and Financial Performance of the Telecom Italia Group.

The organic change in EBIT is a negative 199 million euros (-7.3% compared to the first half of 2010, -6.0% in the second quarter); the organic EBIT margin is 27.1% (27.3% in the first half of 2010).

Details are as follows:

(millions of euros)	1st Half 2011	1st Half 2010	Change
Historical EBIT	(686)	2,758	(3,444)
Exchange rate effect	-	(1)	1
Change in scope of consolidation	-	-	-
Non-organic (income) expenses	3,225	(19)	3,244
Non-organic expenses already described under EBITDA	*44*	*(19)*	*63*
Goodwill impairment charge - Core Domestic CGU	*3,182*	-	*3,182*
Other	*(1)*	-	*(1)*
Comparable EBIT	2,539	2,738	(199)

Capital expenditures

Capital expenditures total 1,358 million euros, decreasing 129 million euros compared to the first half of 2010, mainly due to lower investments in IT and Service Creation. The percentage of capital expenditures to revenues is 14.5% (-0.2 percentage points compared to the first half of 2010).

Headcount

Headcount is 56,309, with a reduction of 221 compared to December 31, 2010; the figure includes 4 persons with temp work contracts (8 persons at December 31, 2010).

Principal changes in the regulatory framework

Wholesale fixed markets

Wholesale access services

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

In particular, for the unbundling charge, AGCom has set the following values: 8.70 euros per month from May 1, 2010, 9.02 euros per month from January 1, 2011 and 9.28 euros per month from January 1, 2012. Telecom Italia has been authorized by AGCom (Decision 71/11/CONS) to apply the price changes for the year 2011.

Wholesale origination, termination and call transit

In April 2011, AGCom published the final regulation for setting the 2011 prices (Decision 229/11/CONS) of wholesale origination, local transit, termination on the Telecom Italia network and termination on the network of another operator (reverse), confirming the same price levels as 2010. Specifically concerning the termination service on the networks of alternative operators, AGCom has decided to postpone the application of the symmetric termination prices to 2012, equal to Telecom Italia s local telephone exchange rate (SGU-Urban Group Stage), between alternative infrastructured operators and Telecom Italia itself. Beginning 2013, AGCom has decided that Telecom Italia and the OLOs will offer only IP interconnection with a single rate, resulting from the BU-LRIC (Bottom-Up Long Range Incremental Cost) model which will be developed consistently with the EU Recommendation 2009/396/EC on termination rates. In the early days of June, Telecom Italia filed additional grounds to its appeal to TAR (Regional Administrative Court) against Decision 179/10/CONS which fixes the 2010 reverse termination price equal to Telecom Italia s SGT level, despite the fact that the OLOs are interconnected at the SGU level for the termination of calls on the Telecom Italia network. With these additional grounds, Telecom Italia asks for the annulment also of Decision 229/11/CONS which, for 2011, still calls for asymmetric prices for alternative infrastructured operators. The discussion on the appeals to TAR has been moved to November 17, 2011 due to the incidental appeal by Fastweb against the symmetric termination for 2012.

Next generation networks

On September 23, 2010 with Decision 498/10/CONS, AGCom introduced the procedure concerning the regulation of access services to next generation networks.

The decision to launch the procedure arises from the dispositions in paragraph 7 of art. 73 of Decision 731/09/CONS which states that after the approval of the European Commission s Recommendation on NGA networks, (omissis*)*, the Authority will review the terms for NGA access services included in this regulation . With Decision 301/11/CONS of May 2011, AGCom has therefore launched the public consultation concerning the new regulation of access to next generation networks. AGCom is expected to issue its final decision by September 2011.

Wholesale mobile market

Termination on the mobile market

The public consultation (Decision 254/11/CONS) launched by AGCom concerning the review and updating of the glide path for maximum voice termination rates on single mobile networks has been concluded. In particular, AGCom has proposed the new glide path which gives a symmetrical termination rate for all mobile operators, equal to 0.98 cents /minute starting from January 15, 2015. Moreover, the termination rate symmetry among all the mobile operators was expected to start on January 1, 2014 contrary to which was contained in the past glide path which called for such symmetry to start on July 1, 2012. The final decision is expected in October 2011.

Retail fixed-line markets

Retail charge

Beginning July 1, 2011, a rate adjustment was made which consists of increasing the price of the RTG charge for Consumer clientele from 16.08 euros/month (including VAT) to 16.50 euros/month (including VAT). The last variation of the Consumer charge was made on February 1, 2009.

In line with the new amount of the charge and with AGCom regulations concerning special economic treatment, the RTG charge was modified for the less affluent classes from 8.04 euros /month (including VAT) to 8.25 euros /month (including VAT). The ISDN charge and all the charges for Business connections have instead remained unchanged.

Local, national and fixed-to-mobile retail traffic

Beginning July 1, 2011, a new rate maneuver came into effect which calls for a different breakdown of the plans according to the particular clientele segment. For the Consumer clientele, the Ora Gratis (free hour) for local calls and the Mezz Ora Gratis (free half hour) for long-distance calls was eliminated, while at the same time simplifying the pricing scheme by introducing a flat rate (no longer differentiated by the time slot). Specifically, the new prices are equal to 0.70 cents/minute (including VAT) for local calls and 5.00 cents/minute (including VAT) for long distance. For both types of traffic, the set-up charge for each call is unchanged at 7.87 cents (including VAT). As regards the Business clientele, the Ora Gratis has been eliminated for all local calls (Mezz Ora Gratis for long-distance calls had never been introduced for this type of clientele) while domestic traffic rates (local and long-distance) have remained unchanged.

Wholesale line rental services

Concerning Wholesale Line Rental (WLR) services offered solely in Telecom Italia telephone exchange areas where local loop unbundling access services are absent, with Decision 578/10/CONS dated November 11, 2010, AGCom has set the new price for the period May 1, 2010 to December 31, 2012 based on a Network Cap mechanism which replaces the previous retail-minus regime. In accordance with Decision 578/10/CONS, last April 11, Telecom Italia published the economic terms and conditions of the WLR service for 2011; the monthly price for a POTS line for residential customers has been set at 12.50 euros/month while that for business customers has been set at 14.87 euros/month. Beginning 2012, the WLR charges for non-residential users will be brought into line with those for residential users.

UltraBroadband offering

In order to guarantee the commercial start-up phase of Telecom Italia s retail optical fiber offering, in the transition period until completion of the regulation of next generation access networks (NGAN), AGCom, with Decision 61/11/CONS concerning Telecom Italia s retail offering, has imposed the following conditions: Telecom Italia may only offer the service in those cities in which NGAN services are already being offered by alternative operators, the number of customers is set at a maximum of 40 thousand, Telecom Italia can also only activate its retail offering 60 days after the publication of the wholesale offering EASY IP Fibra , or activations may be effected only after May 1. The Decision also approved Telecom Italia s wholesale offering for the resale of optical fiber navigation and data transmission service (EASY IP Fibra) based on the retail minus principle and has asked Telecom Italia to publish within 150 days from the date of notification to Telecom Italia of Decision 61/11/CONS (that is, by July 24, 2011) a wholesale optical fiber internet access offering with delivery at the IP level.

AGCom fee

In January 2011, AGCom commenced an inspection to verify Telecom Italia s payment of its fee obligations to the Regulator for the years 2006, 2007, 2008, 2009 and 2010. The action undertaken by AGCom regarded all the companies in the sector. On March 1, 2011, AGCom published the findings of the inspection, asserting that Telecom Italia had not paid the correct amounts for the operating fee for the period 2006 to 2010. Telecom Italia has submitted an appeal to the Lazio TAR and the date for the payment injunction has been postponed until the date of the public hearing set by TAR for December 13, 2011. On March 3, 2011, Decision 599/10/CONS was published relating to the payment of the 2011 AGCom annual operating fee. The fee, which was paid on April 30, 2011, was set at 1.8 of 2009 communications sector revenues and the amount paid was equal to 24.2 million euros.

International roaming

On July 6, 2011, the European Commission published the proposed Roaming III Regulation which should take effect on July 1, 2012 and remain in force until June 30, 2022, thus representing a long-term solution to the control of retail and wholesale prices of calls, SMS (short text messages) and data services for intra-EU roaming. The proposal was submitted to the European Parliament and Council for approval on the basis of the so-called co-decision procedure. The Regulation is expected to be approved in the second quarter of 2012.

Frequencies

On December 7, 2010, the 2011 Stability Law was approved after which AGCom and the Department of Communications commenced the procedures for the allotment of the user rights to the radio frequencies to be dedicated to broadband mobile communication services using the frequency range 790-862 MHz and other resources which may be available, in conformity with the provisions of the Code of Electronic Communications.

On June 10, 2011, AGCom published Decision 282/11/CONS containing the regulation on the procedures for the release of the user rights to the frequencies 800, 1800, 2000 and 2600 MHz while the Ministry for Economic Development published in the Gazzetta Ufficiale No. 75 dated June 27, 2011, the call for bids for the allotment of the user rights to the frequencies in the same 800, 1800, 2000 and 2600 MHz bandwidths.

The minimum bid in the auction for the individual lots of frequencies are the following:

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

Telecom Italia was admitted by the Ministry of Economic Development to the bidding for the use of the frequencies. By August 29, the companies admitted to the auction must present their bids which will be opened at a public meeting scheduled for August 30. The award procedures must be completed within a period which ensures that the proceeds from the auction will be paid into the State accounts by September 30, 2011.

Events subsequent to June 30, 2011

Acquisition of 4GH

On July 27, 2011, after having received the AGCM s approval, Telecom Italia finalized the acquisition of a 71% stake in the company 4G Holding S.p.A., with an outlay of about 8.4 million euros. The transaction was carried out through the wholly-owned subsidiary TLC Commercial Services S.r.l.. The acquisition of 4GH, with its roughly 200 points of sale located in the most important shopping centers in Italy, will make it possible for Telecom Italia to build up its positioning in the retail distribution market specialized in the sale of telephony equipment, extending its reach throughout the territory.

Brazil

The Telecom Italia Group operates in the mobile and fixed telecommunications sector in Brazil through the Tim Brasil group which offers services using UMTS and GSM technologies. Moreover, through the subsidiary Intelig Telecomunicações, the Tim Brasil group completes its services portfolio by offering fiber-optic data transmission using full IP technology such as DWDM and MPLS.

The structure of the Business Unit

The Tim Brasil group is organized as follows:

Main operating and financial data

Key results for the first half of 2011 compared to the first half of 2010 are presented in the following table.

	(millions of euros)		(millions of Brazilian reais)		Change	
	1st Half 2011 (a)	1st Half 2010 (b)	1st Half 2011 (c)	1st Half 2010 (d)	amount (c-d)	% (c-d)/d
Revenues	3,499	2,875	8,004	6,855	1,149	16.8
EBITDA	948	823	2,169	1,961	208	10.6
EBITDA margin	*27.1*	*28.6*	*27.1*	*28.6*	*(1.5)pp*	
EBIT	440	165	1,007	393	614	°
EBIT margin	*12.6*	*5.7*	*12.6*	*5.7*	*6.9pp*	
Capital expenditures	444	507	1,015	1,210	(195)	(16.1)
Headcount at period-end (number)			10,007	(*) 10,114	(107)	(1.1)

(*) Headcount at December 31, 2010.

Revenues

Revenues total 8,004 million reais, increasing 1,149 million reais compared to the first half of 2010 (+16.8%). Revenues from services in the first half of 2011 stand at 7,207 million reais, up from 6,526 million reais in the first half of 2010 (+10.4%), whereas product revenues grew from 329 million reais in the first half of 2010 to 797 million reais in the first half of 2011 (+142.2%).

ARPU (Average Revenue Per User) is 21.2 reais in the first half of 2011 against 24.1 reais in the first half of 2010.

Total lines at June 30, 2011 number 55.5 million, growing 25.0% compared to June 30, 2010, corresponding to a 25.5% market share of lines.

EBITDA

EBITDA is 2,169 million reais, increasing 208 million reais compared to the first half of 2010 (+10.6%); the EBITDA margin is 27.1%, 1.5 percentage points lower than the first half of 2010. This result is also the consequence of the strategy focusing on smartphones and webphones as a means to increase revenues from mobile data traffic.

With the percentage of commercial costs to revenues from services basically the same, in order to sustain the expansion of revenues in an increasingly fiercer competitive context, higher margins then become tied to operating efficiencies on the front of industrial costs, employee benefits expenses and trade receivables management.

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

	(millions of euros)		(millions of Brazilian reais)		
	1st Half 2011 (a)	1st Half 2010 (b)	1st Half 2011 (c)	1st Half 2010 (d)	Change (c-d)
Acquisition of goods and services	2,150	1,576	4,919	3,758	1,161
Employee benefits expenses	161	141	368	337	31
Other operating expenses	337	290	771	692	79
Change in inventories	(52)	75	(120)	178	(298)

acquisition of goods and services: totals 4,919 million reais (3,758 million reais in the first half of 2010). The increase of 30.9% compared to the first half of 2010 (+1,161 million reais) is the result of higher purchases of raw materials, auxiliaries, consumables and merchandise for 852 million reais (of which +529 million reais is for handset purchases), higher outside service costs for 111 million reais, higher portion of revenues to be paid to other TLC operators for 103 million reais and higher rent and lease costs for 95 million reais;

employee benefits expenses: amount to 368 million reais, increasing 31 million reais compared to the first half of 2010 (+9.3%). The average headcount grew from 8,692 in the first half of 2010 to 9,053 in the first half of 2011. The percentage of employee benefits expenses to revenues is 4.6%, decreasing 0.3 percentage points compared to the first half of 2010;

other operating expenses: amount to 771 million reais, increasing 11.4% (692 million reais in the first half of 2010). Such expenses consist of the following:

(millions of Brazilian reais)	1st Half 2011	1st Half 2010	Change
Writedowns and expenses in connection with credit management	108	183	(75)
Provision charges	78	43	35
Telecommunications operating fees and charges	555	435	120
Indirect duties and taxes	8	15	(7)

Sundry expenses	22	16	6
Total	771	692	79

EBIT

EBIT amounts to 1,007 million reais, increasing 614 million reais compared to the first half of 2010. This increase is due to a higher contribution by EBITDA compared to the first half of 2010 and lower depreciation and amortization charges of 403 million reais (1,160 million reais in the first half of 2011, compared to 1,563 million reais in the first half of 2010). In particular, the reduction is partly due to lower amortization charges following the revision of the useful life of software (-131 million reais) carried out in 2010 and partly to the reduction in the component relating to handsets (capitalization of handset subsidies and handsets on loan).

Capital expenditures

Capital expenditures stand at 1,015 million reais, decreasing 195 million reais compared to the first half of 2010. This reduction is attributable to both lower subscriber acquisition costs capitalized (handset subsidies) and fewer handsets on loan, and also delays in finalizing the bids for provisioning network equipment, concluded in March 2011 and bringing significant savings will be felt during the course of the current year.

Headcount

Headcount is 10,007 at June 30, 2011, a reduction of 107 compared to December 31, 2010 (10,114).

Commercial developments

In the first half of 2011, TIM built up the B2B commercial business and the offering of its voice and data services.

For the Consumer segment, TIM continued to expand its community through the family of products named Infinity and Liberty (prepaid and postpaid, respectively).

With this in mind and using seasonality as leverage, TIM launched promotional campaigns centered on international traffic offering advantageous packages with price reductions of about 60%. Such plans allow customers to make and receive calls in over 200 countries with which TIM has international roaming agreements. In addition, confined to the state of São Paulo, TIM has made its plans more competitive by eliminating the activation fee and thus reducing the overall cost of a call under the Infinity rate plans (0.25 reais for mobile and 0.50 reais for fixed terminations).

With regard to Data services, the TIM offering is focused on the Infinity and Liberty Web Community, extending the concept of unlimited traffic at a flat rate also for internet mobile services aimed at customers with smartphones, tablets and notebooks.

In the Business market, after launching the Liberty and Empresa Mundi plans, which guarantee companies the liberty of communicating with its employees without additional invoiced costs, TIM announced a package of plans aimed at meeting the connectivity needs of small and medium size companies (SMEs). The three Business Class combo plans, in fact, include unlimited voice, internet and mobile calls for smartphones (free for three months) and innovative handsets, all at a flat monthly rate.

Moreover, with the Intelig plan, the company strengthened its position as a provider of services geared to the Public Administration after winning a bid for the supply of internet accesses and traffic called by Telebrás (contract for 34 million reais for two years).

On the front of handsets, the enormous success of unsubsidized smartphone sales created new business opportunities. TIM holds the leadership position in the handset business thanks to sales models that enable it to be more competitive and which have contributed, on one hand, to its sharp growth in equipment sales and, on the other, to VAS traffic.

Regarding fixed telecommunications services, TIM, through Intelig, has further expanded its business in the residential market. In June, in fact, a dedicated event launched a new sales channel. Through agreements with new partners, the channel proposes fixed and mobile network products using a door to door approach which has achieved significant results.

In the Wholesale segment, two months after signing the first MVNO (Mobile Virtual Network Operator) partnership in Brazil, TIM confirmed this strategy by announcing a partnership with Sisteer, an MVNE (Mobile Virtual Network Enabler) leader in the French market. Thanks to the agreement, Sisteer will operate as an MVNE, proposing the connection between the virtual mobile operator and the TIM network, offering voice, SMS and data services; this agreement will enable the MVNOs to use all the mobile telecommunications services in Brazil and abroad.

Events subsequent to June 30, 2011

On July 8, 2011, an agreement was signed for the acquisition of the AES Atimus group from Companhia Brasiliana de Energia. AES Atimus is an operator in the telecommunications infrastructure sector in the states of São Paulo and Rio de Janeiro, the most densely populated and wealthiest areas of the South American nation, which produce 27% of Brazilian GDP. Specifically, AES Atimus is the owner of a fiber optic network extending over 5,500 kilometers covering the 21 cities forming the metropolitan areas of São Paulo and Rio de Janeiro. With sales in 2010 of 211 million reais and a 63% EBITDA margin, the AES Atimus group represents a vital asset in enabling the Tim Brazil group to reinforce its competitive position. The transaction has an enterprise value of 1.6 billion reais (about 700 million euros). The closing is expected to take place by the fourth quarter of 2011, once the necessary approvals are obtained from the company and the competent authorities.

Argentina

The Telecom Italia Group operates in Argentina and Paraguay through the Sofora - Telecom Argentina group. More to the point, in Argentina it operates in fixed telecommunications through the company Telecom Argentina and in mobile telecommunications through the company Telecom Personal; in Paraguay it operates in mobile telecommunications with the company Núcleo.

The structure of the Business Unit

At June 30, 2011, the Argentina Business Unit is organized as follows:

Main operating and financial data

The following table gives the main results reported by the Argentina Business Unit in the first half of 2011. The amounts presented include the effects of the application of the purchase price method. Specifically, in the 2010 financial statements, in conformity with the requirements of IFRS 3, all the assets and liabilities of the Sofora group were measured for their recognition at fair value at the acquisition date (October 13, 2010). In addition to the assets and liabilities acquired, goodwill was recorded at the acquisition date for 166 million euros.

The income statement for the first half of 2011 thus includes the effects of such measurements and particularly higher amortization and depreciation related thereto (equal to 490 million Argentine pesos, about 86 million euros, in the first half of 2011).

For a better understanding of the performance of the Argentina Business Unit, the following table presents the key results achieved in the first half of 2011 compared to those of the corresponding period of 2010. The restated data for the first half of 2010 are provided solely for information purposes (illustrative and comparative) and had not therefore been included in the consolidated results of the Telecom Italia Group.

(millions of euros)		(millions of Argentine pesos)		Change
1st Half	1st Half	1st Half	1st Half	

	2011 (a)	2010 (b)	2011 (c)	2010 (d)	amount (c-d)	% (c-d)/d
Revenues	1,511	1,308	8,583	6,717	1,866	27.8
EBITDA	506	452	2,876	2,322	554	23.9
EBITDA margin	*33.5*	*34.6*	*33.5*	*34.6*	*(1.1) pp*	
EBIT	248	295	1,409	1,515	(106)	(7.0)
EBIT margin	*16.4*	*22.6*	*16.4*	*22.6*	*(6.2) pp*	
Capital expenditures	205	196	1,167	1,005	162	16.1
Headcount at period-end (number)(*)			16,090	(**) 15,650	440	2.8

(*)

Includes employees with temp work contracts: 12 at June 30, 2011 and 18 at December 31, 2010.

(**)

Headcount at December 31, 2010.

Revenues

Revenues in the first half of 2011 amount to 8,583 million pesos, increasing 1,866 million pesos compared to the first half of 2010 (6,717 million pesos) thanks to the growth of the broadband and mobile customer bases, in addition to the relative ARPU. The main source of revenues for the Argentina Business Unit is mobile telephony which accounts for 70% of consolidated revenues, with an increase of more than 34% compared to the first half of 2010.

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

	6/30/2011	12/31/2010	Change	
			amount	%
Fixed-line				
Lines at period-end (thousands)	4,119	4,107	12	0.3
ARBU - Average Revenue Billed per User (pesos)	44.7	42.0 (*)	2.7	6.4
Mobile				
Lines at period-end (thousands)	19,375	18,212	1,163	6.4
Telecom Personal lines (thousands)	*17,392*	*16,333*	*1,059*	*6.5*
% Postpaid lines (**)	*30%*	*30%*		-
MOU Telecom Personal (minutes/month)	*97*	*100 (*)*	*(3)*	*(3.0)*
ARPU Telecom Personal (pesos)	*48.3*	*41.7 (*)*	*6.6*	*15.8*
Núcleo mobile lines (thousands) (***)	*1,983*	*1,878*	*105*	*5.6*
% Postpaid lines (**)	*16%*	*15%*		*+1 pp*
Broadband				
Broadband accesses at period-end (thousands)	1,457	1,380	77	5.6
ARPU (pesos)	82.9	73.6 (*)	9.3	12.6

(*)

Data relating to the first half of 2010.

(**)

Includes lines with a ceiling invoiced at the end of the month that can be integrated with prepaid recharges.

(***) Includes Wimax lines.

Fixed-line telephony service: the number of fixed lines at the end of the first half of 2011 increased slightly compared to the end of 2010, thanks mainly to the rate plans with internet connectivity. Even though the fixed-line regulated services in Argentina continue to be influenced by the rate freeze imposed by the Emergency Economic Law of January 2002, ARBU (Average Revenue Billed per User) grew more than 6% compared to the first half of 2010 due to sales of plans which include minutes of traffic and value-added services.

Mobile telephony service**:** Telecom Personal mobile lines in Argentina grew by 1,059 thousand compared to the end of 2010, arriving at a total of 17,392 thousand lines at June 30, 2011, 30% of which are postpaid. At the same time, thanks to high-value customer acquisitions and clear leadership in the smartphone segment, the ARPU (Average Revenue Per User) gained about 16%, exceeding 48 pesos (42 pesos in the first half of 2010). A large part of this growth can be traced to Value-Added Services (including SMS text messaging) and the Mobile Internet service which, on the whole, accounts for approximately 46% of revenues from mobile telephony services in the first half of 2011.

In Paraguay, the Núcleo customer base grew about 6% compared to December 31, 2010 and at June 30, 2011 has 1,983 thousand lines, 16% of which are postpaid. The company holds the title of offering the best 3G internet service (in terms of speed), thus continuing in its trend of significant growth in terms of the number of lines.

Broadband**:** Telecom Argentina s portfolio of total broadband lines at June 30, 2011 reached 1,457 thousand accesses, with an increase of 77 thousand accesses compared to the end of 2010 and representing about 6% growth. At the same time, ARPU increased thanks to the pricing strategy which also led to the reduction of promotional discounts associated with customer acquisition and loyalty.

In the Data segment, moreover, market share increased for dedicated Internet and IP VPN lines, as well as Datacenter services.

EBITDA

EBITDA shows an increase of 554 million pesos (+23.9%), reaching 2,876 million pesos in the first half of 2011.

The EBITDA margin is 33.5%, down 1.1 percentage points compared to the first half of 2010, mainly because of higher commercial costs and employee benefits expenses.

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

	(millions of euros)		(millions of Argentine pesos)		
	1st Half 2011 (a)	1st Half 2010 (b)	1st Half 2011 (c)	1st Half 2010 (d)	**Change** (c-d)
Acquisition of goods and services	617	523	3,502	2,687	815
Employee benefits expenses	208	176	1,179	902	277
Other operating expenses	157	139	894	713	181
Change in inventories	26	21	149	108	41

acquisition of goods and services: totals 3,502 million pesos (2,687 million pesos in the first half of 2010). The increase of 30% compared to the corresponding prior period (+815 million pesos) is mainly due to higher outside service costs for 494 million pesos and higher purchases of raw materials, auxiliaries, consumables and merchandise for 275 million pesos;

employee benefits expenses: stand at 1,179 million pesos, increasing 277 million pesos compared to the first half of 2010 (+31%). The change comes from salary increases as a result of periodical revisions in union agreements and primarily in connection with inflation. Moreover, an increase is reported in the average number of employees in the mobile area. The percentage of employee benefits expenses to total revenues is 13.7%, increasing 0.3 percentage points over the first half of 2010;

other operating expenses: amount to 894 million pesos, up 25% (713 million pesos in the first half of 2010). Such expenses consist of the following:

(millions of Argentine pesos)	1st Half	1st Half

	2011 (a)	2010 (b)	**Change** (a-b)
Indirect duties and taxes	620	483	137
Telecommunications operating fees and charges	160	127	33
Writedowns and expenses in connection with credit management	84	58	26
Sundry expenses	30	45	(15)
Total	894	713	181

EBIT

EBIT records a decline of 106 million pesos (-7.0%) to 1,409 million pesos in the first half of 2011. The reduction is entirely attributable to the adoption of the purchase price method which led to higher amortization and depreciation charges that were absent in the first half of 2010, for a total of 509 million pesos (about 90 million euros). Excluding such expenses, EBIT would have been higher by 403 million pesos (+26.6% compared to the first half of 2010), or about 71 million euros, thanks to the higher contribution by EBITDA.

The EBIT margin is 16.4% and 6.2 percentage points lower than in the first half of 2010. Excluding the effects of the adoption of the purchase price method, the EBIT margin would have been 22.3% and therefore basically in line with the same period of the prior year.

Capital expenditures

Capital expenditures stand at 1,167 million pesos, increasing 16.1% compared to the same period of the prior year. Such amount includes 317 million pesos for the capitalization of subscriber acquisition costs for the subscription of binding 18 24 month contracts for mobile customers and 12 month contracts for broadband customers (251 million pesos in the first half of 2010).

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

At the same time, Telecom Personal has principally invested in the 3G network to increase capacity and expand coverage as well as in the platforms to expand Value-Added Services and in IT projects. Capital expenditures by Núcleo are aimed mainly at the 3G access network and switching.

Headcount

Headcount at June 30, 2011 is 16,090, an increase of 440 persons compared to December 31, 2010 (+2.8%). About 50% of the increase refers to the fixed sector and the other 50% to the mobile sector.

Commercial development

In the fixed-line residential segment, Telecom Argentina has continued its strategy of offering plans which include subscriber charges, minutes of traffic and value added services, with the objective of boosting both the demand for new accesses and the growth of Average Revenue Billed Per User. With regard to Broadband, the bundled sales strategy was enhanced by also adding the mobile bandwidth offering and minute plans (local calls) to the fixed bandwidth offering. Concerning the small and medium size companies segment, the sales offer focuses on data services so as to increase the value of customers. ICT Converging solutions plans are also continuing for the corporate segment.

Telecom Personal further stepped up its strategy geared to expanding the use of value-added services on the part of customers by launching a very aggressive plan for mobile internet for the prepaid segment which gives cell phones access to a series of services such as e-mail, social networks, web surfing, applications and GPS. As for handsets, Telecom Personal extended the platform of Personal Black premium services with the launch of new devices such as smartphones and tablets which contribute to its positioning from the standpoint of innovation. In this way, Telecom Personal continues to present an offering of services and handsets which are adapted to the various needs of communication and surfing of its customers, proposing plans which are ahead of the trend of the sector. Finally, Telecom Personal has bolstered its strategy in terms of the convenient pricing packages introducing benefits when topping up and plans for services and benefits differentiated in terms of credit and SMSs exclusively for members of the Club Personal loyalty program.

During the second quarter of 2011, Núcleo in Paraguay maintained its 3G mobile internet pricing and expansion policy that had already been drawn up in 2010.

Competition

The telecommunications market in Argentina and Paraguay continues to feature sustained demand for new services and higher access speeds in an environment of strong competition in the various segments of the business.

In particular, in the Argentina mobile segment, Telecom Personal is one of the three operators which offer a national service in competition with Claro (America Móvil Group) and Movistar (Telefónica Group). In Paraguay, Núcleo operates in a market that continues to be characterized by a high level of competitiveness based on aggressive pricing and promotion, as well as on new products and services. The main competitor of Núcleo is Tigo (Millicom Group).

As far as the broadband segment is concerned, the Argentina business unit with the Arnet brand competes both with the ADSL operator Speedy (Telefónica Group), with Fibertel (Clarín Group) which offers broadband access services by cable-modem and with Telecentro which is able to offer triple play.

Media

The Telecom Italia Media group operates in the business segments: TI Media La7, MTV Group and Network Operator. In particular:

TI Media La7: includes activities of the television broadcasters La7 and La7d and those relating to Digital Content for the Telecom Italia Group for the creation and production of content relating to the innovative platforms of Telecom Italia and to the web;

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

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

The structure of the Business Unit

The Business Unit is organized as follows:

Main operating and financial data

Key results for the first half of 2011 compared to the first half of 2010 are presented in the following table.

(millions of euros)	1st Half 2011	1st Half 2010	Change	
			amount	%
Revenues	118	127	(9)	(7.1)
EBITDA	9	9	-	-
EBITDA margin	*7.6*	*7.1*	*0.5 pp*	
EBIT	(20)	(21)	1	4.8
EBIT margin	*(16.9)*	*(16.5)*	*(0.4) pp*	
Capital expenditures	26	21	5	23.8
Headcount at period-end (number) (°)	803	(*) 777	26	3.3

(°) The number includes 74 persons with temp contracts at June 30, 2011 and 44 at December 31, 2010.

(*) Headcount at December 31, 2010.

Revenues

Revenues amount to 118 million euros, decreasing 9 million euros (-7.1%) compared to 127 million euros in the first half of 2010. In greater detail:

revenues of TI Media La7 in the first half of 2011, before infragroup eliminations, stand at 71 million euros, increasing 15 million euros (+25.9%) compared to the first half of 2010, thanks to the decisive increase in gross advertising revenues. Advertising revenues particularly benefitted from the excellent performance of channel La7 daily average audience share which reached 3.65% in the first half of 2011 and from channel La7d s net revenues in the first half which totaled 3 million euros;

MTV Group revenues come to 36 million euros, before infragroup eliminations, decreasing 10 million euros compared to the first half of 2010 (46 million euros). This reduction is due for 5 million euros to lower net advertising revenues and the remaining amount to the fall of other activities, particularly, lower revenues by MTV Mobile (-1 million euros) following the recent contract revision at the end of 2010 and lower revenues by the satellite-music platform channels as a result of the renegotiation, to lower values, of the contract with Sky (-2 million euros), whereas other revenues decreased in total by 2 million euros;

revenues from Network Operator activities, before infragroup eliminations, amount to 26 million euros, compared to 40 million euros in the first half of 2010, decreasing 14 million euros. This change is almost entirely due to the termination of the Dahlia TV contract after the company was put into a wind-up in January (-15 million euros). The reduction in the revenues of analog activities with the group, in relation to the switch-off, was offset by higher revenues from the lease of digital bandwidth on its Multiplexes.

EBITDA

EBITDA is a positive 9 million euros in the first half of 2011, unchanged compared to the first half of 2010. In particular:

EBITDA of TI Media La7 is a negative 6 million euros, improving 15 million euros compared to the first half of 2010 (-21 million euros). Such performance is due to the higher contribution of revenues, as described above, which more than compensated the higher operating costs linked largely to the programming of La7d, which in the first half of 2010 was in the start-up phase while in 2011 the channel is now firmly consolidated. La7 programming costs are basically in line with the first half of 2010;

EBITDA of the MTV Group is 3 million euros, decreasing 2 million euros compared to the first half of 2010 (5 million euros). The reduction in revenues, due both to lower advertising revenues and Mobile and Satellite activities, was only partly compensated by the reduction in operating costs;

EBITDA of the Network Operator activities is 12 million euros, decreasing 10 million euros compared to the corresponding period of the prior year; this result was influenced by the loss of sales from Dahlia TV and compensated by a reduction in operating costs due to greater efficiency in running the network.

EBIT

EBIT is -20 million euros, improving 1 million euros compared to the first half of 2010.

Capital expenditures

Capital expenditures amount to a total of 26 million euros (21 million euros in the first half of 2010). Such expenditures refer to TI Media La7 (23 million euros) and the MTV group (2 million euros) mostly for the acquisition of television rights extending beyond one year (22 million euros) and other investments for 1 million euros which include those associated with activities for the digitalization of the networks.

Headcount

Headcount is 803 at June 30, 2011 (including 74 with temp work contracts), with an increase of 26 persons compared to December 31, 2010 (777, including 44 with temp work contracts) and unchanged compared to June 30, 2010 (803, including 61 with temp work contracts).

Principal changes in the regulatory framework

New digital terrestrial regulation

On June 30, 2011, AGCom published the new digital terrestrial regulation which definitively supersedes Decision 435/01/CONS. The main points are:

Estimated deadline of December 31, 2011 for the definitive allotment of the user rights for digital frequencies to the national network operators based on impartial, transparent and non-discriminatory procedures. Telecom Italia Media may take advantage of this estimated date to bring added pressure on its request to substitute UHF channel 60 which is being disturbed by the LTE 800 systems.

The possibility of carrying up to two national programs on the local multiplexes, to which, however, national numbering is assigned. This project harms the Telecom Italia Media group which has based its network operator business model on the sale of transmission capacity to third parties. Considering that the project is contrary to the legal and regulatory system in force which sets the maximum ceiling for national transmission capacity exercisable by national operators and reserves at least one-third of the frequencies resources for local broadcasting, actions, if any, to protect itself are in the process of evaluation.

Keeping the concession fee up to the end of 2012 for former analog national and local broadcasters. On this point, a question is in the process of being raised with AGCom in order to avoid any broad interpretations according to which the sales of network operators could be subject to such measure.

Beauty Contest

On July 8, 2011, the call for bids and the regulations were published for the beauty contest. The deadline for the presentation of the applications is September 6, 2011. The beauty contest is offering 6 Lots for the same number of MUXs and divides them into LOT A for 3 DVB-T frequencies, in which RAI, Mediaset and Telecom Italia Media are barred, LOT B for 2 DVB-T frequencies, open to all operators except SKY Italia, and in the C subset for 1

DVB-H/DVB-T2 frequency, in which RAI, Mediaset, SKY and H3G are barred.

The Ministry must appoint the Commission and the Advisor for the evaluation of the applications and the awarding of the user rights. The user rights must be issued 70 days after being awarded. It is estimated that the user rights will be awarded between December 2011 and the end of January 2012.

Concerning the procedures leading up to the admission to the beauty contest, AGCom, under Decision 187/11/CONS, has approved Telecom Italia Media Broadcasting s (TIMB) list for the sale of 40% of the transmission capacity of the 5th DVBT MUX eventually awarded. In accordance with AGCom s requirements, the list was published on TIMB s website on June 6, 2011. In line with the appeal on the digital frequencies, the Telecom Italia Media Group has filed additional grounds to the main appeal against Decision 187/11/CONS because of erroneously assimilating Telecom Italia Media with the same obligations as RAI and Mediaset with regard to the sale of the 40% transmission capacity.

Switch off timetable

The 2011 Stability Law provides that the frequencies 790-862 MHz (former UHF TV channels 61 to 69) the 800 range - originally allotted to local TV networks, be used for mobile broadband communications services through an auction process.

With Legislative Decree 34 dated March 31, 2011, the measures for the rationalization of the radio spectrum were defined. In particular, the definitive timetable for the switch over to digital terrestrial television has been extended to September 30, 2011 and the date for the allotment of the frequencies to the local operators is set at June 30, 2012.

On June 24, 2011, The Ministry for Economic Development established, by decree, the switch off date for 2011 as follows: Liguria from October 10 to November 2, Tuscany (including La Spezia and Viterbo) and Umbria from November 3 to December 2 and the Marches from December 5 to December 21.

Financial Stability Law 2011

In the financial stability law of July 2011, it was established that, because of the well-known national interest in the prompt liberation and allotment of the frequencies, the possible cancellation of acts and measures regarding television frequencies does not involve the reintegration in a specific manner and any compensation for damages only occurs for an equivalent. The implications of this on all issues regarding digital frequencies and pending challenges are under examination.

Olivetti

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

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

The structure of the Business Unit

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

Main operating and financial data

Key results for the first half of 2011 compared to the first half of 2010 are presented in the following table.

(millions of euros)	1st Half 2011	1st Half 2010	Change	
			amount	%
Revenues	161	176	(15)	(8.5)

EBITDA	(24)	(16)	(8)	(50.0)
EBITDA margin	*(14.9)*	*(9.1)*	*(5.8) pp*	
EBIT	(27)	(18)	(9)	(50.0)
EBIT margin	*(16.8)*	*(10.2)*	*(6.6) pp*	
Capital expenditures	3	3	-	
Headcount at period-end (number)	1,088	(*) 1,090	(2)	(0.2)

(*) Headcount at December 31, 2010.

Revenues

Revenues amount to 161 million euros in the first half of 2011, decreasing 15 million euros compared to the first half of 2010. The market environment is particularly negative for the third consecutive year and estimates for 2011 forecast a contraction in ICT expenditures in Italy of about 4.5% (year-over-year, average data, source by Assinform). As regards Olivetti, in particular, certain specific phenomena have occurred: the reduction of about 6 million euros in the Telecom Italia channel owing to the overall drop in demand in the devices market; the decline in sales abroad, approximately 3 million of which is due to the reorganization of the Europe channel currently in progress, and 1 million euros to the exchange rate effect on sales in foreign currency with customers outside the EU.

As far as the other Commercial Channels are concerned, sales have remained basically stable although the market is negative.

EBITDA

EBITDA is a negative 24 million euros and recorded a negative change of 8 million euros compared to the first six months of the prior year. The change is due to lower margins on some proprietary products (particularly inkjet products) which are not yet sufficiently compensated by the positive results of the new lines of products and services. Restructuring costs of more than 1 million euros also affected EBITDA due to the end of the activities of the German affiliate.

EBIT

EBIT is a negative 27 million euros and recorded a negative change of 9 million euros compared to the first half of 2010, owing to the reasons described under EBITDA.

Capital expenditures

Capital expenditures amount to 3 million euros, unchanged from the same period of the prior year.

Headcount

Headcount at June 30, 2011 is 1,088 (998 in Italy and 90 outside Italy), a reduction of 2 compared to December 31, 2010 (1,090, of whom 1,001 in Italy and 89 outside Italy). During the period, 14 persons were added and 16 persons left, consistently with the professional remix focused on the new Olivetti sales offerings.

Commercial developments

During the first half of 2011, in response to the evolution of the ICT market and the new opportunities offered by Cloud Computing, Olivetti continued its repositioning strategy as a Solution Provider by putting together an integrated hardware and software package, customized for the client and supported by an extensive assistance network. The new initiatives distinguish themselves because of the integration of hardware products and advanced services and applications, operating in synergy with Telecom Italia and qualified partners.

In February 2011, in particular, the OliPad tablet was launched; it comes with applications for the consumer world and the business world.

For the Business market, OliPad allows a higher level of personalization according to a company s individual needs. It also enables access to a rich offering of applications thanks to the Application Warehouse, a veritable virtual warehouse of software applications that can be configured and customized that Olivetti has expressly dedicated to companies and the Public Administration. Just a few of the applications available are: digital catalogs and display guides for points of sale dedicated to the fashion sector networks; Sales Force Management applications dedicated to the management of sales activities in the field; a Social Networking Enterprise Tool aimed at teams working both inside and outside the company and Signature Workflow management of company documents thanks to the digital signature. During the course of the first half, various commercial endeavors have been activated with large customers with the aim of employing the OliPad for automation projects; in particular, a project for accessing company applications by more than ten thousand field persons in the transport sector is in the advanced stages of proposal, other initiatives cover the spread of the biometric signature at branches including bank branches while still more are geared to the adoption of the OliPad in the school environment.

With regard to the Consumer market, OliPad is marketed through the Telecom Italia sales network. With regard to the business and Public Administration market, it is marketed through the dedicated sales networks of Olivetti and Telecom Italia. Innovative distribution channels are also being tested: in April, OliPad was offered on Twitter, the social networking and microblogging platform.

Work is continuing on the important project begun in 2009 in collaboration with Telecom Italia S.p.A. for the supply of specialized payments/services terminals at authorized tobacco stores in Italy. Beginning June 2011, Olivetti supplied the first 1000 new M210T terminals that were developed according to the technical specifications agreed with the final customer in September 2010; this was an interval of only nine months between the design phase of the product and then manufacturing and delivery.

Furthermore, in the first half of 2011, Advalso s business grew 45% thanks to the consolidation of traditional activities (technical front end) and also the focus on end-to-end caring activities.

Events subsequent to June 30, 2011

In July, the new family of OliPad tablets was launched with seven and ten-inch displays that will be marketed also through the large-scale specialized distribution channel.

Olivetti, moreover, with Telecom Italia, was awarded the supply of tablets for the management of the biometric signature for 13,000 branches of the Intesa Sanpaolo group.

During the same period, Olivetti and Telecom Italia officially began testing with the Revenue Agency for the transmission of electronic invoices to the Public Administration through the interexchange system laid down by law.

Corporate Boards at June 30, 2011

Board of Directors

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

On April 13, 2011, the Telecom Italia board of directors appointed Franco Bernabè Executive Chairman, Aldo Minucci Deputy Chairman and Marco Patuano Managing Director and Chief Operations Officer. On June 6, 2011, the director Ferdinando Falco Beccalli submitted his resignation.

Consequently, the board of directors of the Company is now composed as follows:

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

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

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

Executive Committee Executive Chairman, Deputy Chairman, Chief Operations Officer, Directors Elio Cosimo Catania, Julio Linares López, Renato Pagliaro and Mauro Sentinelli (*);

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

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

(*)

The Committee also included the director Ferdinando Falco Beccalli, who submitted his resignation to the board of directors on June 6, 2011.

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

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

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

the Nomination and Remuneration Committee: responsibility over matters regarding the management succession and replacement process and the selection/designation of the external member of the Supervisory Board, as well as the task of formulating proposals for allocating the total compensation established by the shareholders meeting among the entire board of directors.

Board of Statutory Auditors

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

The board of statutory auditors is composed as follows:

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

Independent Auditors

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

Manager responsible for preparing the corporate financial reports

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

Macro-Organization Chart at June 30, 2011 -
Telecom Italia Group

Information for Investors

Telecom Italia S.p.A. Share Capital at June 30, 2011

Share capital (in euros)	10,688,746,056.45
Number of ordinary shares (par value 0.55 euros each)	13,407,963,078
Number of savings shares (par value 0.55 euros each)	6,026,120,661
Number of Telecom Italia ordinary treasury shares	37,672,014
Number of Telecom Italia ordinary shares held by Telecom Italia Finance S.A.	124,544,373
Percentage of ordinary treasury shares held by the Group to total share capital	0.83%

Market capitalization (based on June 2011 average prices)

17,486 million euros

Shareholders

Composition of Telecom Italia S.p.A. shareholders according to the Shareholders Book at June 30, 2011, supplemented by communications received and other available sources of information (ordinary shares):

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

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

Major Holdings in Share Capital

At June 30, 2011, taking into account the results in the Shareholders Book, communications sent to Consob and the Company pursuant to Legislative Decree 58 dated February 24, 1998, art. 120 and other sources of information, the principal shareholders of Telecom Italia S.p.A. ordinary share capital are as follows:

Holder	Type of ownership	% stake in ordinary share capital
Telco S.p.A.	Direct	22.40%
Findim Group S.A.	Direct	4.99%

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

Brandes Investment Partners LP: on July 23, 2008, for a quantity of ordinary shares which at June 30, 2011 is equal to 4.02% of total Telecom Italia S.p.A. ordinary shares;

Blackrock Inc.: on May 20, 2010, for a quantity of ordinary shares which at June 30, 2011 is equal to 2.89% of total Telecom Italia S.p.A. ordinary shares;

Alliance Bernstein LP: on November 14, 2008, for a quantity of ordinary shares which at June 30, 2011 is equal to 2.06% of total Telecom Italia S.p.A. ordinary shares.

Common Representatives

The special meeting of the savings shareholders held on May 28, 2010 elected Emanuele Rimini as the common representative for three financial years (up to the approval of the financial statements for the year ended December 31, 2012).

By decree of March 26, 2009, the Milan Court appointed Francesco Pensato as the common representative of the bondholders for the Telecom Italia S.p.A. Euro 1,250,000,000 5.375 per cent. Notes due 2019 (with a mandate for the three-year period 2009-2011).

By decree of March 7, 2011, the Milan Court appointed Enrico Cotta Ramusino as the common representative of the bondholders for the Telecom Italia S.p.A. 2002-2022 bonds at variable rates, open special series, reserved for subscription by employees of the Telecom Italia Group, in service or retired (with a mandate for the three-year period 2011-2013).

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

Relative performance by Telecom Italia S.p.A.

1/1/2011 6/30/2011 vs. FTSE Italia All-Share Index and DJ Stoxx TLC Index(*)

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

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

1/1/2011 6/30/2011 vs. FTSE Italia All-Share Index and DJ Stoxx Media Index[*]

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

Relative performance by Tim Participações S.A.

1/1/2011 6/30/2011 vs. BOVESPA Index and ITEL Index (in Brazilian reais)[*]

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

Relative performance by Telecom Argentina S.A. (Class B ordinary shares)

1/1/2011   6/30/2011 vs. MERVAL Index (in Argentine pesos)(*)

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

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

Rating at June 30, 2011

	Rating	Outlook

STANDARD & POOR'S	BBB	Stable
MOODY'S	Baa2	Stable
FITCH RATINGS	BBB	Stable

Related Party Transactions

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

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

Transactions with related parties, when not dictated by specific laws, are in any case conducted at arm s length.

The information on related party transactions required by Consob Communication DEM/6064293 dated July 28, 2006 is disclosed in the financial statement themselves and in the Note Related party transactions in the Telecom Italia Group half-year condensed consolidated financial statements at June 30, 2011.

Sustainability Section

This section details the most significant activities and projects implemented during the first half of 2011 for the Environment and Human Resources stakeholders.

Environment

Energy

Previously launched energy saving initiatives continued, including:

- adopting the most efficient technological solutions for servers installed in Data Centres, including the concentration and virtualisation of machines;
- optimising the use of systems and updating the technology of obsolete equipment;
- rationalising and optimising air conditioning systems, also by segregating environments depending on their different air conditioning requirements, and increasing the average operating temperatures of telephone exchanges, servers and Radio Base Stations (RBSs);
- modernising AC/DC conversion equipment by introducing technological solutions that guarantee better performance;
- maintaining the efficiency of the fixed traditional switching network and the data networks;
- introducing innovative mobile network system technologies in order to improve network performance in terms of transmission capacity and allow new services to be introduced that significantly reduce energy consumption.

With regard to the use of alternative or non-traditional energy sources, the following new projects have been launched:

a combined wind and photovoltaic power supply system (consisting of a 3 to 6 kW wind generator and 5 kWp photovoltaic panels) is being created at RBSs installed at sites with favourable environmental and weather conditions, previously powered by diesel generators; an additional 3 RBSs to the 5 already in operation at the end of last year have been equipped with this system in 2011 and a further 5 are currently being created. Weather stations continue to be used to measure environmental parameters, including average wind speed, temperature and solar radiation, in order to identify further sites in the country that might be suitable for this technical solution;

at three medium-sized TLC exchanges, three geo-cooling systems have been installed and commissioned to cool equipment rooms, replacing the traditional cooling systems. The system makes use of the temperature differential between the surface and the air sampling point, located a few metres below ground. With a view to using this technology more widely across the country, constant monitoring of performance, characteristics and consumption is being ensured;

five small methane-powered cogeneration plants have been activated (electric power of around 130 kWe) at industrial sites related to fixed network stations, in addition to the 12 plants already in operation. The energy saving allowed by this local electricity generation is around 30%.

The following are some of the many initiatives conducted in the field of energy.

Work on technological systems serving TLC buildings and systems:

o

replacement of traditional lamps (neon and dichroic) with LED lamps according to the plan established for 2011;

o

activation of free cooling[2] systems on fixed network containers;

o

planning of action to reduce the use of air conditioning systems in 250 RBSs by optimising the operation cycle and using new free cooling installations;

o

experimenting with methane fuelled cooling and heating systems for industrial sites and office premises;

o

modernising access network nodes to reduce energy consumption by adopting new technologies that integrate second and third generation standards (GSM and UMTS).

Now that the EFFC (Extraction Full Free Cooling)[3] testing phase is over, with estimated energy savings of around 90%, the potential extension of this system to other plants and offices is being considered. Testing continues of the E2FCC technology, which allows the direct extraction of air from cabinets containing the equipment and for which a patent application has been accepted. Performance is assessed at high temperatures (40°C.) using combined air conditioning systems (traditional + free cooling) and renewable energy power systems.

With regard to activities performed in the framework of the ETSI EE (European Telecommunication Standard Institute - Environmental Engineering) to establish methods of measuring the energy efficiency of RBSs (TS102 706 Specification), a dynamic version of the measurements was established in the first quarter of 2011 based on an assessment of energy consumption according to traffic. This specification is of considerable importance because it is the basis for determining the energy consumption limits for RBSs, particularly in view of the development of Europe-wide Codes of Conduct (CoC).

Telecom Italia is also involved in various ways in updating the other CoCs regarding Digital TV (Uninterruptible Power Systems and External Power Supplies) and is a member of the working group set up to update the Digital TV Systems Code with regard to the supply of IPTV and multimedia services in general. The new CoC for this sector is expected in September 2011 and there are plans to apply the efficiency criteria defined in it to the Cubovision product. The general aim of the work carried out in these working groups is to speed up the availability of energy-saving equipment/systems, while also allowing suppliers to achieve greater economies of scale by establishing common energy efficiency requirements that no longer differ from one country to another.

Energy-saving initiatives for home networking equipment

Within the framework of the ETNO (European Telecommunications Network Operators Association), Telecom Italia coordinated the Home Access Gateway GREEN (Green Router for Energy Efficient home Networking)[4] energy consumption benchmarking campaign, which provided indications on the current potential for improving energy efficiency, thus contributing to the creation of a new CoC for broadband equipment in the EU and to the activities of the ETSI Environmental Engineering (EE) group. The benchmarking activity also allowed a reference to be set for assessing suppliers in the context of the tender for new 2011 Access Gateways. Also in this context, the launch of a new range of Telecom Italia Green products was finalised, using the new Wi-Fi Access Gateway to supply the broadband services. The product is accompanied by an environmental declaration that demonstrates the improvements achieved in terms of energy efficiency and eco-design.

Telecom Italia has finalised and submitted to AEEG, the Italian national authority for electricity and gas, an updated version of the standard form presented at the end of 2010 for requesting Energy Efficiency Certificates (White Certificates) for the modem/access gateway" product category, requesting certificates for the new "green" modems which have been marketed as of April 2011.

Among other customer-related initiatives, in the context of the ITU-T SG5 WP3 Q21, Telecom Italia (with the support of the Global e-Sustainability Initiative) has been involved in a review of the L.1000 recommendation on the universal battery charger for mobile phones (Universal Mobile Charger) in order to reduce as much as possible the number of options available for connectors and cables and achieve convergence on a single solution that can be used on all models. The recommendation review was approved in May 2011 and the ITU-T issued a press release (itu.int/net/pressoffice/press_releases/2011/11.aspx) in which Telecom Italia appeared at the top of the list of companies involved in this matter.

Car/motorbike fleet testing

The testing of 2 different types of Fiat electric vehicles ("500" and "Fiorino allestito" models) has been completed. The test results are being examined in order to determine the convenience and appropriateness of introducing them into the operational fleet according to company requirements.

Based on the results of a feasibility study regarding the use of hybrid petrol/electric three-wheeled motorbikes, a prototype has been created that fulfils the specific mobility requirements of Telecom Italia and its testing has begun.

Communication actions

During the final evening of the CinemAmbiente 2011 Festival held in Turin on June 5th, which coincided with World Environment Day, Telecom Italia presented a preview of Itali@mbiente, an environmental docu-film on our country's state of health, produced jointly with the WWF, with over 200 video contributions received by the AVoiComunicare (avoicomunicare.it) blogs, also thanks to a new group set up on Facebook (Avoicomunicare Itali@mbiente) to share information and opinions.

The subjects dealt with range from reports on critical local situations to virtuous environmental conduct and themes including biodiversity, urban traffic, use and consumption of local resources.

A contribution to the initiative was also made by the CinemAmbiente Festival, which provided previously unseen video footage involving its own network of artists and video makers. Itali@mbiente was post-produced by the AVoiComunicare.it. editorial office under the scientific supervision of Mario Tozzi. The soundtrack was entrusted to Capone & BungtBangt , an Italian band that recycles materials creatively to produce its musical instruments.

Human Resources

Headcounts and changes in the Telecom Italia Group

Telecom Italia Group

The headcount of personnel as of June 30, 2011 was divided as follows:

(units)	06.30. 2011	**12.31.2010**	**Changes**
Italy	57,776	57,994	(218)
Abroad	26,469	26,135	334
Total personnel on payroll	**84,245**	**84,129**	**116**
Agency contract workers	90	71	19
Total personnel	**84,335**	**84,200**	**135**

Excluding agency contract workers, the Group's headcount has increased by 116 compared to December 31, 2010.

The change can be broken down as follows by individual Business Unit:

(units)	**Recruited(*)**	**Departed(*)**	**Net change**
Domestic	263	480	(217)
Brazil	2,262	2,369	(107)
Argentina	983	537	446
Olivetti, Media and others	58	64	(6)
Turnover	**3,566**	**3,450**	**116**

(*)

The table also includes transfers within the Group.

People Caring

During the first six months of 2011, Telecom Italia continued to implement specific initiatives relating to four macro areas:

work-life balance;

support for the needs of children and families;

support for voluntary service initiatives;

making the most of the forms of diversity that exist in the working environment.

In the first two of these areas, support for the following initiatives was renewed:

nurseries, including 9 run by the company (in 7 cities) and 3 under agreements with external nurseries in the Naples, Rome and Padua offices;

company loans, including 299 disbursed for various requirements (including home purchases and renovations) and 141 granted to new parents with children up to three years of age;

time-saving services: 32 agency services in 9 cities, 4 dry-cleaning and shoe repair outlets, 3 newsagents in as many offices in Rome and 2 wellness areas;

40 agreements signed for online offers of products and services arising out of Telecom Italia s partnership agreements, mostly within Italy, regarding: cars and motorbikes, culture and entertainment, electronics, sport, financial institutions, health and wellbeing, trips and holidays, etc.;

Traditional summer camps in 12 different facilities for employees' children (4,632 registrations), themed summer camps in 14 facilities in Italy (1,983 registrations) and abroad in 14 British colleges (452 registrations), 50 scholarships for year-long stays abroad (in Europe, Argentina, Brazil, USA, Canada, China, Hong Kong, India) and 100 for four-week stays (in Ireland, Spain, Finland);

initiatives regarding sport, art, culture, music, entertainment and historical events, working with several different company departments: 5,000 tickets and invitations to VIP areas allocated.

In order to assist colleagues in commuting between home and work, an Intranet Mobility area has been created for the main offices (Rome, Milan, Turin) to answer questions from colleagues and provide an opportunity to share cars (Car Pooling). A shuttle service operates for 15 offices, making 315 journeys a day, and 32 offices have bicycle racks.

Since November 2010, four Regions (Friuli Venezia Giulia, Liguria, Lazio and Sicily) have been piloting a People Caring Centre to help colleagues deal with psychological, occupational and personal difficulties. During the first six months of the year, 131 people contacted the Centre and 47 counselling sessions were held to the full satisfaction of colleagues. The Centre's activities will continue in a further four Regions.

With regard to volunteering activities, during the second half of the year, 20 colleagues will be volunteering for two sessions at the Dynamo Camp facility, where children and young people with serious or chronic health conditions can spend time playing and having fun in contact with nature. 41 days in 6 cities were organised for the blood donors group. 43 stands were organised at company offices for charity initiatives.

With regard to the promotion of diversity, the Diversity Committee, which consists of 35 colleagues representing the various forms of diversity in the Company, continued to perform its activities. The Committee meets periodically for the purpose of distributing information and making proposals. Four Work Projects were organised in this respect for the purpose of devising and developing specific projects in this area. A virtual work space was created for discussions, by means of blogs and exchanges of documents.

Development

For the third year running, Telecom Italia has been presented with the Top Employers certification by the CRF Institute. The assessment is carried out on the basis of the standards set by the Top Employers HR

Best Practices Survey, which surveys HR policies using a unique method resulting from solid experience gained at international level.

The different types of training and development programmes offered according to the employee's management and/or professional level, as well as the attention paid to the quality of individuals, using diagnosis, improvement and evaluation processes, were particularly appreciated.

The 2010 Group performance assessment process for Italy was completed in March 2011. The process involved around 52,500 people (managers without MBO and employees), which equates to 99.93% of employees who can be assessed using this system. For the first time, the process was extended to the Shared Service Center (SSC) and HR Services S.r.l (HRS) companies. The distribution of the assessments was consistent with the agreed guidelines on evaluating excellence and guiding behaviour towards achieving corporate objectives.

The uniformity of the assessment criteria used was ensured, as always, by appropriate Calibration Committees (introduced in 2008), consisting of managers from the assessed employee's department and Human Resources.

As of April, specific training plans were launched which, during this initial stage, involve 30% of those whose results placed them in the lowest bands of the assessment scale, in order to support their growth, and of those whose results placed them in the highest bands, in order to promote their full professional marketability.

During the first half of 2011, 31 assessment centre sessions were carried out involving 178 employees. In accordance with the Management Development System established, activities continued in support of individual development plans.

Assessment of potential activities were entrusted to HR Services S.r.l., a Telecom Italia Group company which achieved an ISO 9001 certification of its activities during the first half of the year.

Management development plans

During the first half of 2011, in accordance with the established Management Development Plan, activities continued in support of development plans, based on individual and group coaching activities. The "Managerial Nodes" project continued, involving 55% of the employees concerned, with excellent results in terms of both quality and participation (93% of registrants).

Selection

During the first half of 2011, cooperation continued between Telecom Italia, universities and young people through the company's involvement in a number of Career Days, including the ICT Days at the University of Trento and the Job Meeting event in Rome, as well as presentations given by the company at universities and renowned business schools. Telecom Italia has also renewed the "Working for Telecom Italia section of its corporate website, introducing, among other information, testimonials from employees and practical information for people to learn about the Company and the internship opportunities offered.

In May, an experimental social responsibility project entitled *The Day Before* was launched by Telecom Italia, in agreement with the trade unions, for the purpose of linking graduation to job placement for university students in southern Italy.

The project provides for the placement in TeleContact Centres (TCC) of 200 engineering students, under a 19-month apprenticeship contract (from June 1, 2011 to December 31, 2012), as a result of specific agreements signed with the leading universities in southern Italy. At the end of this period, Telecom Italia will offer 50 of these people the opportunity of being employed by the Group under a permanent contract.

Partnerships launched in previous years continued and new ones were set up, with Telecom Italia contributing by disbursing scholarships and providing internships. During the first half of 2011, 152 young people from leading Italian universities began an internship within the Group.

In particular, the first half of the year saw the completion of the third "School-Company Network" project implemented in association with the Elis Centre and aimed at students in the fifth year of higher

technical institute courses. This is an educational path dedicated to TLC themes, co-designed by the teachers of 22 technical institutes involved (7 in the north and 15 in the centre and south) and colleagues who are experts in local Open Access structured, known as "Masters of the Craft". In July, the best students will take part in a two-week summer camp.

The established training courses include a collaboration with the Polytechnic of Turin for the Master's Degrees in Innovation and the continuation of numerous partnerships with prestigious universities through the disbursement of scholarships and the provision of internships on innovation-related subjects, ICT systems, the world of TLC and the Media, antitrust, security, general management issues and labour law.

The "Leader of the Future" - Development and Merit Scholarships continued. This is an initiative being run in association with The European House-Ambrosetti and the Federazione Nazionale Cavalieri del Lavoro, in which Telecom Italia is involved by sponsoring 5 development and merit scholarships. Scholarship students attended individual coaching sessions, took study trips abroad, visited companies and participated in workshops with internationally renowned figures.

International initiatives include Telecom Italia's collaboration with the University of Trento to promote a competition for 5 doctorate scholarships on the subject of semantics and the web of the future, which will be implemented during the second half of the year. 78 applications have been received from 27 countries in Europe, the United States, Africa (Ethiopia, Nigeria, Zambia, Kenya) and the Far East (China, Nepal, Bangladesh, Vietnam).

Training

Telecom Italia considers training to be a crucial element for the development of people and the improvement of the company's performance.

During the first six months of 2011, around 470,000 hours of classroom, online and on-the-job training took place within Telecom Italia S.p.A., which equates to an average of 9.5 hours per head. 61.4% of Telecom Italia S.p.A. personnel, equal to 30,246 employees, participated in at least one training session.

TOTAL BY TRAINING TYPE

Type of Training	HOURS TOTALS	HOURS PER HEAD	PARTICIPATIONS	PARTICIPANTS	COVERAGE
Specialist training	**385,091**	**7.8**	**58,364**	**19,116**	**38.8%**
Senior Managers	443	0.6	58	48	6.2%
Middle Managers	7,818	2.3	734	488	14.2%
Office Staff/Workers	376,830	8.4	57,572	18,580	41.2%
Management training	**37,850**	**0.8**	**3,750**	**2,109**	**4.3%**
Senior Managers	12,136	15.8	1,684	429	55.8%
Middle Managers	6,747	2.0	596	404	11.7%
Office Staff/Workers	18,967	0.4	1,470	1,276	2.8%
Institutional training	**22,457**	**0.5**	**14,604**	**13,739**	**27.9%**
Senior Managers	76	0.1	54	54	7.0%
Middle Managers	3,810	1.1	984	925	26.8%
Office Staff/Workers	18,571	0.4	13,566	12,760	28.3%
Training for newly-hired employees	**6,931**	**0.1**	**407**	**301**	**0.6%**
Senior Managers	0	0.0	0	0	0.0%
Middle Managers	273	0.1	17	17	0.5%
Office Staff/Workers	6,658	0.1	390	284	0.6%
Language training	**17,980**	**0.4**	**1,259**	**1,166**	**2.4%**
Senior Managers	4,346	5.7	210	166	21.6%
Middle Managers	5,230	1.5	398	375	10.9%
Office Staff/Workers	8,404	0.2	651	625	1.4%
TOTAL	**470,309**	**9.5**	**78,384**	**30,246**	**61.4%**
Senior Managers	17,001	22.1	2,006	501	65.1%
Middle Managers	23,878	6.9	2,729	1,757	51.0%
Office Staff/Workers	429,430	9.5	73,649	27,988	62.1%

(*)

Shows the overall number of participations in the various forms of training (classroom, on-the-job, online training).

The main objectives of the training activities, which were carried out exclusively by the HR Services Group as of 2010, were the following:

business culture transformation by means of support plans for the management of organisational changes;

the development of individual skills by means of personalised plans;

professional redevelopment/retraining for the purpose of acquiring and reinforcing the skills required by organisational developments;

respect for the ethical and compliance principles declared by the Company (e.g. environmental protection, sustainability, ethics, Legislative Decree 231, respect for privacy).

Internal communication

Internal events

Multimedia conventions, launched in 2009, are now the established method for conducting internal events. They involve a small number of people gathering in a physical space (auditorium or large meeting room) and interacting with a vast virtual audience of colleagues connected from their workstations by video streaming. People taking part in these multimedia conventions submit their questions to speakers before and during the event, interact on the subjects, and provide constructive feedback through blogs, forums and virtual networks. This way of holding meetings is in keeping with the interaction and involvement experiences with which the Company is experimenting through an increasingly widespread social media presence.

The online method also allows the content to be used at a later date and contributes to minimising greenhouse gas emissions by avoiding the need for people to travel.

Information and company media

Sincronizzando: 2 editions published and distributed of the corporate magazine that focuses attention on the central importance of customers, quality and dialogue with employees. The magazine is printed on FSC mixed certified paper, which reduces CO_2 emissions to zero.

Multimedia Channel: 44 editions of the bi-weekly "Videonews" news programme and 55 monographic reports were broadcast on the corporate web TV. Since February, new content has been made available (economy and scenarios, style and society, innovation and technology), thanks to the programming partnership with TMNews.

Listening and involvement activities and projects

During the first half of 2011, 4 new themed blogs were set up for individual departments plus 2 project-related blogs open to all employees, on subjects connected with the Company, testing, quality, research, photographic passion, social networks, diversity, adoptions, giving blood and other subjects. 285,829 accesses to these blogs were recorded by 10,093 unique users.

The fourth Telecom Italia internal BarCamp event was held in Rome in June, attended by 120 colleagues from all over Italy and the various company departments, selected from among the many attendance requests received. The theme discussed was "Spirit of initiative: freeing-up energy and skills to allow talents to emerge". Colleagues presented forward-looking projects, innovative ideas, original solutions to be implemented in their organisational environment. Further discussions on the projects presented were held on the Social Media Club blog.

An initiative was launched on the Intranet entitled "Feelings don't change. They way we communicate them does , which allowed two colleagues, chosen by means of an appropriate casting process, to appear as extras in the Telecom Italia corporate commercial. The commercial allows viewers to experience the link between the past and the future: sixty years of Italian history through the development of telecommunication.

Archimede is the Open Access project which, since 2008, has been collecting and rewarding the best innovative ideas aimed at optimising the processes and services offered by the sector. For 2011, it has also been extended to the Telecom Italia retail outlets and planning work is under way for the National Wholesale Services.

Health and Safety

The following activities continued or were launched from scratch throughout the Group in Italy during the first half of 2011:

ISO 9001 certification for EPPS: certification was achieved for the Quality Management System of the Environmental Prevention and Protection Services (EPPS), both for the central department and the four local offices.

Assessment of work-related stress: conducted according to the guidelines of the various relevant Institutes and Organisations (ISPESL, ASL, Conferenza Stato Regioni, INAIL), this involved all the employees in the company, trade union representatives, employer representatives, HR departments and the EPPS in particular. The whole process and the results it produced were presented to all the parties involved and published in the new Telecom Italia Risk Assessment Document.

Testing of the new climbing kit: testing was launched of a new wooden pole climbing kit and a training process was undertaken to teach people how to use it, involving 60 tutors and around 400 engineers throughout the country.

Health monitoring: this was carried out by the appointed doctor and involved VDU terminal workers. The activity involves preventive and periodic visits to verify the suitability of workers to perform the tasks assigned to them.

Research on exposure to microclimatic factors: this aims to identify any problems connected with these factors for personnel performing external tasks or any kind of work outside office premises. In this respect, joint work by Telecom Italia and the Istituto Superiore di Sanità continued for the purpose of measuring the average concentration of radon gas in working environments and in a sample of Telecom Italia employees' homes.

Industrial relations

During the first half of 2011, many information and discussion meetings were held with the trade unions to illustrate the reorganisation activities involving the various company departments (Customer, Technology, Staff) and to examine any effects on personnel.

Trade union representatives were involved in the business ethics certification process for the Open Access function (SA 8000 Certification). The SA 8000 certification, obtained in May 2011, is a company ethical performance communication tool used to inform customers that the company's products are made under proper working conditions and with respect for human rights in the performance of production activities.

With regard to the solidarity contract applied to around 29,200 employees of Telecom Italia S.p.A. for the two-year period between November 8, 2010 and November 7, 2012, in accordance with the agreement of October 25, 2010, the Company and the trade unions held specific verification meetings aimed at discussing the many initiatives taken by Telecom Italia S.p.A. to promote the retraining of surplus personnel. Training is a crucial element for the success of staff redevelopment processes and for this purpose specific projects have been discussed with the trade unions.

One of the most significant initiatives launched by Telecom Italia, as a sustainable company that contributes to the economic and social development of the country, is the High Apprenticeship Project. Agreed with the trade unions (SLC-CGIL, FISTel-CISL, UILCom-UIL) under an agreement signed on March 4, 2011, the initiative aims to promote closer relations between the academic world and the world of work in southern Italy (see *The Day Before* project in the Selection section).

On May 19, 2011, Telecom Italia S.p.A. and the national secretariats of SLC-CGIL, FISTel-CISL and UILCom-UIL signed an agreement regarding facilitated tax exemption according to the legal rules introduced on this subject. The agreement allows employees who earn no more than a specific threshold to benefit from tax exemptions established for the 2011 tax year.

May 31, 2011 saw the positive completion of the joint review carried out in accordance with current legislation (Article 47, Law No. 428/90) with trade union representatives affected by the transfer by Matrix S.p.A., by means of a partial spin-off, of its "Market & Technology Captive" line of business to Telecom Italia S.p.A.,

In June, a national meeting was held with the secretariats of the most representative trade unions in

order to verify the progress achieved by activities entrusted to internal and external workers in the Customer Fixed, Business and Mobile departments.

In April, the industry's main trade unions (SLC-CGIL, FISTel-CISL and UILCom-UIL) discussed an agreement regarding the initiatives launched respectively by Pathnet S.p.A. and Sparkle S.p.A. to provide employees with an opportunity, according to the operating rules and numbers agreed between the parties, to register free of charge, for the 2010-2011 academic year, for one of the degree courses run by the faculties of Law, Economics, Engineering, Communication Science, Psychology and Arts of the Uninettuno International Telematic University. The purpose of the initiative is to promote the development of non work-related knowledge and skills.

Remuneration policy

Remuneration policies in 2011 are continuing to ensure competitiveness in the labour market, in line with the objectives of developing and fostering loyalty in the workforce, as well as differentiating pay according to agreed and objective criteria.

Management of the fixed component is based on a high and increasing degree of selectiveness in identifying the employees concerned and, compared to last year, a fall has been recorded in terms of incremental impacts. At the same time, greater focus has been put on the "variable" component of remuneration, which has become a more distinctive element of overall remuneration, closely correlated with the performance achieved and the company's profitability.

The MBO 2011 system, the only short-term formalised incentive tool aimed at managers and particularly valuable employees, confirms the importance that the company has placed over the past two years and continues to place on corporate and departmental macro-economic objectives.

In 2011, investment has continued to be made in enhancing the non-monetary components of the pay packet (company benefits).

Telecom Italia has equipped itself with a long-term incentive system that brings together senior executive personnel, top management and a selected number of managers in achieving pre-established three-year performance objectives, in order to strengthen the link between management remuneration and company performance, ensuring the long-term sustainability of the company's results.

Employees share ownership plan

In 2010, Telecom Italia launched the 2010-2014 Employees Share Ownership Plan for all permanent employees of Telecom Italia or its subsidiaries with registered offices in Italy.

The purpose of the initiative is to increase motivation to achieve corporate objectives and strengthen the sense of belonging to the company.

During the subscription period (from June 28 to July 9, 2010), all employees were able to purchase ordinary shares, with a 10% discount on the market price, up to a maximum countervalue of 3,000 Euros. Subscribers who keep their shares for a year and remain in employment will receive Bonus Shares in 2011 equivalent to one free share for every 3 shares bought at a discount.

The Plan complies with the conditions for access to the fiscal benefits of article 51 of the Consolidated Law on Income Tax. This means that employees who decide to retain full ownership of the shares bought at a discount, and assigned free of charge for three years from the respective dates of purchase/assignment, will be entitled to an exemption from tax and contributions on the benefit paid by the company in terms of discount and bonus shares.

Research and development

Research and development activities at Telecom Italia are carried out by the Information Technology, TILab and Innovation & Industry Relations departments, which oversee the analysis of new technologies and the development of engineering needed to deliver the services offered to customers. Activities to enhance and generate competitive advantage for the Group are of particular importance and are pursued through strategic management of the relationship between research, Intellectual Property Rights (IPR) and business, aimed at developing the company s assets in patents rights. 7 new applications for patents were filed during the first half of 2011.

Relevant stakeholders and issues

The relevant stakeholders for research and development are:

the areas of the company involved (e.g. Marketing and Purchasing);

the suppliers, for the joint development of solutions in accordance with the technical requirements of Telecom Italia;

research centres and universities, for cooperation and joint projects. In 2011, 13 new collaborative projects were begun with Italian universities, in addition to the 9 already under way at the beginning of 2010, covering research into new technologies, encryption algorithms, new services and new communication standards;

the standardisation organisations and forums (including NGMN, OpenIPTV Forum, OMA, 3GPP, ETSI, TM Forum, W3C, ITU-T) in which Telecom Italia is actively involved;

the Ministries (Ministry for Economic Development and Ministry of Education, Universities and Research), the European Union and public authorities (e.g. CNR and local authorities) for projects funded through participation in competitive tenders, and partnership initiatives;

non-governmental organisations, associations, alliances and industry forums (e.g. GSMA, m-health, Consorzio tema.mobility) which bring together all the entities involved in the value chain of the specific market;

international research and development organisations (e.g. EURESCO and Joint Technology Initiative).

The themes on which projects are developed are identified on the basis of the Three-Year Technological Plan, the reference document for the Group, which provides guidelines for the evolution of the network, platform and services.

Published annually, following a wide-ranging process involving all the areas of the company involved, the Plan identifies the main external factors (regulations, standards, vendors, other market operators) that may influence the company's strategies and highlights the emerging and cross-cutting technologies in other sectors that may be of interest to the Group.

Projects and initiatives in the first half of 2011

The themes identified can be arranged in 3 macro-strands:

Information Technology to support business;

services to reduce environmental impact;

service*s* for the community.

Information Technology to support business

Research and development activities in this area, both internal and contracted to external suppliers, were aimed at supporting the Operating Units and Business Units and related to:

software products dedicated to the management of new commercial offers and new services for customers (business support systems), to the proper functioning of network support systems (operational support systems), and to security;

testing and specific checks for tenders and new network architecture;

new hardware infrastructure to support applications.

The main activities were:

development of new Customer Centric "Single Convergent Billing to manage the billing of fixed/mobile services for Consumer customers;

completion of the development of the Customer Centric CRM Business platform for the commercial management of mobile services to SOHO, SME, enterprise and top customers;

evolution of IT platforms to support the business functions in implementing new services and launching commercial offers for consumer, business and top customers (e.g. offers related to the Nuvola Italiana [Italian Cloud] service).

Services to reduce environmental impact

Next Generation Data Center*:* this project aims to develop the hardware infrastructure according to virtualisation and cloud computing principles, based on replacing the physical servers in the Telecom Italia Data Center by making shared use of infrastructure between the various applications. The project, which aims to develop commercial offers for the ICT market (e.g. ospit@ virtuale), allows logistical and energy optimisations to be achieved.

Next Generation Workplace: this is a personal computing evolution that allows centrally managed content and applications to be accessed remotely and in multichannel mode, replacing traditional workstations, based on a desktop, with highly "simplified" PCs that only contain the basic network information needed to communicate with the centralised infrastructure. In addition to contributing in a decisive way to reducing energy consumption, the project is aimed at improving the operational flexibility of employees, establishing the foundation for future development of work models (e.g. teleworking).

ITS & Infomobility Platform: this aims to enable new mobility services for Public Administration and private users by gradually introducing the idea of a vehicle constantly connected with the outside world (e.g. service centre, roadside infrastructure, occupants, other vehicles, etc.). The objective is to improve the efficiency and eco-sustainability of transport for the benefit of the community. The vision and solutions are developed in close synergy with the industry standardisation activities in which Telecom Italia is closely involved.

Smart metering: solutions that allow energy consumption to be monitored and optimised, including TI-Green and GreenHome.

Smart Town: the solution provides a package of services for municipalities by using the public lighting network and is offered as part of the Digital Town (Smart Cities) initiative involving Italy's main cities.

EARTH (Energy Aware Radio and neTwork tecHnologies): studies network architectures and individual radio components of existing and future generation mobile systems in order to improve their energy efficiency by at least 50% compared to current standards, with resulting benefits in terms of savings and a reduction in harmful emissions.

Telepresence: development of a prototype for the telepresence service for business customers, the features of which guarantee a high standard of video quality (resolution up to full HD), visibility of the whole person, smoothness in the reproduction of movements and polyphonic audio with echo and background noise suppression. The prototype is distinguished by the use of low cost technologies such as HD consumer webcam, 50" plasma TV, medium range PC and new low cost sound cards.

Services for the community

Solutions for reducing the geographical divide: these are intended to facilitate access to broadband in areas with digital divide problems and new urban areas.

Laboratorio Accreditato di Prova (LAP) [accredited test laboratory]: operates within TILab and carries out testing activities on ICT services and systems for the company's internal departments and for external companies and organisations. The LAP is accredited as a provider of various services to the Ministry of Economic Development, SIT (Italian calibration service) and Accredia (the new national accreditation body) based on European Regulation EC 765/2008. During the first half of 2011, a new Technical Operating Sector was set up, consisting of the laboratory for mobile telephony added value services (VAS) and three new accredited services for performing tests.

Smart Inclusion: this project allows young long term hospital patients to stay in contact with their school and family home via a touch screen terminal fitted with a camera, while also allowing doctors to optimise the management of care procedures. The technical solution has been created

by Telecom Italia by using innovative technologies such as plastic fibre optics and power lines, as well as specific software developments, mainly based on open source platforms..

E-learning and evolved teaching methods: a series of initiatives have been launched in the field of schooling with the aim of fulfilling the demand for evolved systems based on collaboration, communication and the use of innovative devices such as IMBs - Interactive Multimedia Boards.

Nuvola Italiana Home Doctor: remote healthcare based on monitoring the physiological parameters of the patient directly from home or in appropriately equipped premises. The measurements are carried out by combining technologies developed by Telecom Italia with the standard medical electronic apparatus on sale.

MuoviTI: this is an experimental remote monitoring application for people with movement difficulties, which allows healthcare personnel to monitor the physical exercise taken by patients remotely. The system uses devices and sensors that can be worn by the patient and process the data on site and transmit the results to the Telecom Italia remote monitoring platform for them to be checked by authorised personnel (doctors and relatives). The application is based on the SPINE framework, an open source project developed with the academic world (Universities of Calabria and Berkeley and the University of Texas in Dallas). The testing of MuoviTi on a number of patients being treated in the rehabilitation department of the Novara University "Maggiore della Carità" Hospital began in 2010 with the assistance of the Mario Boella Institute.

Alternative Performance Measures

In this Half-year Financial Report at June 30, 2011 of the Telecom Italia Group, in addition to the conventional financial performance measures established by IFRS, certain alternative performance measures are presented for purposes of a better understanding of the trend of operations and financial condition. Such measures, which are also presented in other periodical financial reports (annual and interim) should, however, not be construed as a substitute for those required by IFRS.

The non-IFRS alternative performance measures used are described below:

EBITDA: this financial measure is used by Telecom Italia as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group (as a whole and at the Business Unit level) in addition to **EBIT**. These measures are calculated as follows:

Profit (loss) before tax from continuing operations	
+	Finance expenses
-	Finance income
+/-	Other expenses (income) from investments
+/-	Share of losses (profits) of associates and joint ventures accounted for using the equity method
EBIT - Operating profit	
+/-	Impairment losses (reversals) on non-current assets
+/-	Losses (gains) on disposals of non-current assets
+	Depreciation and amortization
EBITDA - Operating profit before depreciation and amortization, Capital gains (losses) and Impairment reversals (losses) on non-current assets	

Organic change in revenues, EBITDA and EBIT: these measures express changes (amount and/or percentage) in revenues, EBITDA and EBIT, excluding, where applicable, the effects of the change in the scope of consolidation, exchange differences and non-organic components constituted by non-recurring items and other non-organic income and expenses. Telecom Italia believes that the presentation of such additional information allows for a more complete and effective understanding of the operating performance of the Group (as a whole and at the Business Unit level). The organic change in revenues, EBITDA and EBIT is also used in presentations to analysts and investors. Details of the economic amounts used to arrive at the organic change are provided in this Half-year Financial Report as well as an analysis of the major non-organic components for the first six months of 2011 and 2010.

Net Financial Debt: Telecom Italia believes that Net Financial Debt represents an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets. The Half-year Financial Report at June 30, 2011 includes a table showing the amounts taken from the statement of financial position and used to calculate the Net Financial Debt of the Group.

In order to better represent the actual change in net financial debt, starting with the Half-year Financial Report at June 30, 2009, in addition to the usual measure (renamed Net financial debt carrying amount) a new measure has been introduced denominated Adjusted net financial debt which excludes effects that are purely accounting in nature resulting from the fair value measurement of derivatives and related financial assets and liabilities.

Net financial debt is calculated as follows:

	+Non-current financial liabilities
	+Current financial liabilities
	+Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale
A)	**Gross financial debt**
	+Non-current financial assets
	+Current financial assets
	+Financial assets included in Discontinued operations/Non-current assets held for sale
B)	**Financial assets**
C=(A - B)	**Net financial debt carrying amount**
D)	**Reversal of fair value measurement of derivatives and related financial assets/liabilities**
E=(C + D)	**Adjusted net financial debt**

Footnotes

(1)

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

(2)

The system uses the ambient temperature of the air to produce a cooling effect, without the help of cooling machines and fans to facilitate the exchange of heat.

(3)

In EFFC cooling systems, hot air is extracted directly from hot spots in the system and a forced ventilation system facilitates a rapid exchange of heat with the surrounding environment.

(4)

Energy efficiency for home connectivity terminals and devices.

Telecom Italia Group Half-year Condensed Consolidated

Financial Statements at June 30, 2011

Contents

Telecom Italia Group Half-year Condensed Consolidated Financial Statements at June 30, 2011

Consolidated Statements of Financial Position

Assets

(millions of euros)	*note*	6/30/2011	*of which related parties*	12/31/2010	*of which related parties*
Non-current assets					
Intangible assets					
Goodwill	4)	40,691		43,912	
Other Intangible assets	5)	7,459		7,903	
		48,150		51,815	
Tangible assets	6)				
Property, plant and equipment owned		14,588		15,373	
Assets held under finance leases		1,124		1,177	
		15,712		16,550	
Other non-current assets					
Investments in associates and joint ventures accounted for using the equity method	7)	73		85	
Other investments	7)	44		43	
Securities, financial receivables and other non-current financial assets	7)	1,542	*97*	1,863	*109*
Miscellaneous receivables and other non-current assets	7)	1,131	*15*	934	*15*
Deferred tax assets		1,141		1,863	
		3,931		4,788	
Total Non-current assets	(a)	67,793		73,153	
Current assets					
Inventories		460		387	
Trade and miscellaneous receivables and other current assets	8)	8,474	*278*	7,790	*270*
Current income tax receivables		131		132	
Securities other than investments		1,301	*11*	1,316	*14*
Financial receivables and other current financial assets		386	*14*	438	*23*
Cash and cash equivalents		3,760	*95*	5,526	*113*
Current assets sub-total		14,512		15,589	
Discontinued operations/ Non-current assets held for sale					
of a financial nature		-		-	
of a non-financial nature		-	-	389	-
		-		389	
Total Current assets	(b)	14,512		15,978	
Total Assets	(a+b)	82,305		89,131	

Equity and Liabilities

(millions of euros)		note	6/30/2011	*of which related parties*	12/31/2010	*of which related parties*
Equity		9)				
Share Capital issued			10,689		10,689	
Less: treasury shares			(89)		(89)	
Share capital			10,600		10,600	
Paid-in capital			1,697		1,697	
Other reserves and retained earnings (accumulated losses), including profit (loss) for the period			13,464		16,522	
Equity attributable to owners of the Parent			25,761		28,819	
Equity attributable to non-controlling interests			3,593		3,791	
Total Equity	(a)		29,354		32,610	
Non-current liabilities						
Non-current financial liabilities		10)	33,086	*419*	34,348	*431*
Employee benefits		14)	1,068		1,129	
Deferred tax liabilities			894		1,027	
Provisions		15)	825		860	
Miscellaneous payables and other non-current liabilities			1,059	*3*	1,086	*4*
Total Non-current liabilities	(b)		36,932		38,450	
Current liabilities						
Current financial liabilities		10)	5,408	*183*	6,882	*246*
Trade and miscellaneous payables and other current liabilities		16)	10,409	*253*	10,954	*325*
Current income tax payables			202		235	
Current liabilities sub-total			16,019		18,071	
Liabilities directly associated with Discontinued operations/Non-current assets held for sale						
of a financial nature			-		-	
of a non-financial nature			-	-	-	-
			-		-	
Total Current liabilities	(c)		16,019		18,071	
Total Liabilities	(d=b+c)		52,951		56,521	
Total Equity and Liabilities	(a+d)		82,305		89,131	

Separate Consolidated Income Statements

(millions of euros)	*note*	1st Half 2011	*of which related parties*	1st Half 2010	*of which related parties*
Revenues		14,543	*530*	13,223	*479*
Other income		108	-	104	*4*
Total operating revenues and other income		14,651		13,327	
Acquisition of goods and services		(6,232)	*(356)*	(5,368)	*(276)*
Employee benefits expenses		(1,964)	*(55)*	(1,845)	*(53)*
Other operating expenses		(844)		(570)	
Changes in inventories		81		(125)	
Internally generated assets		285		314	
Operating profit before depreciation and amortization, capital gains (losses) and impairment reversals (losses) on non-current assets (EBITDA)		5,977		5,733	
of which net impact of non-recurring items	24)	**-**		***(8)***	