TELECOM ITALIA S P A
Form 6-K
September 22, 2011
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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

Telecom Italia S.p.A.

Piazza degli Affari 2,

20123 Milan, Italy

(Address of principal executive offices)

FOR THE MONTH OF SEPTEMBER, 2011

Commission File Number 001-13882

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

Form 20-F x Form 40-F ¨

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

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

This Report on Form 6-K shall be deemed to be incorporated by reference in the Registration Statement on Form F-3 of Telecom Italia Capital S.A. (Registration No. 333-156476) and Telecom Italia S.p.A. (Registration No. 333-156476-01) and to be a part thereof from the date on which this report is furnished, to the extent not superseded by documents or reports subsequently filed or furnished.

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INTRODUCTION

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

n **Presentation of Certain Financial and Other Information**

Unless otherwise indicated, the financial information incorporated by reference in this report has been prepared in accordance with International Financial Reporting Standards issued by the IASB International Accounting Standard Board (designated as **IFRS**).

The currency used by Telecom Italia in preparing its consolidated financial statements is the euro. References to , euro and Euro are to the euro.

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

References to BRL are to the Brazilian Reais.

References to pesos are to the Argentine pesos.

For the purpose of this report, billion means a thousand million.

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

This report may contain certain forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933 or Section 21E of the U.S. Securities Exchange Act of 1934 (the **1934 Act**), which reflect Telecom Italia s 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 our 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 increasing competition from global and local OTT (Over The Top) players (operators offering contents and services on the internet without owning a proprietary TLC network infrastructure);

the continuing effects of the global economic crisis 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;

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 and Argentina), 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 and Argentina);
- 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 of this report. 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 of this report, including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

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When evaluating forward-looking statements, you should also consider the risk factors set forth in the 2010 Annual Report and subsequent annual reports on Form 20-F and other documents Telecom Italia files with the U.S. Securities and Exchange Commission.

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KEY DEFINITIONS

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

IASB	means the International Accounting Standards Board.
IFRS	means International Financial Reporting Standards issued by the IASB.
Ordinary Shares	means the Ordinary Shares, 0.55 par value each, of Telecom Italia.
Savings Shares	means the Savings Shares, 0.55 par value each, of Telecom Italia.
Parent	means Telecom Italia S.p.A. or the Company.
Telecom Italia Group and Group	means the Company and its consolidated subsidiaries.
Telecom Italia Media	Telecom Italia Media is the Telecom Italia Group s subsidiary operating in the Media business.

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DESCRIPTION OF TELECOM ITALIA

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

n **Overview of the Telecom Italia Group s Major Business Areas**
Telecom Italia is the parent company of the Telecom Italia Group.

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 of Sofora Telecomunicaciones S.A. and Nortel (the controlling holding company of the Telecom Argentina group, which, in turn, is controlled by Sofora Telecomunicaciones) 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.

Telecom Italia Group s Business Units as of June 30, 2011 were as follows:

(*) Main 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. and Shared Service Center S.r.l.

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SUMMARY SELECTED FINANCIAL AND STATISTICAL INFORMATION

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

- with respect to the separate consolidated income statement information, the unaudited financial data for the six-month periods ended June 30, 2011 and 2010; and

- with respect to the statement of financial position information, the unaudited financial data as of June 30, 2011 and the audited financial data as of December 31, 2010.

In the opinion of the management of Telecom Italia, the unaudited interim consolidated financial data of the Telecom Italia Group reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Telecom Italia Group s consolidated results of operations for the unaudited interim periods. Results for the six-month period ended June 30, 2011, are not necessarily indicative of results that may be expected for the entire year.

Furthermore in the six months ended June 30, 2011 there were no material events or transactions (e.g. business combinations, disposals, significant transactions with related parties, including intragroup transactions) which would have required a specific disclosure in this report.

This financial information was prepared applying the same accounting policies and methods of computation as compared with our Consolidated Financial Statements as of December 31, 2010 included in Telecom Italia S.p.A. s 2010 Annual Report, to which reference should be made, except for the new standards and interpretations adopted by the Group since January 1, 2011 that did not have any impact on the Unaudited Interim Consolidated Financial Statements at June 30, 2011.

In addition, certain non-GAAP financial measures are presented.

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	Six months ended June 30, 2011	2010
	(Unaudited)	
	(millions of euros, except percentages, ratios, employees and per share amounts)	
Separate Consolidated Income Statement Data:		
Revenues	**14,543**	**13,223**
Operating profit (loss)	**(51)**	**2,881**
Profit (loss) before tax from continuing operations	**(1,009)**	**1,924**
Profit (loss) from continuing operations	**(1,786)**	**1,242**
Profit (loss) from Discontinued operations/Non current assets held for sale	(11)	(2)
Profit (loss) for the period	**(1,797)**	**1,240**
Of which:		
Profit (loss) attributable to owners of the Parent[1]	*(2,013)*	*1,211*
Investments		
Capital expenditures	2,037	2,021
Financial Ratios		
Operating profit/Revenues (ROS)(%)	n.s.	21.8
Ratio of earnings to fixed charges[2]	0.01	2.73
Employees, average number in the Group, including personnel with temporary work contracts:		
Employees (average number)	77,985	67,130
Basic and Diluted earnings per Share (EPS)[3]:		
Ordinary Share	**(0.11)**	**0.06**
Savings Share	**(0.11)**	**0.07**
Of which:		
- *From continuing operations:*		
Ordinary Share	*(0.11)*	*0.06*
Savings Share	*(0.11)*	*0.07*
- *From Discontinued operations/Non-current assets held for sale:*		
Ordinary Share		
Savings Share		

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2011 Half-Yearly Financial Report **Summary Selected Financial And Statistical Information**

	As of June 30, 2011 (Unaudited)	As of December 31, 2010
	(millions of euros, except employees)	
Consolidated Statement of Financial Position Data:		
Total Assets	**82,305**	**89,131**
Equity:		
Equity attributable to owners of the Parent	25,761	28,819
Non-controlling interests	3,593	3,791
Total Equity	**29,354**	**32,610**
Total liabilities	**52,951**	**56,521**
Total equity and liabilities	**82,305**	**89,131**
Share capital(4)	**10,600**	**10,600**
Net Financial Debt(5)	**31,505**	**32,087**
Employees, number in the Group at period-end, including personnel with temporary work contracts:		
Employees (number at period-end)	84,335	84,200

	Six months ended June 30, 2011	2010
	(Unaudited)	
	(millions of euros)	
Cash Flows from (used in) Operating Activities	4,041	2,974
Cash Flows from (used in) Investing Activities	(1,715)	(2,614)
Cash Flows from (used in) Financing Activities	(3,810)	(2,601)
Aggregate Cash Flows	**(1,484)**	**(2,241)**

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2011 Half-Yearly Financial Report **Summary Selected Financial And Statistical Information**

	As of and for the period ended		
	June 30, 2011	**December 31, 2010**	**June 30, 2010**
Statistical Data:			
Domestic fixed:			
Fixed-line network connections in Italy at period-end (thousands)	17,124	17,609	18,062
Physical accesses (Consumer and 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 (thousands)	*7,169*	*7,175*	*7,134*
Virgilio average daily page views during the 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)	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 the 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 mobile lines at period-end (thousands)	31,260	31,018	30,545
Change in mobile lines (%)	0.8	0.5	(1.0)
Churn rate (%)[6]	11.1	22.0	11.5
Total mobile outgoing traffic per month (millions of minutes)	3,608	3,305	3,109
Total average mobile outgoing and incoming traffic per month (millions of minutes)	4,801	4,597	4,405
Average monthly mobile service revenues per line[7] (euro)	17.5	19.7	20.1
Brazil:			
Number of mobile lines at period-end (thousands)	55,512	51,015	44,413
Argentina[8]:			
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) (last month of period, in %)	4.4	3.3	3.1

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

(2) For purposes of calculating the ratio of earnings to fixed charges :

Earnings is calculated by adding:

profit (loss) before tax from continuing operations;

fixed charges (as defined below);

amortization of capitalized interest and issue debt discounts or premiums;

dividends from associates and joint ventures accounted for using the equity method; and

share of losses of associates and joint ventures accounted for using the equity method; and then subtracting:

capitalized interest for the applicable period; and

share of earnings of associates and joint ventures accounted for using the equity method.

Fixed charges is calculated by adding:

interest expenses (both expensed and capitalized);

issue costs and any original issue debt discounts or premiums; and

an estimate of the interest within rental expense for operating leases.

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

Ordinary Shares were 13,257,839,636 for the six months ended June 30, 2011 and 13,218,690,552 for the six months ended June 30, 2010; and

Savings Shares were 6,026,120,661 for the six months ended June 30, 2011 and 6,026,120,661 for the six months ended June 30, 2010.

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

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

(5) Net Financial Debt is a Non-GAAP Financial Measure as defined in Item 10 of Regulation S-K under the 1934 Act. For further details please see the items Non-GAAP Financial Measures and Liquidity and Capital Resources Capital Resources included elsewhere in this Report on Form 6-K.

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

(7) The values are calculated on the basis of revenues from mobile services (including revenues from prepaid cards and revenues from non-domestic traffic) divided by the average number of lines.

(8) 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.

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Non-GAAP Financial Measures

In this report, in addition to figures presented in accordance with IFRS as issued by IASB, we disclose figures derived from IFRS that are non-GAAP financial measures (**Non-GAAP Measures**).

In this report the only non-GAAP measure utilized relates to Net Financial Debt.

Net Financial Debt is a Non-GAAP financial measure as defined in Item 10 of Regulation S-K under the 1934 Act, but is widely used in Italy by financial institutions to assess liquidity and the adequacy of a company s financial structure. We believe that Net Financial Debt provides an accurate indicator of our ability to meet our financial obligations (represented by gross debt) by our available liquidity, represented by the other items shown in the reconciliation table. Net Financial Debt allows us to show investors the trend in our net financial condition over the periods presented. The limitation on the use of Net Financial Debt is that it effectively assumes that gross debt can be reduced by our cash and other liquid assets. In fact, it is unlikely that we would use all of our liquid assets to reduce our gross debt all at once, as such assets must also be available to pay employees, suppliers, and taxes, and to meet other operating needs and capital expenditure requirements. Net Financial Debt and its ratio to equity (including Non-controlling Interest), or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business plan and our financial targets. Our management believes that our financial structure is sufficient to achieve our business plan and financial targets. Our management monitors the Net Financial Debt and leverage or similar measures as reported by other telecommunications operators in Italy and outside Italy, and by other major listed companies in Italy, in order to assess our liquidity and financial structure relative to such companies. We also monitor the trends in our Net Financial Debt and leverage in order to optimize the use of internally generated funds versus funds from third parties. Net Financial Debt is reported in our Italian Annual Report to shareholders and is used in presentations to investors and analysts.

For further details on Net Financial Debt please see the item Liquidity and Capital Resources Capital Resources included elsewhere in this Report on Form 6-K.

TELECOM ITALIA GROUP RESULTS OF OPERATIONS FOR THE SIX MONTHS ENDED JUNE 30, 2011 COMPARED TO THE SIX MONTHS ENDED JUNE 30, 2010

The information in this section should be read in conjunction with the Telecom Italia Group s Unaudited Interim Consolidated Financial Statements at June 30, 2011, and the Notes thereto, included elsewhere in this Report on Form 6-K.

	Six months ended June 30,	
	2011	**2010**
	(Unaudited)	
	(millions of euros)	
Separate Consolidated Income Statement Data:		
Revenues	14,543	13,223
Other income	108	104
Total operating revenues and other income	**14,651**	**13,327**
Acquisition of goods and services	(6,232)	(5,368)
Employee benefits expenses	(1,964)	(1,845)
Other operating expenses	(844)	(570)
Changes in inventories	81	(125)
Internally generated assets	285	314
Depreciation and amortization	(2,843)	(2,845)
Gains (losses) on disposals of non current assets	(3)	(2)
Impairment reversals (losses) on non current assets	(3,182)	(5)
Operating profit (loss)	**(51)**	**2,881**
Share of profits (losses) of associates and joint ventures accounted for using the equity method	(12)	39
Other income (expenses) from investments	15	2
Finance income	1,685	3,464
Finance expenses	(2,646)	(4,462)
Profit (loss) before tax from continuing operations	**(1,009)**	**1,924**
Income tax expense	(777)	(682)
Profit (loss) from continuing operations	**(1,786)**	**1,242**
Profit (loss) from Discontinued operations/Non current assets held for sale	(11)	(2)
Profit (loss) for the period	**(1,797)**	**1,240**
Attributable to:		
Owners of the Parent	*(2,013)*	*1,211*
Non-controlling interests	*216*	*29*

¢ **Telecom Italia Group Consolidated Results**

v **REVENUES**

Revenues amounted to 14,543 million euros in the first half of 2011, an increase of 1,320 million euros, or 10.0%, compared to 13,223 million euros in the same period of 2010.

The breakdown of Revenues by operating segment is the following:

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2011 Half-Yearly Financial Report **Telecom Italia Group Results Of Operations For The Six Months Ended June 30, 2011**

	Six months ended June 30, 2011		2010		Changes	
	Gross revenues (1) (a)	% of Consolidated revenues	Gross revenues (1) (b)	% of Consolidated revenues	(a-b)	%
	(millions of euros, except percentages)					
Domestic	9,356	*64.3*	10,091	*76.3*	(735)	(7.3)
Core Domestic	*8,953*	*61.6*	*9,563*	*72.3*	*(610)*	*(6.4)*
International Wholesale	*642*	*4.4*	*805*	*6.1*	*(163)*	*(20.2)*
Brazil	3,499	*24.1*	2,875	*21.7*	624	21.7
Argentina	1,511	*10.4*			1,511	
Media, Olivetti and Other Operations (2)	280	*1.9*	346	*2.6*	(66)	(19.1)
Adjustments and eliminations	*(103)*	*(0.7)*	*(89)*	*(0.6)*	*(14)*	
Total Revenues	**14,543**	***100.0***	**13,223**	***100.0***	**1,320**	**10.0**

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

(2) The Other Operations of the Telecom Italia Group consist of the financial companies and other minor companies not associated with the core business of the Telecom Italia Group.

The **Domestic Business Unit** (divided into Core Domestic and International Wholesale), experienced a decline in revenues of 7.3% in the first half of 2011 compared to the first half of 2010. The second quarter of 2011, however, showed improvement over the first quarter of 2011 due to the initial results from the repositioning strategy undertaken in the mobile business and the defense of value of the fixed customer base.

The services component experienced a contraction in the first half of 2011 compared to the first half of 2010 while improving in the second quarter of 2011 compared to the first quarter of 2011, driven by the mobile area where the reduced revenues from lower tariffs not recovered through higher volumes resulting from efforts made to competitively reposition mobile rate plans are still being felt but to a lesser degree. The decrease in revenues in the fixed line area in the first half of 2011 compared to the same period of 2010 reflects the performance of the International Wholesale voice business. Revenues in that area were adversely affected by strong price pressure caused by market competition and also rationalization measures undertaken to achieve a more selective approach to the client portfolio, although there was no significant change in margin. Retail customer revenues also contracted in the first half of 2011 from the prior year period but improved in the second quarter of 2011 compared to the first quarter of 2011.

As for handset sales, revenues displayed an increase driven entirely by the mobile area which benefited from a greater sales effort focusing on terminals offering mobile internet services.

As for the **Brazil Business Unit**, revenues grew 21.7% in the first half of 2011 compared to the same period of the prior year. Service revenues continued the positive trend that was seen in the first quarter of 2011 propelled by the growth of the customer base (55.5 million mobile lines at June 30, 2011). Handset sales also showed a significant increase supported, like the domestic business, by the strategy focusing on smartphones and webphones as the lever for the growth of mobile data traffic revenues.

The table below sets forth revenues by geographical area (by the location of operations) and the percentage of total consolidated revenues for the six month periods ended June 30, 2011 and 2010:

	Six months ended June 30, 2011	2010
	(millions of euros, except percentages)	

Geographical area				
Italy	9,411	64.7%	10,154	76.8%
Abroad	5,132	35.3%	3,069	23.2%
Total consolidated revenues	**14,543**	**100.0%**	**13,223**	**100.0%**

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v OTHER INCOME

Details are as follows:

	Six months ended June 30, 2011	2010	Change
	(millions of euros)		
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 compensations, penalties and sundry recoveries	10	7	3
Sundry income	34	26	8
Total	**108**	**104**	**4**

v OPERATING EXPENSES

Our operating expenses amounted to 14,702 million euros in the first half of 2011, an increase of 4,256 million euros, or 40.7%, compared to 10,446 million euros in the same period of 2010; such increase is detailed as follows:

Acquisition of goods and services

The increase of 864 million euros was 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 significant increase 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. Partially offsetting these increases was the performance of the domestic business which benefited from cost cutting actions which contributed to a reduction in purchases of 274 million euros compared to the first half of 2010 (-7.6%).

In detail:

	Six months ended June 30, 2011	2010	Change
	(millions of euros)		
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	**6,232**	**5,368**	**864**

Employee benefits expenses

Employee benefits expenses recorded a total increase of 119 million euros. The increase largely reflected 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 was down 98 million euros 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.)

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Details are as follows:

		Six months ended June 30, 2011	2010	Change
			(millions of euros)	
Total employee benefits expenses	Italy	1,576	1,674	(98)
Total employee benefits expenses	Foreign	388	171	217
Total employee benefits expenses		**1,964**	**1,845**	**119**

The average salaried number of the workforce is the following:

		Six months ended June 30, 2011	2010	Change
			(units)	
Average salaried workforce	Italy	53,555	57,731	(4,176)
Average salaried workforce	Foreign[1]	24,430	9,399	15,031
Total average salaried workforce[2]		**77,985**	**67,130**	**10,855**

(1) The increase in the average headcount of the salaried workforce was 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 abroad). In the first half of 2010 it included 77 units (64 in Italy and 13 abroad).

Employees at June 30, 2011 were as follows:

		As of June 30, 2011	As of December 31, 2010	Change
			(units)	
Employees	Italy	57,853	58,045	(192)
Employees	Foreign	26,482	26,155	327
Total [1]		**84,335**	**84,200**	**135**

(1) Includes employees with temp work contracts: 90 at June 30, 2011 and 71 at December 31, 2010.

Other operating expenses

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), and the increases in 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:

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

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

- telecommunications operating fees and charges showed an increase of 93 million euros relating 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 are as follows:

	Six months ended June 30, 2011	2010	Change
	(millions of euros)		
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 operating expenses	**844**	**570**	**274**

Depreciation and amortization

Details are as follow:

	Six months ended June 30, 2011	2010	Change
	(millions of euros)		
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 decrease in amortization and depreciation charges was due to decreases in amortization and depreciation charges primarily relating to 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) which were largely offset by the inclusion of the Argentina Business Unit in the scope of consolidation (an impact of +261 million euros in the first half of 2011).

Impairment losses on non-current assets

The impairment losses on non-current assets amounted 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, performed an 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 of the Telecom Italia Group Unaudited Interim Consolidated Financial Statements at June 30, 2011 included elsewhere in this Report on Form 6-K.

v **Operating profit (loss)**

Operating profit (loss) was a negative of 51 million euros in the first half of 2011, with a negative change of 2,932 million euros compared to the first half of 2010.

v SHARE OF PROFITS (LOSSES) OF ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD

Details are as follows:

	Six months ended June 30, 2011	2010	Change
	(millions of euros)		
ETECSA		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.

v OTHER INCOME (EXPENSES) FROM INVESTMENTS

In the first half of 2011, Other income (expenses) from investments amounted to income of 15 million euros which relates primarily to a 17 million euro gain on the sale of the entire 27% investment in the Cuban operator EtecSA. That amount was 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 amounted to income of 2 million euros and mainly included the net gains on the sale of minor companies.

v FINANCE INCOME (EXPENSES)

Finance income (expenses) amounted to an expense of 961 million euros (an expense of 998 million euros in the first half of 2010); this 37 million euro improvement resulted mainly from lower net debt exposure.

v INCOME TAX EXPENSES

Income tax expense was 777 million euros in the first half of 2011, an increase of 95 million euros compared to the first half of 2010 (682 million euros), owing to higher taxable profit reported by the Business Units in South America (Brazil and Argentina).

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

In the first half of 2011, loss from discontinued operations/non-current assets held for sale was 11 million euros and included expenses incurred in connection with the asset sales transactions of prior years.

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2011 Half-Yearly Financial Report **Telecom Italia Group Results Of Operations For The Six Months Ended June 30, 2011**

Business Units Financial Data

The highlights of the Telecom Italia Group are presented in this 2011 Half-yearly Financial Report according to the following operating segments:

Domestic Business Unit: includes domestic operations for voice and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale), the operations of 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 table below sets forth revenues, operating profit (loss), capital expenditures and number of employees by Business Units, for the periods indicated.

		Domestic	Brazil	Argentina	Media	Olivetti	Other Operations	Adjustments and eliminations	Consolidated Total
		(millions of euros, except number of employees)							
Revenues(1)	2011 first half	9,356	3,499	1,511	118	161	1	(103)	**14,543**
	2010 first half	10,091	2,875		127	176	43	(89)	**13,223**
Operating profit (loss)	2011 first half	(686)	440	248	(20)	(27)	(9)	3	**(51)**
	2010 first half	2,758	165		(21)	(18)	(14)	11	**2,881**
Capital expenditures	2011 first half	1,358	444	205	26	3	1		**2,037**
	2010 first half								

		1,487	507		21	3	3	**2,021**
Number of employees(2)	As of June 30, 2011	56,309	10,007	16,090	803	1,088	38	**84,335**
	As of Dec. 31, 2010	56,530	10,114	15,650	777	1,090	39	**84,200**

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

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

v **DOMESTIC**

The Domestic Business Unit operates as the consolidated market leader in Italy 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 Domestic Business Unit develops fiber optic networks for wholesale customers (in Europe, in the Mediterranean and in South America).

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

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

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

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

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

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

Other (support structures) includes:

¡ Technology & IT: 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 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: 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.

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

	Six months ended June 30, 2011 (a)	2010 (b)	Change (a-b)	%
	(millions of euros, except percentages)			
Revenues	9,356	10,091	(735)	(7.3)
Operating profit (loss)	(686)	2,758	(3,444)	
% of Revenues		27.3		
Capital expenditures	1,358	1,487	(129)	(8.7)
Employees at period-end (units)	56,309	(*)56,530	(221)	(0.4)

(*) The number of employees is referred to December 31, 2010.

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Core Domestic

	Six months ended June 30, 2011 (a)	2010 (b)	Change (a-b)	%
	(millions of euros, except percentages)			
Revenues (1)	8,953	9,563	(610)	(6.4)
Consumer	*4,525*	*4,941*	*(416)*	*(8.4)*
Business	*1,658*	*1,784*	*(126)*	*(7.1)*
Top	*1,618*	*1,708*	*(90)*	*(5.3)*
National Wholesale	*1,054*	*1,029*	*25*	*2.4*
Other	*98*	*101*	*(3)*	*(3.0)*
Operating profit (loss)	(747)	2,672	(3,419)	
% of Revenues		*27.9*		
Capital expenditures	1,340	1,460	(120)	(8.2)
Employees at period-end (units)	55,269	(*)55,475	(206)	(0.4)

(1) The amounts indicated are net of intrasegment transactions.

(*) The number of employees is referred to December 31, 2010.

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 in the first half of 2011 was 416 million euros (-8.4%) compared to the first half of 2010. Such results are still adversely affected, 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, recorded a reduction in revenues of 126 million euros (-7.1%) with a smaller decline in the second quarter (-6.7% compared to 7.3% in the first quarter of 2011). Such contraction primarily related to 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 posted a contraction in revenues of 90 million euros (-5.3%) compared to the first half of 2010 with a smaller decline 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%) was 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

	Six months ended June 30, 2011 (a)	2010 (b)	Change (a-b)	%
	(millions of euros, except percentages)			
Revenues	642	805	(163)	(20.2)
Of which third parties	*431*	*581*	*(150)*	*(25.8)*
Operating profit	61	84	(23)	(27.4)
% of Revenues	*9.5*	*10.4*		
Capital expenditures	19	29	(10)	(34.5)
Employees at period-end (units)	1,040	(*)1,055	(15)	(1.4)

(*) The number of employees is referred to December 31, 2010.

In the first half of 2011, International Wholesale (the Telecom Italia Sparkle group) reported revenues of

642 million euros, down 163 million euros compared to the same period of 2010 (-20.2%). Such decline was almost entirely due to voice services (-146 million euros) which were adversely affected by strong price pressure caused by market competition and measures to rationalize the sector based on a more selective approach to the customer portfolio but without significantly impacting margins.

IP&Data revenues were 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.

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In addition to 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 for previous periods.

Revenues

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

	Six months ended June 30,								
	2011			2010			Change %		
Market segment	**Total**	**Fixed (1)**	**Mobile (1)**	**Total**	**Fixed (1)**	**Mobile (1)**	**Total**	**Fixed (1)**	**Mobile (1)**
	(millions of euros)								
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	1,618	1,250	413	1,708	1,305	452	*(5.3)*	*(4.2)*	*(8.6)*
National 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)***

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

Fixed-line Telecommunications

In the first half of 2011, fixed-line telecommunications revenues amounted to 6,691 million euros, decreasing 367 million euros (-5.2%) compared to the same period of the prior year. Such decrease was largely attributable to the reduction in Retail accesses which at the end of June 2011 were equal to 15 million lines (-2.5% compared to December 31, 2010, -4.9% compared to June 30, 2010).

This 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) due to sales policies aimed at retaining and recapturing customers. In contrast, sales in Broadband services were basically stable due to a customer portfolio which remains more or less stable in a market which is beginning to show signs of saturation with continuingly fierce competition. The total Broadband portfolio at June 30, 2011 was equal to 9.1 million accesses (+59 thousand accesses compared to December 31, 2010), of which wholesale accesses were 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:

	Six months ended June 30, 2011	%	2010	%	Change	%
	(millions of euros, except percentages)					
Retail Voice	2,863	*42.8*	3,123	*44.2*	(260)	*(8.3)*
Internet	846	*12.6*	888	*12.6*	(42)	*(4.7)*
Business Data	763	*11.4*	759	*10.7*	4	*0.5*
Wholesale	2,038	*30.5*	2,093	*29.7*	(55)	*(2.6)*
Other	181	*2.7*	195	*2.8*	(14)	
Total Fixed-line Telecommunications Revenues	**6,691**	***100.0***	**7,058**	***100.0***	**(367)**	***(5.2)***

Mobile Telecommunications Revenues

Although there was still a contraction in terms of sales, the mobile sector displayed a structural improvement in sales performance which, we believe, confirmed 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 of 2011, down from 11.5% in the first half of 2010.

Mobile telecommunications revenues totaled 3,496 million euros in the first half of 2011, decreasing 412 million euros compared to the first half of 2010 (-10.5%) with an improving trend in the second quarter of 2011 (-7.6% compared to -12% in the first quarter of 2011).

Revenues in the principal areas of business are the following:

	Six months ended June 30, 2011	%	2010	%	Change	%
	(millions of euros, except percentages)					
Outgoing voice	1,798	*51.4*	2,048	*52.4*	(250)	*(12.2)*
Incoming voice	593	*17.0*	715	*18.3*	(122)	*(17.1)*
VAS (Value Added Services)	978	*28.0*	1,022	*26.2*	(44)	*(4.3)*
Handsets	127	*3.6*	123	*3.1*	4	*3.3*
Total Mobile Telecommunicatons Revenues	**3,496**	***100.0***	**3,908**	***100.0***	**(412)**	***(10.5)***

Operating profit (loss)

Operating profit (loss) was a negative 686 million euros in the first half of 2011, with a negative change of 3,444 million euros compared to the corresponding period of 2010. The operating profit margin was particularly affected by the goodwill impairment charge of 3,182 million euros in respect of the Core Domestic CGU.

The operating profit performance was impacted by the contraction in revenues (-735 million euros compared to the same period of 2010) which was only partly offset by selective control over fixed costs which 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).

With regard to the change in costs, details are as follows:

acquisition of goods and services decreased 274 million euros (7.6%) compared to the same period in 2010. Such decrease was 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 amounted to 1,529 million euros a decline of 98 million euros compared to the same period of 2010. The decrease was 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 were 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.

Capital expenditures

Capital expenditures were 1,358 million euros in the first half of 2011, a decrease of 129 million euros compared to the first half of 2010. The change was mainly due to lower investments in IT and Service Creation. The percentage of capital expenditures to revenues was 14.5% (-0.2 percentage points compared to the first half of 2010).

Employees

Employees were 56,309, with a reduction of 221 compared to December 31, 2010; the figure included 4 people with temp work contracts (8 people at December 31, 2010).

v **BRAZIL**

The Telecom Italia Group operates in the mobile and fixed telecommunications sector in Brazil through the Tim Brasil group which offers mobile 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 following table sets forth, for the periods indicated, certain financial and other data for Brazil Business Unit.

	Six months ended June 30,				Change	
	2011	2010	2011	2010		%
	(a)	(b)	(c)	(d)	(c-d)	(c-d)/d
	(millions of euros(*), except employees and percentages)		(millions of BRL, except employees and percentages)			
Revenues	3,499	2,875	8,004	6,855	1,149	16.8
Operating profit	440	165	1,007	393	614	
% of Revenues	*12.6*	*5.7*	*12.6*	*5.7*		
Capital expenditures	444	507	1,015	1,210	(195)	(16.1)
Employees at period-end (units)	10,007	(**)10,114	10,007	(**)10,114	(107)	(1.1)

(*) The average exchange rate used to translate the Brazilian real to euro (expressed in terms of units of local currency per 1 euro), is equal to 2.28778 in the first half of 2011 and 2.38434 in the first half of 2010.

(**) Employees at December 31, 2010.

Revenues

Revenues totalled 8,004 million reais in the first half of 2011, increasing 1,149 million reais compared to the first half of 2010 (+16.8%). Revenues from services in the first half of 2011 were 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) was 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 were 55.5 million, growing 25.0% compared to June 30, 2010, corresponding to a 25.5% market share of lines.

Operating profit

Operating profit amounted to 1,007 million reais in the first half of 2011, increasing 614 million reais compared to the first half of 2010.

This increase was a 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 fierce competitive environment, higher margins become dependent on operating efficiencies in terms of industrial costs, employee benefits expenses and trade receivables management.

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

acquisition of goods and services totalled 4,919 million reais in the first half of 2011 (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) was 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 amounted 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 amounted to 771 million reais, increasing 11.4% (692 million reais in the first half of 2010).
Such expenses consisted of the following:

	Six months ended June 30, 2011	2010	Change	
	(millions of Brazilian reais)			%
Writedowns and expenses in connection with credit management	108	183	(75)	(41.0)
Provision charges	78	43	35	81.4
Telecommunications operating fees and charges	555	435	120	27.6
Indirect duties and taxes	8	15	(7)	(46.7)
Sundry expenses	22	16	6	37.5

Total	**771**	**692**	**79**	**11.4**

Moreover, amortization and depreciation charges decreased by 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 was 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 amounted to 1,015 million reais, decreasing 195 million reais compared to the first half of 2010. This reduction was 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.

Employees

Employees were 10,007 at June 30, 2011, a reduction of 107 people compared to December 31, 2010 (10,114 units).

v **ARGENTINA**

The Telecom Italia Group operates in Argentina and Paraguay through the Sofora - Telecom Argentina group. More specifically, 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 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 were not therefore included in the consolidated results of the Telecom Italia Group.

	Six months ended June 30,					
	2011	2010	2011	2010	Change	
	(a)	(b)	(c)	(d)	(c-d)	% (c-d)/d
	(millions of euros(*), except employees and percentages)		(millions of Argentine pesos, except employees and percentages)			
Revenues	1,511	1,308	8,583	6,717	1,866	27.8
Operating profit	248	295	1,409	1,515	(106)	(7.0)
% of Revenues	*16.4*	*22.6*	*16.4*	*22.6*		
Capital expenditures	205	196	1,167	1,005	162	16.1
Employees at period-end (units)[1]	16,090	(**)15,650	16,090	(**)15,650	440	2.8

(*) The average exchange rate used to translate the Argentine pesos to euro (expressed in terms of units of local currency per 1 euro), is equal to 5.67941 in the first half of 2011 and 5.13422 in the first half of 2010.

(**) Employees at December 31, 2010.

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

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Revenues

Revenues in the first half of 2011 amounted to 8,583 million pesos, increasing 1,866 million pesos compared to the first half of 2010 (6,717 million pesos) due to the growth of the broadband and mobile customer bases, in addition to the relative ARPU (Average Revenue Per User). The main source of revenues for the Argentina Business Unit was mobile telephony which accounted 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:

	As of June 30, 2011	As of December 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%*		
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 continued 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 included 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, due to high-value customer acquisitions and clear leadership in the smartphone segment, the ARPU 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 had 1,983 thousand lines, 16% of which are postpaid. The company offers the best 3G internet service (in terms of speed in Paraguay), which we believe can attribute to it 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 due 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.

Operating Profit

The operating profit recorded a decline of 106 million pesos (-7.0%) to 1,409 million pesos in the first half of 2011. The reduction was entirely due to the fair value allocation to the fixed assets at the acquisition date 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).

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

acquisition of goods and services: amounted to 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) was 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 came from salary increases as a result of periodic revisions in union agreements and primarily in connection with inflation. Moreover, an increase was reported in the average number of employees in the mobile area. The percentage of employee benefits expenses to total revenues was 13.7%, increasing 0.3 percentage points over the first half of 2010;

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

	Six months ended June 30, 2011	2010	Change	
	(millions of Argentine pesos)			%
Indirect duties and taxes	620	483	137	28.4
Telecommunications operating fees and charges	160	127	33	2.6
Writedowns and expenses in connection with credit management	84	58	26	44.8
Sundry expenses	30	45	(15)	(33.3)
Total	**894**	**713**	**181**	**25.4**

Capital expenditures

Capital expenditures were 1,167 million pesos in the first half of 2011, increasing 16.1% compared to the same period of the prior year. Such amount included 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.

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Employees

Employees at June 30, 2011 was 16,090, an increase of 440 people compared to December 31, 2010 (+2.8%). About 50% of the increase referred to the fixed sector and the other 50% to the mobile sector.

v **Media**

The Telecom Italia Media Group operates in the following business segments:

- **Telecom Italia 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 the web;

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

- **Network Operator (TIMB):** 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.

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

	Six months ended June 30, 2011	2010	Change	%
	(millions of euros, except percentages and employees)			
Revenues	118	127	(9)	(7.1)
Operating profit (loss)	(20)	(21)	1	4.8
% of Revenues	(16.9)	(16.5)		
Capital expenditures	26	21	5	23.8
Employees at period-end (units) (1)	803	(*)777	26	3.3

(1) Includes employees with temp work contracts: 74 at June 30, 2011 and 44 at December 31, 2010.

(*) The number of employees is referred to December 31, 2010.

Revenues

Revenues amounted to 118 million euros in the first half of 2011, decreasing 9 million euros (-7.1%) compared to 127 million euros in the first half of 2010. In detail:

revenues of Telecom Italia Media La7 in the first half of 2011, before intragroup eliminations, amounted to 71 million euros, increasing 15 million euros (+25.9%) compared to the first half of 2010, due to the significant 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 of 2011 which totalled 3 million euros;

MTV group revenues came to 36 million euros in the first half of 2011, before infragroup eliminations, a decrease 10 million euros compared to the first half of 2010 (46 million euros). This reduction was due for 5 million euros to lower net advertising revenues and the remaining amount to the decrease in other activities, particularly lower revenues from MTV Mobile (-1 million euros) following the recent contract revision at the end of 2010 and lower revenues from 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 intragroup eliminations, amounted to 26 million euros in the first half of 2011, compared to 40 million euros in the first half of 2010, decreasing 14 million euros. This change was almost entirely due to the termination of the Dahlia TV contract after the company was put into a wind-up in January 2011 (-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.

Operating profit (loss)

Operating profit (loss) amounted to negative 20 million euros in the first half of 2011 improving 1 million euros compared to the first half of 2010.

The change can be ascribed to the following:

- operating loss of Telecom Italia Media La7 was 19 million euros in the first half of 2011, improving 14 million euros compared to the first half of 2010 (-33 million euros). Such performance is due to a higher contribution of revenues of Telecom Italia Media La7, 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;

- operating profit (loss) of the MTV Group was nil in the first half of 2011, improving by 2 million euros compared to the first half of 2010 (-2 million euros). The reduction in revenues of MTV group, due both to lower advertising revenues and Mobile and Satellite activities was compensated by the reduction in operating costs;

- operating loss of the Network Operator activities was 1 million euros (an operating income of 9 million euros the first half of 2010). This result was influenced by the loss of sales from Dahlia TV, partly offset by a reduction in operating costs due to greater efficiency in running the network.

Capital expenditures

Capital expenditures amounted to a total of 26 million euros in the first half of 2011 (21 million euros in the first half of 2010). Such expenditures relate to Telecom Italia 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.

Employees

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

v **Olivetti**

The Olivetti group mainly operates in the sector of office products and services for Information Technology. Due to its vast offering of 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.

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

	Six months ended June 30, 2011	2010	Change	
	(millions of euros, except percentages and employees)			%
Revenues	161	176	(15)	(8.5)
Operating profit (loss)	(27)	(18)	(9)	(50.0)
% of Revenues	(16.8)	(10.2)		
Capital expenditures	3	3		
Employees at period-end (unit)	1,088	(*)1,090	(2)	(0.2)

(*) The number of employees is referred to December 31, 2010.

Revenues

Revenues amounted 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 trends occurred in the first half of 2011: 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 overall market environment is negative.

Operating profit (loss)

Operating profit (loss) was a negative 27 million euros in the first half of 2011, and a negative change of 9 million euros compared to the first half of 2010.

The change can be ascribed 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 due to the end of the activities of the German affiliate.

Capital expenditures

Capital expenditures amounted to 3 million euros in the first half of 2011, unchanged from the same period of 2010.

Employees

Employees were 1,088 (998 in Italy and 90 foreign) at June 30, 2011, a reduction of 2 compared to the first half of 2010, (1,090, of whom 1,001 in Italy and 89 foreign). During the period, 14 people were added and 16 people left, consistent with the professional remix focused on the new Olivetti sales offerings.

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LIQUIDITY AND CAPITAL RESOURCES

¢ Liquidity

The Telecom Italia Group has a centralized financial risk management policy for market, credit and liquidity risks.

The Group defines the guidelines for directing operations, identifying the most appropriate financial instruments to meet prefixed objectives, monitoring the results achieved and excluding the use of financial instruments for speculative purposes.

The Group s goal is to achieve an adequate level of financial flexibility which is expressed by maintaining a treasury margin in terms of liquid resources and syndicated committed credit lines which enables it to cover refinancing needs for the next 18-24 months.

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

	Six months ended June 30,	
	2011	**2010**
	(millions of euros)	
Cash flows from (used in) operating activities	4,041	2,974
Cash flows from (used in) investing activities	(1,715)	(2,614)
Cash flows from (used in) financing activities	(3,810)	(2,601)
Aggregate cash flows (A)	**(1,484)**	**(2,241)**
Net cash and cash equivalents (*) at beginning of the period (B)	**5,282**	**5,484**
Net foreign exchange differences on net cash and cash equivalents (C)	**(54)**	**117**
Net cash and cash equivalents (*) at end of the period (D=A+B+C)	**3,744**	**3,360**

(*) For further details please see the Unaudited Consolidated Statements of Cash Flows for the six months ended June 30, 2011 and 2010 in the Unaudited Interim Consolidated Financial Statements at June 30, 2011 included elsewhere in this Report on Form 6-K.

Cash flows from operating activities. Cash flows from operating activities were 4,041 million euros in the six months ended June 30, 2011 and 2,974 million euros in the six months ended June 30, 2010.

The increase in the six months ended June 30, 2011 compared to the six months ended June 30, 2010 of 1,067 million euros was primarily attributable to:

the positive effect of impairment losses (reversals) on non-current assets (including investments) of 3,137 million euros (a source of 3,189 million euros in the six months ended June 30, 2011 compared to a source of 52 million euros in the six months ended June 30, 2010);

the positive effect of net change in miscellaneous receivables/payables and other assets/liabilities equal to 628 million euros (from a net use of 626 million euros in the six months ended June 30, 2010 to a net source of 2 million euros in the six months ended June 30, 2011);

the positive effect of change in trade receivables and net amounts due from customers on construction contracts of 320 million euros (a net use of 278 million euros in the six months ended June 30, 2011 compared to a net use of 598 million euros in the six months ended June 30, 2010); and

the positive effect of change in trade payables of 363 million euros (an use of 258 million euros in the six months ended June 30, 2011 compared to an use of 621 million euros in the six months ended June 30, 2010).

Such positive effects in cash flows were partially offset by:

a decrease of 3,028 million euros in profit (loss) from continuing operations (a profit of 1,242 million euros in the six months ended June 30, 2010 compared to a loss of 1,786 million euros in the six months ended June 30, 2011);

the negative effect of change in inventories of 182 million euros (from a net source of 109 million euros in the six months ended June 30, 2010 to a net use of 73 million euros in the six months ended June 30, 2011);

a decrease of 50 million euros in change in employee benefits (a net use of 5 million euros in the six months ended June 30, 2010 compared to a net use of 55 million euros in the six months ended June 30, 2011); and

the negative effect of net change in current income tax receivables/payables of 49 million euros (a net use of 53 million euros in the six months ended June 30, 2011 compared to a net use of 4 million euros in the six months ended June 30, 2010).

Cash flows used in investing activities. Cash flows used in investing activities were 1,715 million euros in the six months ended June 30, 2011 and 2,614 million euros in the six months ended June 30, 2010.

The decrease in the six months ended June 30, 2011 compared to the six months ended June 30, 2010 of 899 million euros was primarily attributable to:

net source from change in financial receivables and other financial assets of 855 million euros (a net use of 339 million euros in the six months ended June 30, 2010 compared to a net source of 516 million euros in the six months ended June 30, 2011); and

an increase of proceeds from sale/repayments of intangible, tangible and other non-current assets of 382 million euros (a net source of 394 million euros in the six months ended June 30, 2011 compared to a net source of 12 million euros in the six months ended June 30, 2010).

Such effects were partially offset by:

a decrease in proceeds from sale that resulted in a loss of control of subsidiaries or other businesses, net of cash disposed of equal to 143 million euros (a net use of 2 million euros in the six months ended June 30, 2011 compared to a source of 141 million euros in the six months ended June 30, 2010); and

an increase in capital expenditures (tangible and intangible assets on a cash basis) of 197 million euros (2,622 million euros in the six months ended June 30, 2011 compared to 2,425 million euros in the six months ended June 30, 2010).

Cash flows from (used in) financing activities. Cash flows used in financing activities were 3,810 million euros in the six months ended June 30, 2011, compared to 2,601 million euros in the six months ended June 30, 2010.

Cash flows used in financing activities in the six months ended June 30, 2011 reflected mainly the following:

a decrease in financial liabilities and other of 2,330 million euros, as a result of the repayments of non-current financial liabilities (3,514 million euros), the negative change in current financial liabilities and other (874 million euros) offset in part by the issuance of new debt (2,058 million euros); and

the payment of dividends of 1,325 million euros.

Cash flows used in financing activities in the six months ended June 30, 2010 of 2,601 million euros reflected mainly the following:

a decrease in financial liabilities and other of 1,585 million euros as a result of the repayments of non-current financial liabilities (4,323 million euros), offset in part by the issuance of new debt (1,457 million euros) and the change in current financial liabilities and other (1,281 million euros); and

the payment of dividends of 1,060 million euros.

¢ **Capital Resources**

v **Net Financial Debt**

Net Financial Debt as of June 30, 2011 and December 31, 2010 is detailed as follows:

	As of June 30, 2011 (Unaudited)	As of December 31, 2010
	(millions of euros)	
Non-current financial liabilities	33,086	34,348
Current financial liabilities	5,408	6,882
GROSS FINANCIAL DEBT (A)	**38,494**	**41,230**
Securities, financial receivables and other non-current financial assets (B)	**(1,542)**	**(1,863)**
Current financial assets:		
Securities other than investments	(1,301)	(1,316)
Financial receivables and other current financial assets	(386)	(438)
Cash and cash equivalents	(3,760)	(5,526)
Total current financial assets (C)	**(5,447)**	**(7,280)**
FINANCIAL ASSETS (D=B+C)	**(6,989)**	**(9,143)**
NET FINANCIAL DEBT (A + D)	**31,505**	**32,087**

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

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

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

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

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v **CHANGE IN NET FINANCIAL DEBT DURING THE SIX MONTHS ENDED JUNE 30, 2011**

The following chart summarizes the main transactions which had an impact on the change in net financial debt during the six months ended June 30, 2011:

In particular:

Capital expenditures on an accrual basis amounted to 2,037 million euros in the six months ended June 30, 2011, increasing 16 million euros compared to the first half of 2010:

	Six months ended June 30,				
	2011		2010		Changes
	(millions of euros, except percentages)				
		%		%	
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	**2,037**	**100.0**	**2,021**	**100.0**	**16**

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 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 was 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.

Finance expenses, income taxes and other net non-operating 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.

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%.

* * *

The following should also be taken into account with respect to net financial debt:

Sale 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).

v Gross Financial Debt

On a consolidated basis, at June 30, 2011, our gross financial debt amounted to 38,494 million euros (41,230 million euros at December 31, 2010).

Bonds

Bonds at June 30, 2011 were recorded for 26,828 million euros (29,578 million euros at December 31, 2010). Their nominal repayment amount was 26,041 million euros, a reduction of 2,288 million euros compared to December 31, 2010 (28,329 million euros).

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

NEW ISSUES

(millions of original currency)	**Currency**	**Amount**	**Issue date**
Telecom Italia S.p.A. 750 million euros 4.75% maturing 5/25/2018	EUR	750	05/25/2011
Telecom Italia S.p.A. 1,000 million euros 5.125% maturing 1/25/2016	EUR	1,000	01/25/2011

REPAYMENTS

(millions of original currency)	**Currency**	**Amount**	**Repayment date**
Telecom Italia Finance S.A. 7.50% 1,791 million euros [(1)]	EUR	1,791	04/20/2011
Telecom Italia Capital S.A. Floating Rate Notes 400 million dollars, 3M USD LIBOR 0.48%, issued with a guarantee from Telecom Italia S.p.A.	USD	400	02/01/2011
Telecom Italia Capital S.p.A. 4.5% 750 million euros	EUR	750	01/28/2011

(1) Net of 209 million euros bought back by the company during 2009 2011.

BUYBACKS

As it did in past years, in the first half of 2011 the Telecom Italia Group bought back bonds to:

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

In particular, the following bonds were repurchased:

(millions of original currency)	**Currency**	**Amount**	**Buyback period**
Telecom Italia Finance S.A. 1,791 million euros 7.50% maturing April 2011 (*)	EUR	93	January March 2011

Telecom Italia Finance S.A. 813 million euros 7.25% maturing April 2012	EUR	187	January	March 2011

(*) During 2009 and 2010, an amount of 116 million euros was already bought back. The total amount bought back between 2009 and 2011 is therefore 209 million euros.

With 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 was equal to 283 million euros and decreased by 22 million euros compared to December 31, 2010 (305 million euros).

v **REVOLVING CREDIT FACILITY AND TERM LOAN**

The following table shows the composition and the drawdown of the syndicated 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 in February 2013 and the revolving line for 200 million euros signed on December 20, 2010 expiring on June 19, 2012 (renewable at the discretion of Telecom Italia up to December 18, 2013).

	As of June 30, 2011		**As of December 31, 2010**	
(billions of euros)	**Agreed**	**Drawn down**	**Agreed**	**Drawn down**
Term Loan 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.

v **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 equal to about 5.4%.

For details of the maturities of financial liabilities in terms of expected nominal repayment amount, as contractually agreed, reference should be made to the Notes Financial liabilities (current and non-current) and Financial risk management of the Notes to the Unaudited Interim Consolidated Financial Statements at June 30, 2011 included elsewhere in this Report on Form 6-K.

v **CURRENT FINANCIAL ASSETS AND LIQUIDITY MARGIN**

The Telecom Italia Group s available liquidity margin, calculated as the sum of *Cash and cash equivalents* and *Securities other than investments*, amounted 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, is expected to allow the Group to amply meet its repayment obligations over the next 24 months.

In particular:

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

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

- Counterpart risk: investments of European companies are made with leading banking, financial and industrial institutions with high-credit-quality and a rating of at least A-. Investments of South American companies are made with primary local counterparts;

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

Securities other than investments, amounted to 1,301 million euros at June 30, 2011 (1,316 million euros at December 31, 2010). Such forms of investment represent alternatives to the investment of

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2011 Half-Yearly Financial Report **Liquidity And Capital Resources**

liquidity with the aim of raising the return. These mainly consist of 1,149 million euros in Italian treasury bonds purchased by Telecom Italia S.p.A. (with A ratings by S&P s); 150 million euros in bonds issued by counterparts with a rating by S&P s of at least BBB+ with different maturities, but all with an active market, that is, readily convertible into cash.

v Debt To Equity Ratio

The Telecom Italia Group s debt to equity ratio, calculated as the ratio of consolidated net financial debt to equity (including Non-controlling interests), was 107.3% as of June 30, 2011 and 98.4% as of December 31, 2010.

v Ratio Of Earnings To Fixed Charges

The Telecom Italia Group s consolidated ratios of earnings to fixed charges (which have been extracted or derived from the 2010 Annual Report) for the fiscal years ended December 31, 2010, 2009, 2008, 2007 and 2006 are as follows:

Year Ended December 31,				
2010	**2009**	**2008**	**2007**	**2006**
2.84	2.51	2.21	2.67	3.13

Our consolidated ratio of earnings to fixed charges for the six months ended June 30, 2011 is as follows:

Six months ended June 30, 2011 (Unaudited)
0.01

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

Earnings is calculated by adding:

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

and then subtracting:

- capitalized interest for the applicable period; and

- share of earnings of associates and joint ventures accounted for using the equity method.

Fixed charges is calculated by adding:

- interest expenses (both expensed and capitalized);

- issue costs and any original issue debt discounts or premiums; and

- an estimate of the interest within rental expense for operating leases.

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v CREDIT RATINGS

Telecom Italia s credit ratings at the date of this report by the major rating agencies are the following:

Standard&Poor s		Moody s		Fitch Ratings	
Rating	Outlook	Rating	Outlook	Rating	Outlook
BBB	Stable	Baa2	Negative	BBB	Stable

Although ratings downgrades do not have an immediate impact on outstanding debt, except for outstanding debt instruments that specifically contemplate ratings in order to determine interest expenses, or on its relative cost to us, downgrades could lead to a greater risk with respect to refinancing existing debt or higher refinancing costs. See page 7 under Item 3. Key Information 3.1. Risk Factors in the 2010 Annual Report.

For a discussion on financial instrument contractual clauses related to credit rating changes, please see the Note Financial liabilities (current and non-current) of the Notes to the Consolidated Financial Statements included elsewhere in this Report on Form 6-K.

v OFF-BALANCE SHEET ARRANGEMENTS

As of June 30, 2011, the Telecom Italia Group had the following items that are considered to be off-balance sheet arrangements.

Sureties were provided for 20 million euros, net of back-to-back guarantees received. They mainly refer to guarantees by Telecom Italia on behalf of associates (5 million euros) and other medium/long-term financial transactions.

For further details please see Note Contingent liabilities, other information, commitments and guarantees of the Notes to the Unaudited Interim Consolidated Financial Statements at June 30, 2011 included elsewhere in this Report on Form 6-K.

v CONTRACTUAL OBLIGATIONS AND COMMITMENTS

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

As of June 30, 2011, the nominal repayment amounts of financial payables and the relating expiration dates were as follows:

Maturities of gross financial debt nominal repayment amount

	Amounts due as of June 30,						
	2012	2013	2014	2015	2016	After 2016	Total
	(millions of euros)						
Bonds	3,277	2,500	3,749	865	3,893	11,757	26,041
Loans and other financial liabilities	765	480	1,549	2,340	856	2,387	8,377
Finance lease liabilities	239	140	172	149	130	787	1,617
Total	**4,281**	**3,120**	**5,470**	**3,354**	**4,879**	**14,931**	**36,035**
Current financial liabilities	475						475
Total	**4,756**	**3,120**	**5,470**	**3,354**	**4,879**	**14,931**	**36,510**

For further details please see also Note Financial liabilities (current and non-current) of the Notes to the Unaudited Interim Consolidated Financial Statements at June 30, 2011 included elsewhere in this Report on Form 6-K.

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. Seven 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 centers 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;
- services 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;

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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 fiber 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.

For additional details, reference should be made to the Note Other information of the Notes to the Unaudited Interim Consolidated Financial Statements at June 30, 2011 included elsewhere in this Report on Form 6-K.

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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

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RECENT DEVELOPMENTS

Proposed Subscription for TIM Participações Common Share Offering

On September 15, 2011, Telecom Italia announced its intention to subscribe, through its wholly-owned subsidiary TIM Brasil, for common shares offered by TIM Participações S.A. in its announced offering to preserve its current 66.94% interest in TIM Participações. On September 15, 2011, TIM Participações announced the proposed sale of 190,796,858 of its common shares, the net proceeds from which it intends to use to develop and expand its network infrastructure. The number of common shares to be sold by TIM Participações remains subject to change following the marketing period, as well as the underwriters overallotment option to purchase up to an additional 15% of the number of offered shares not subscribed for by Telecom Italia.

For further recent developments please also see Legal Proceedings section included elsewhere in this Report on Form 6-K and Events subsequent to June 30, 2011 of the Notes to the Unaudited Interim Consolidated Financial Statements at June 30, 2011 included elsewhere in this Report on Form 6-K.

LEGAL PROCEEDINGS

Fastweb

Recently, the following disputes with Fastweb, described in the Note Contingent liabilities, other information, commitments and guarantees of the Notes to the Unaudited Interim Consolidated Financial Statements at June 30, 2011 included elsewhere in this Report on Form 6-K, were the subject of conciliation with the final termination of such disputes:

- judgment at Milan Civil Court for the presumed abusive nature of the Telecom Italia winback strategy in the residential and non-residential fixed line telephone service supply markets and in the broadband access retail services;

- judgment at the Milan Court, by which Fastweb claimed damages of approximately 65 million euros (Fastweb also submitted a subordinate claim, quantifying the damages at 87 million euros) for presumed acts of unfair competition and misleading advertising as part of the Impresa Semplice advertising campaign, for the offer of integrated services to small and medium-sized enterprises.

Antitrust Case A428

In addition to the information provided in the Note Contingent liabilities, other information, commitments and guarantees of the Notes to the Unaudited Interim Consolidated Financial Statements at June 30, 2011 included elsewhere in this Report on Form 6-K, please note as follows.

While reiterating that it had always acted in full compliance with applicable regulations, Telecom Italia filed a proposal of undertakings in order to remove all of the concerns set out in the AGCM decision to open the investigation. Deeming that such proposal was not manifestly groundless, AGCM published it on its website on August 5, 2011, inviting comments from interested third parties.

Since the procedure to evaluate the undertakings is still underway, it is premature to opine about the outcome of the proceedings.

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Unaudited Interim Consolidated Financial Statements **Consolidated Statements Of Financial Position**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2011 AND DECEMBER 31, 2010 ASSETS

	Note	As of June 30, 2011 Unaudited	As of December 31, 2010
		(millions of euros)	
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	1,863
Miscellaneous receivables and other non current assets	7	1,131	934
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	7,790
Current income tax receivables		131	132
Securities other than investments		1,301	1,316
Financial receivables and other current financial assets		386	438
Cash and cash equivalents		3,760	5,526
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**

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

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Unaudited Interim Consolidated Financial Statements **Consolidated Statements Of Financial Position**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION AS OF JUNE 30, 2011 AND DECEMBER 31, 2010 EQUITY AND LIABILITIES

	Note	As of June 30, 2011 Unaudited	As of December 31, 2010
		(millions of euros)	
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	34,348
Employee benefits	13	1,068	1,129
Deferred tax liabilities		894	1,027
Provisions	14	825	860
Miscellaneous payables and other non current liabilities		1,059	1,086
TOTAL NON CURRENT LIABILITIES (B)		**36,932**	**38,450**
CURRENT LIABILITIES			
Current financial liabilities	10	5,408	6,882
Trade and miscellaneous payables and other current liabilities	15	10,409	10,954
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**

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

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Unaudited Interim Consolidated Financial Statements **Separate Consolidated Income Statements**

SEPARATE CONSOLIDATED INCOME STATEMENTS FOR THE SIX MONTHS ENDED JUNE 30,

2011 AND 2010

	Note	Six months ended June 30, 2011	2010
		Unaudited	
		(millions of euros)	
Revenues		14,543	13,223
Other income		108	104
Total operating revenues and other income		**14,651**	**13,327**
Acquisition of goods and services		(6,232)	(5,368)
Employee benefits expenses		(1,964)	(1,845)
Other operating expenses		(844)	(570)
Changes in inventories		81	(125)
Internally generated assets		285	314
Depreciation and amortization		(2,843)	(2,845)
Gains (losses) on disposals of non current assets		(3)	(2)
Impairment reversals (losses) on non current assets		(3,182)	(5)
Operating profit (loss)		**(51)**	**2,881**
Share of profits (losses) of associates and joint ventures accounted for using the equity method		(12)	39
Other income (expenses) from investments		15	2
Finance income	17	1,685	3,464
Finance expenses	17	(2,646)	(4,462)
Profit (loss) before tax from continuing operations		**(1,009)**	**1,924**
Income tax expense		(777)	(682)
Profit (loss) from continuing operations		**(1,786)**	**1,242**
Profit (loss) from Discontinued operations/Non current assets held for sale		(11)	(2)
Profit (loss) for the period	18	**(1,797)**	**1,240**
Attributable to:			
Owners of the Parent		*(2,013)*	*1,211*
Non-controlling interests		*216*	*29*

	Note	Six months ended June 30, 2011	2010
		Unaudited (euros)	
Basic and Diluted Earnings Per Share (EPS) (*)	19		
- Ordinary Share		(0.11)	0.06
- Savings Share		(0.11)	0.07
Of which:			
- *From continuing operations*			

-	*Ordinary Share*	*(0.11)*	*0.06*
-	*Savings Share*	*(0.11)*	*0.07*
-	*From Discontinued operations/Non current assets held for sale*		
-	*Ordinary Share*		
-	*Savings Share*		

(*) Basic EPS is equal to diluted EPS.

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME FOR THE SIX MONTHS

ENDED JUNE 30, 2011 AND 2010

		Six months ended June 30, 2011	2010
		Unaudited	
		(millions of euros)	
Profit (loss) for the period	**(A)**	**(1,797)**	**1,240**
Other components of the Statement of Comprehensive Income:			
Available-for-sale financial assets			
- Profit (loss) from fair value adjustments		5	15
- Loss (profit) transferred to the Separate 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 Separate 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 Separate 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*

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

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Unaudited Interim Consolidated Financial Statements **Consolidated Statements Of Changes In Equity**

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY FOR THE SIX MONTHS ENDED

JUNE 30, 2011 AND 2010

CHANGES IN EQUITY FROM JANUARY 1, TO JUNE 30, 2010

	Equity attributable to owners of the Parent									
	Share capital (a)	**Paid-in capital** (b)	**Fair value adjustments on available-for-sale financial assets** (c)	**Fair value adjustments on hedging instruments** (d)	**Exchange differences on translating foreign operations** (e)	**Other gains (losses) of associates and joint ventures accounted for using the equity method** (f)	**Other reserves and retained earnings (accumulated losses), including profit (loss) for the period** (g)	**Total** (h=a+b+c+d+e+f+g)	**Equity attributable to Non-controlling interests** (i)	**Total equity** (h+i)
	Unaudited (millions of euros)									
Balance at December 31, 2009	**10,585**	**1,689**	**(4)**	**(494)**	**983**	**(110)**	**13,303**	**25,952**	**1,168**	**27,120**
Changes in equity during the period:										
Dividends approved							(1,029)	(1,029)	(34)	(1,063)
Total comprehensive income (loss) for the period			13	207	443	54	1,211	1,928	175	2,103
Issue of equity instruments							1	1		1
Effect of the Telecom Italia Media share capital increase transaction							3	3	44	47
Other changes							15	15	11	26
Balance at June 30, 2010	**10,585**	**1,689**	**9**	**(287)**	**1,426**	**(56)**	**13,504**	**26,870**	**1,364**	**28,234**

CHANGES IN EQUITY FROM JANUARY 1, TO JUNE 30, 2011   Note 9

	Equity attributable to owners of the Parent									
	Share capital (a)	**Paid-in capital** (b)	**Fair value adjustments on available-for-sale financial assets** (c)	**Fair value adjustments on hedging instruments** (d)	**Exchange differences on translating foreign operations** (e)	**Other gains (losses) of associates and joint ventures accounted for using the equity method** (f)	**Other reserves and retained earnings (accumulated losses), including profit (loss) for the period** (g)	**Total** (h=a+b+c+d +e+f+g)	**Equity attributable to Non-controlling interests** (i)	**Total equity** (h+i)
	Unaudited									
	(millions of euros)									
Balance at December 31, 2010	**10,600**	**1,697**	**(7)**	**(284)**	**1,401**	**(1)**	**15,413**	**28,819**	**3,791**	**32,610**
Changes in equity during the period:										
Dividends approved							(1,184)	(1,184)	(73)	(1,257)
Total comprehensive income (loss) for the period			5	208	(52)	1	(2,013)	(1,851)	(17)	(1,868)
Issue of equity instruments							4	4		4
Effect of increase in economic stake in Argentina Business Unit							(36)	(36)	(117)	(153)
Other changes							9	9	9	18
Balance at June 30, 2011	**10,600**	**1,697**	**(2)**	**(76)**	**1,349**		**12,193**	**25,761**	**3,593**	**29,354**

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

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX MONTHS ENDED JUNE 30,

2011 AND 2010

	Note	Six months ended June 30, 2011	2010
		Unaudited	
		(millions of euros)	
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	5	*(853)*	*(896)*
Purchase of tangible assets on an accrual basis	6	*(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)
Acquisitions 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/repayments 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)
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**

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

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Unaudited Interim Consolidated Financial Statements **Consolidated Statements Of Cash Flows**

CONSOLIDATED STATEMENTS OF CASH FLOWS FOR THE SIX

MONTHS ENDED JUNE 30, 2011 AND 2010

	Six months ended June 30, 2011	2010
	Unaudited	
	(millions of euros)	
ADDITIONAL CASH FLOW INFORMATION:		
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:		
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**

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

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

NOTE 1 FORM, CONTENT AND OTHER GENERAL INFORMATION

Form and content

Telecom Italia (the **Parent**) and its subsidiaries form the **Telecom Italia Group** or the **Group**. Telecom Italia is a joint-stock company (S.p.A.) organized under the laws of the Republic of Italy.

The registered offices of the Parent, Telecom Italia, are located in Milan, Italy at Piazza degli Affari 2.

The duration of Telecom Italia S.p.A., as stated in the company s bylaws, extends until December 31, 2100.

The Telecom Italia Group operates mainly in Europe, the Mediterranean Basin and South America.

The Group is engaged principally in the communications sector, particularly the fixed and mobile domestic and international telecommunications sector, the television sector and the office products sector.

The Telecom Italia Group half-year consolidated financial statements at June 30, 2011 have been prepared on a going concern basis (further details are provided in the Note Accounting policies) and in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board (designated as **IFRS**).

In the first half of 2011, the Telecom Italia Group has not elected the early adoption of any IFRS.

The Telecom Italia Group half-year consolidated financial statements at June 30, 2011 have been prepared in accordance with IAS 34 (Interim Financial Reporting) and, as permitted by this standard, do not include all the information that would be required in annual financial statements; accordingly, these financial statements should be read together with the 2010 Telecom Italia Group consolidated financial statements.

For purposes of comparison, the consolidated statement of financial position at December 31, 2010 and the separate consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of cash flows as well as the consolidated statement of changes in equity for the first half of 2010 have been presented in accordance with IAS 34.

The Telecom Italia Group half-year consolidated financial statements at June 30, 2011 are expressed in euro (rounded to the nearest million, unless otherwise indicated).

Publication of the Telecom Italia Group half-year consolidated financial statements at June 30, 2011 was approved by resolution of the Board of Directors meeting held on August 4, 2011.

Financial statement formats

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

- the consolidated statement of financial position has been prepared by classifying assets and liabilities according to current and non-current criterion;

- the separate consolidated income statement has been prepared by classifying operating expenses by nature of expense as this form of presentation is considered more appropriate and representative of the specific business of the Group, conforms to internal reporting and is in line with the practices of the industrial sector of reference;

the consolidated statement of comprehensive income includes the profit or loss for the period as shown in the separate consolidated income statement and all other non-owner changes in equity;

the consolidated statement of cash flows has been prepared by presenting cash flows from operating activities according to the indirect method , as permitted by IAS 7 (Statement of Cash Flows).

Segment reporting

An operating segment is a component of an entity:

(a) that engages in business activities from which it may earn revenues and incur expenses (including revenues and expenses relating to transactions with other components of the same entity);

(b) whose operating results are regularly reviewed by the entity s chief operating decision maker (in the case of Telecom Italia the Board of Directors) to make decisions about resources to be allocated to the segment and assess its performance; and

(c) for which discrete financial information is available.

In particular, the operating segments of the Telecom Italia Group are organized according to the relative geographic location (Domestic, Brazil and Argentina) for the telecommunications business and according to the specific businesses for the other segments.

The term operating segment is considered synonymous with Business Unit .

The operating segments of the Telecom Italia Group are as follows:

Domestic: 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: includes mobile and fixed telecommunications operations in Brazil;

Argentina: includes mobile and fixed telecommunications operations in Argentina, as well as mobile telecommunications operations in Paraguay;

Media: includes television network operations and management;

Olivetti: includes manufacturing operations for digital printing systems and 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.

Scope of consolidation

The changes in the scope of consolidation at June 30, 2011 compared to December 31, 2010 are listed as follows:

Entry of companies in the scope of consolidation:

Company		Business Unit	Month
Flagship Store Verona 1 S.r.l.	newly formed	Domestic	April 2011
Flagship Store Firenze 1 S.r.l.	newly formed	Domestic	April 2011
Flagship Store Sanremo 1 S.r.l.	newly formed	Domestic	January 2011

There were no other company changes in the scope of consolidation.

Besides the above, the changes in the scope of consolidation at June 30, 2011 compared to June 30, 2010 are listed as follows:

Entry of companies in the scope of consolidation:

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

Company		Business Unit	Month
Telecom Italia Finance Ireland Ltd	newly formed	Other Operations	December 2010
Flagship Store Bolzano 1 S.r.l.	newly formed	Domestic	December 2010
Flagship Store Torino 1 S.r.l.	newly formed	Domestic	November 2010
Flagship Store Bologna 1 S.r.l.	newly formed	Domestic	October 2010
Sofora Telecomunicaciones S.A. and related subsidiaries:	acquisition of control	Argentina	October 2010
- Nortel Inversora S.A.			
- Telecom Argentina S.A.			
- Micro Sistemas S.A.			
- Núcleo S.A.			
- Telecom Argentina USA Inc.			
- Telecom Personal S.A.			
- Springville S.A.			
Flagship Store Milano 2 S.r.l.	newly formed	Domestic	September 2010
Flagship Store Modena 1 S.r.l.	newly formed	Domestic	September 2010
Flagship Store Roma 2 S.r.l.	newly formed	Domestic	September 2010
Flagship Store Taranto 1 S.r.l.	newly formed	Domestic	September 2010
Flagship Store Vicenza 1 S.r.l.	newly formed	Domestic	September 2010
Flagship Store Catania 1 S.r.l.	newly formed	Domestic	July 2010

Exit of companies from the scope of consolidation:

Company		Business Unit	Month
Brasilco S.r.l. (in liquidation)	liquidated	Other Operations	December 2010
Elettra TLC S.p.A.	sold	Domestic	September 2010
BBNed N.V.	sold	Other Operations	October 2010
- BBeyond B.V.			
- InterNLnet B.V.			

Merger of companies:

Company		Business Unit	Month
Mediterranean Nautilus Ltd	merged in Telecom Italia Sparkle Luxembourg S.A.	Domestic	December 2010

A breakdown of the number of subsidiaries, associates and joint ventures of the Telecom Italia Group is as follows:

	6/30/2011		
	Italy	**Abroad**	**Total**
Companies:			
subsidiaries consolidated line-by-line	43	68	111
joint ventures accounted for using the equity method	1		1
associates accounted for using the equity method	15		15
Total companies	**59**	**68**	**127**

	12/31/2010		
	Italy	**Abroad**	**Total**
Companies:			
subsidiaries consolidated line-by-line	40	68	108
joint ventures accounted for using the equity method	1		1
associates accounted for using the equity method	15	2	17
Total companies	**56**	**70**	**126**

	6/30/2010		
	Italy	**Abroad**	**Total**
Companies:			
subsidiaries consolidated line-by-line (*)	33	63	96
joint ventures accounted for using the equity method	1	1	2
associates accounted for using the equity method	16	2	18
Total companies	**50**	**66**	**116**

(*) Including subsidiaries classified in Discontinued operations/Non-current assets held for sale.
Further details are provided in the Note List of companies of the Telecom Italia Group .

NOTE 2 ACCOUNTING POLICIES

Going concern

The half-year consolidated financial statements at June 30, 2011 have been prepared on a going concern basis as there is the reasonable expectation that Telecom Italia will continue its operational activities in the foreseeable future (and in any event with a time horizon of more than 12 months).

In particular, consideration has been given to the following factors which management believes, at this time, are not such as to generate doubts as to the Group s ability to continue as a going concern:

- the main risks and uncertainties (that are for the most part of exogenous nature) to which the Group and the various activities of the Telecom Italia Group are exposed:
  - 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);

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- the mix between risk capital and debt capital considered optimal as well as the policy for the remuneration of risk capital, described in the 2010 consolidated financial statements in the paragraph devoted to the Share capital information under the Note Equity ;

- the policy for financial risk management (market risk, credit risk and liquidity risk) described in the Note Financial risk management .

Accounting policies and principles of consolidation

The accounting policies and principles of consolidation adopted in the preparation of the half-year consolidated financial statements at June 30, 2011 have been applied on a basis consistent with those used for the annual consolidated financial statements at December 31, 2010, to which reference should be made, except for the new standards and interpretations adopted by the Group since January 1, 2011 - that, as described below, did not have any effect on the half-year condensed consolidated financial statements -, as well as changes required because of the nature of interim financial reporting.

Specifically, in the half-year consolidated financial statements at June 30, 2011, income taxes for the first six months of the individual consolidated companies are calculated according to the best possible estimate based on available information and on a reasonable forecast of performance up to the end of the tax period. Conventionally, the income tax liabilities (current and deferred) on the profit for the interim period of the individual consolidated companies are recorded net of advances and tax receivables (excluding receivables for which refunds have been requested) as well as deferred tax assets, and classified in Deferred tax liabilities ; if the balance between deferred tax assets and deferred tax liabilities is an asset it is conventionally recognized in Deferred tax assets .

Use of estimates

The preparation of the half-year consolidated financial statements at June 30, 2011 and related disclosure requires management to make estimates and assumptions based also on subjective judgments, past experience and hypotheses considered reasonable and realistic in relation to the information known at the time of the estimate. Such estimates have an effect on the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements as well as the amount of revenues and costs during the period. Actual results could differ, even significantly, from those estimates owing to possible changes in the factors considered in the determination of such estimates. Estimates are reviewed periodically.

With regard to the most important accounting estimates, please refer to those illustrated in the annual consolidated financial statements at December 31, 2010.

New Standards and Interpretations issued by IASB and in force from January 1, 2011

As required by IAS 8 (Accounting Policies, Changes in Accounting Estimates and Errors), the IFRS in force from January 1, 2011 are reported below and briefly summarized.

Amendment to IAS 32 (*Classification of Rights Issues*)

The amendments to IAS 32 regard the accounting for rights issues (rights, options or warrants) that are denominated in a currency other than the functional currency of the issuer. Previously such rights issues had to be accounted for as derivative liabilities. The amendments require that, provided certain conditions

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are met, such rights issues are classified as equity regardless of the currency in which the exercise price is denominated.

The application of these amendments did not have an impact on the half-year condensed consolidated financial statements at June 30, 2011.

Amendments to IAS 24 (*Related Party Disclosures*)

The amendments to IAS 24 provide a partial exemption from the disclosure requirements for government-related entities. In addition the definition of related party was revised and some clarifications were introduced on the disclosure content.

The application of these amendments did not have an impact on the half-year condensed consolidated financial statements at June 30, 2011.

Amendments to IFRIC 14 (*Prepayments of a Minimum Funding Requirement*)

The amendments to IFRIC 14 refer to when an entity is subject to minimum funding requirements and makes an early payment of contribution to cover those requirements. The amendments permit such an entity to treat the benefit of such an early payment as an asset.

The application of these amendments did not have an impact on the half-year condensed consolidated financial statements at June 30, 2011.

IFRIC 19 (*Extinguishing Financial Liabilities with Equity Instruments*)

IFRIC 19 clarifies the accounting treatment when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity s shares or other equity instruments to settle the financial liability fully or partially. In particular, IFRIC 19 clarifies as follows:

- the entity s equity instruments issued to a creditor are part of the consideration paid to extinguish the financial liability;
- the equity instruments issued are measured at their fair value. If their fair value cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished;
- the difference between the carrying amount of the financial liability extinguished and the initial measurement amount of the equity instruments issued is included in the separate consolidated income statement.

The application of this interpretation did not have an impact on the half-year condensed consolidated financial statements at June 30, 2011.

Improvements to IFRS - issued in 2010

In 2010, IASB issued the following improvements to IFRSs:

- **IFRS 1 *(First-Time adoption of International Financial Reporting Standards)***

The amendments refer to the disclosure to be provided for the following specific cases: accounting policy changes in the year of first-time adoption of IFRS and use of the deemed cost after the date of transition to IFRS, also with reference to operations subject to rate regulation.

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IFRS 3 ***(Business combinations)***

The amendments:

- limit the choice to measure non-controlling interests either at fair value or at the proportionate share of the acquiree s net identifiable assets at the acquisition date;
- clarify that IFRS 2 should be applied at the acquisition date both for share-based payment transactions of the acquiree and for those replaced by the acquirer;
- clarify requirements for contingent considerations.

IFRS 7 ***(Financial instruments: disclosures)***

The amendment requires qualitative disclosure in the context of the quantitative disclosure to help users to form an overall picture of the nature and extent of risks arising from financial instruments.

Furthermore, the amendment clarifies the required level of disclosure about credit risk and collateral held and provide relief from disclosure of renegotiated loans.

IAS 1 (***Presentation of financial statements***)

The amendment clarifies that an entity may present the analysis of each component of other comprehensive income either in the statement of changes in equity or in the notes to the financial statements.

IAS 27 ***(Consolidated and separate financial statements)***

The amendment clarifies the adoption requirements of the amendments made to IAS 21, IAS 28 and IAS 31 as a result of the revision of IAS 27 in 2008.

IAS 34 ***(Interim financial reporting)***

The amendments emphasize the principle that the disclosure about significant events and transactions in interim periods should update the relevant information presented in the most recent annual financial report. In particular, the amendments clarify how to apply this principle in respect of financial instruments and their fair values.

IFRIC 13 (***Customer loyalty programmes)***

The amendment clarifies how to measure the fair value for the award credits.

The application of the Improvements to IFRS (issued in 2010) did not have an impact on the half-year condensed consolidated financial statements at June 30, 2011.

New Standards and Interpretations issued by IASB not yet in force

A summary of IFRSs recently issued by IASB, that will be effective for fiscal years beginning on January 1, 2012 or after is as follows.

IFRS 9 (*Financial Instruments*)

In November 2009, the IASB issued IFRS 9 (Financial Instruments); furthermore, in October 2010 the IASB issued an expanded and amended version of such standard. In particular, this standard regards the classification and measurement of financial assets and financial liabilities and represents the first part of a three-part project to replace IAS 39 Financial Instruments: Recognition and Measurement. The new

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

standard must be applied for annual periods beginning on or after January 1, 2013. The Group is evaluating if the application of this standard will result in material effects on the consolidated financial statements.

Amendments to IFRS 7 (*Disclosures Transfers of Financial Assets*)

In October 2010, IASB issued some amendments to IFRS 7 (Disclosures Transfers of Financial Assets). The Amendments to IFRS 7 require as follows:

- enhancements to the existing disclosures where an asset is transferred but is not derecognized;

- new disclosures for assets that are derecognized but the entity continues to have a continuing exposure to the asset after the sale.

The amendments are effective beginning January 1, 2012. Comparative disclosures for 2011 are not required. The application of these amendments are not expected to have a material impact on the consolidated financial statements.

Amendments to IAS 12 (*Income Taxes*)

In December 2010, IASB issued amendments to IAS 12 (Income Taxes). IAS 12 requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. The amendment provides a practical solution to the problem by introducing a presumption that recovery of the carrying amount will normally be through sale. As a result of the amendments, SIC-21 Income Taxes Recovery of Revalued Non-Depreciable Assets would no longer apply to investment properties carried at fair value.

The amendments are effective beginning January 1, 2012, with earlier application permitted. The application of these amendments is not expected to have a material impact on the consolidated financial statements.

IFRS 10 (*Consolidated financial statements*)

In May 2011, the IASB issued IFRS 10 (Consolidated financial statements) which replaces SIC-12, (Consolidation special purpose entities) in its entirety, as well as all those parts of IAS 27 (Consolidated and separate financial statements) that address when and how an investor should prepare consolidated financial statements.

IFRS 10 introduces some changes in the definition of control, including also some applicative guidelines (including agency relationships and holding of potential voting rights).

In particular, an investor is able to control another entity, through its voting rights or through contractual agreements, when it has the right to variable returns (positive or negative) arising from its involvement with the investee and has the ability to influence those returns through the power exercised over the same investee.

The assessment of the control requirements must be carried out continuously and not only at the time of the investment.

IFRS 10 is effective beginning January 1, 2013 and should be applied retrospectively.

Earlier application is permitted. If an entity applies this IFRS earlier, it shall disclose that fact and apply at the same time IFRS 11 (Joint Arrangements), IFRS 12 (Disclosure of interests in other entities), IAS 27 (as amended in 2011) (Separate Financial Statements) and IAS 28 (as amended in 2011) (Investments in associates and Joint Ventures). The Group is evaluating if the application of this standard will result in material effects on the consolidated financial statements.

IFRS 11 (*Joint Arrangements*)

In May 2011, IASB issued IFRS 11 (Joint Arrangements) which supersedes IAS 31 (Interests in Joint Ventures) and SIC-13 (Jointly controlled Entities Non-Monetary contributions by Venturers).

The existence of a joint arrangement is not sufficient to support the presence of a joint venture. The joint arrangement must be analyzed in order to understand the rights and obligations arising from the agreement. In fact it could include both a joint operation and a joint venture, defined as follows:

- **Joint operation**. The parties (joint operators) involved have the contractual rights to the assets and obligations for the liabilities relating to the arrangement. Therefore joint operations include:
  - Jointly controlled operations, in which each entity controls own activities utilized in the manufacture of goods in common;
  - Jointly controlled assets, for which each participant has the right and often the joint ownership of assets utilized in the production of goods.
- **Joint venture.** The parties have rights to the net assets or outcome of the arrangement of the activity undertaken by the joint venture (jointly controlled entities).

The difference between joint venture and joint operation is based on the substance of the agreement rather than on the contractual form.

IFRS 11 requires the use of the equity method of accounting for interests in joint ventures. The proportionate consolidation method is eliminated.

IFRS 11 is effective beginning January 1, 2013 and should be applied retrospectively. Earlier application is permitted but if an entity applies this IFRS earlier, it shall disclose that fact and apply at the same time IFRS 10 (Consolidated financial statements), IFRS 12 (Disclosure of interests in other entities), IAS 27 (as amended in 2011) (Separate Financial Statements) and IAS 28 (as amended in 2011) (Investments in associates and joint ventures). The application of this standard is not expected to have a material impact on the consolidated financial statements.

IFRS 12 (*Disclosure of interests in other entities*)

In May 2011, the IASB issued IFRS 12 (Disclosure of interests in other entities) which provides for the disclosure requirements to be provided in the financial statements in order to evaluate the nature of and risks associated with all forms of its interests in other entities, including joint arrangements, subsidiaries, associates and special purpose vehicles.

IFRS 12 is effective beginning January 1, 2013. Earlier application is permitted but if an entity declare its early adoption it shall disclose that fact and apply at the same time IFRS 10 (Consolidated financial statements), IFRS 11 (Joint Arrangements), IAS 27 (as amended in 2011) (Separate Financial Statements) and IAS 28 (as amended in 2011) (Investments in associates and joint ventures). Furthermore, entities are allowed to adopt, before January 1, 2013, the new disclosures required by IFRS 12 without doing reference to the early adoption of such a standard. The application of this standard is not expected to have a material impact on the consolidated financial statements.

IFRS 13 (*Fair value measurement*)

In May 2011, the IASB issued IFRS 13 (Fair value measurement) which aims to improve consistency and comparability in fair value measurement through the so called fair value hierarchy . The requirements do

not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs.

IFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The measurement and disclosure requirements included in IFRS 13 do not apply to share-based payment transactions within the scope of IFRS 2 (Share-based Payment) and leasing transactions within the scope of IAS 17 (Leases).

IFRS 13 is effective beginning January 1, 2013 and should be applied prospectively. Earlier application is permitted. The application of this standard is not expected to have a material impact on the consolidated financial statements.

IAS 27 revised (*Separate Financial Statements*)

In May 2011, the IASB issued IAS 27 revised (Separate Financial Statements) which includes the provisions on separate financial statements while those related to the consolidated financial statements have been included in the new IFRS 10.

The objective of IAS 27 is to prescribe the accounting policies and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity elects, or is required by local regulations, to present separate financial statements.

IAS 27 revised is effective beginning January 1, 2013; earlier application is permitted. If an entity applies this standard earlier, it shall disclose that fact and apply at the same time IFRS 10 (Consolidated financial statements), IFRS 11 (Joint Arrangements), IFRS 12 (Disclosure of interests in other entities) and IAS 28 revised (Investments in associates and joint ventures). The application of this standard is not expected to have a material impact on the consolidated financial statements.

IAS 28 revised (*Investments in associates and joint ventures*)

In May 2011, the IASB issued IAS 28 revised (Investments in associates and joint ventures).

The objective of IAS 28 revised is to prescribe the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

IAS 28 revised is effective beginning January 1, 2013; however earlier application is permitted. If an entity applies this standard earlier, it shall disclose that fact and apply at the same time IFRS 10 (Consolidated financial statements), IFRS 11 (Joint Arrangements), IFRS 12 (Disclosure of interests in other entities) and IAS 27 revised (Separate Financial Statements). The application of this standard is not expected to have a material impact on the consolidated financial statements.

Amendments to IAS 1 (*Presentation of Financial Statements*)

In June 2011, the IASB issued some amendments to IAS 1 (Presentation of Financial Statements) which:

- from one side, reaffirm existing requirements that items in Other Comprehensive Income (OCI) and profit or loss should be presented as either a single statement or two consecutive statements;

- from the other side, revise the way OCI is presented. In fact the amendments require to group separately those elements which will be reclassified (recycled) to the profit or loss section of the comprehensive income or to the separate income statement and those elements that will not.

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The amendments are effective beginning January 1, 2013; earlier application is permitted. The application of these amendments is not expected to have a material impact on the consolidated financial statements.

Amendments to IAS 19 (*Employee benefits*)

In June 2011, the IASB issued some amendments to IAS 19 (Employee Benefits) which led, among other things, the following improvements:

- elimination of the possibility to defer the recognition of actuarial gains and losses (the so-called corridor method), thus improving the comparability and faithful of the presentation;
- streamlining the presentation of changes in assets and liabilities arising from defined benefit plans, including, inter alia, the inclusion of their re-measurements effects to be presented in Other comprehensive income ;
- enhancement of the disclosures about defined benefit plans, providing better information on the characteristics of the same plans and on the risks to which the entities are exposed to as a result of their participation in these plans.

The amendments to IAS 19 are effective beginning January 1, 2013; earlier application is permitted. The application of these amendments is not expected to have a material impact on the consolidated financial statements.

NOTE 3 BUSINESS COMBINATIONS

Acquisition of control of Sofora Telecomunicaciones S.A.

On October 13, 2010, once the necessary government authorizations were obtained, an agreement was formalized for the transfer of an 8% stake in Sofora Telecomunicaciones S.A. (**Sofora**) the holding company which controls Telecom Argentina from the Werthein group to Telecom Italia International, as established in the agreements signed between the Telecom Italia Group and the Werthein group on August 5, 2010.

The accounting effects of the business combination as set forth in IFRS 3 can be summarized as follows:

the valuation of the stake acquired is 130 million euros and corresponds to the fair value of the options relinquished by the Telecom Italia Group. The measurement also includes the control premium;

the stake held in the Sofora group before acquisition of control was previously accounted for using the equity method and was remeasured at fair value at the acquisition date of control and came to about 394 million euros. This remeasurement produced a positive impact on the separate consolidated income statement of 266 million euros, net of the reversal to the separate consolidated income statement of the reserve for negative exchange differences;

all the assets acquired and liabilities assumed of the acquired group were measured for their recognition at fair value. In the second half of 2011 and in any case within one year of the acquisition the provisional values of the assets and liabilities recorded at the acquisition date will be adjusted with retroactive effect to take into account their acquisition-date fair value with the consequent recalculation of goodwill. Besides the values allocated to the assets acquired and the liabilities assumed, goodwill was recorded for 166 million euros, calculated as illustrated in the following table:

(millions of euros)	
Valuation of the stake acquired	130
Fair value of stake held in the Sofora group before acquisition of control	394
Value of net assets attributed to non-controlling interests	2,003
Total (a)	**2,527**
Value of net assets acquired (b)	**2,361**
Goodwill (a b)	**166**

The principal values of the assets and liabilities at the acquisition date of the Sofora group (Argentina) are as follows:

Sofora group values at the acquisition date

(millions of euros)		**Current amounts to Fair Value**	**Carrying amounts**
Goodwill		166	
Other non-current assets		3,648	1,483
of which Other intangible assets		1,807	214
of which Tangible assets		1,823	1,251
Current assets		887	873
of which Cash and cash equivalents		392	392
Total assets	**(a)**	**4,701**	**2,356**
Total non-current liabilities		1,137	377
of which Deferred tax liabilities		807	44
of which Provisions		100	100
of which Non-current financial liabilities		183	183
Total current liabilities		1,037	1,035
of which Current financial liabilities		216	216
Total liabilities	**(b)**	**2,174**	**1,412**
Net assets	**(a-b)**	**2,527**	**944**
Share of Non-controlling interests		2,003	814
Share of the Telecom Italia Group		524	130

Non-controlling interests are measured in proportion to the share of the non-controlling interests in the net identifiable assets of the acquired company.

Had the acquisition taken place on January 1, 2010, the Telecom Italia Group consolidated financial statements would have included higher Revenues of approximately 1.3 billion euros and higher EBIT (operating profit) of approximately 0.3 billion euros.

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%.

NOTE 4 GOODWILL

Details of goodwill and changes during the first half of 2011 are presented in the following tables:

	As of December 31, 2010	Increase	Impairment charge	Exchange differences	Reclassification	As of June 30, 2011
			Unaudited (millions of euros)			
Domestic	**41,947**		(3,182)			**38,765**
Core Domestic	***41,532***		*(3,182)*			***38,350***
International Wholesale	***415***					***415***
Brazil	**1,610**			(21)		**1,589**
Argentina	**173**			(18)		**155**
Media	**182**					**182**
Other Operations						
Total	**43,912**		**(3,182)**	**(39)**		**40,691**

The impairment charge in the first half of 2011 of 3,182 million euros on the goodwill of the Domestic Business Unit is the result of the impairment test conducted at June 30, 2011 using the same method adopted in previous impairment tests and particularly comparing the value in use of the Core Domestic Cash-Generating Unit (CGU) with its carrying amount at the same date.

In particular the Goodwill under IAS 36 is not amortized but is tested for impairment annually or more frequently if specific events or circumstances indicate that it may be impaired.

The impairment test is carried out on two levels. At a first level, an estimate is made of the recoverable amount of the individual cash-generating units (or groups of units) to which goodwill is allocated and at a second level the group is considered as a whole. The cash-generating units (or groups of units) to which goodwill was allocated are the following:

Segment	Cash generating units (or groups of units)
Domestic	Core Domestic
	International Wholesale
Brazil	Tim Brasil
Argentina	Sofora
Media	Telecom Italia Media

The value used to determine the recoverable amount of the cash-generating units (or groups of units) to which goodwill has been allocated is the value in use for the Domestic and Brazil CGUs, whereas the Sofora Telecom Argentina group and the Telecom Italia Media CGUs have been measured on the basis of stock market capitalization (fair value). As for the other three cash-generating units for which the recoverable value has been estimated on the basis of the value in use, the basic assumptions to which the result is more sensitive are reported in the following table:

Core Domestic	International Wholesale	Brazil
EBITDA margin (EBITDA/revenues) during the period of the plan	EBITDA margin (EBITDA/revenues) during the period of the plan	EBITDA margin (EBITDA/revenues) during the period of the plan
Growth of EBITDA during the period of the plan	Growth of EBITDA during the period of the plan	Growth of EBITDA during the period of the plan
Capital expenditures rate (capex/revenues)	Capital expenditures rate (capex/revenues)	Capital expenditures rate (capex/revenues)
		BRL/euro exchange rate
Cost of capital	Cost of capital	Cost of capital
Long-term growth rate	Long-term growth rate	Long-term growth rate

At December 31, 2010, the impairment test for the Core Domestic CGU was based on the estimate of the value in use according to the data in the three-year plan approved by the Board of Directors but not yet announced to the market. In order to consider this asymmetry of information an alternative scenario was also considered which took into account an unfavorable change in the key variables (downside scenario). Even averaging the plan flows with the downside scenario no impairment losses were shown in the goodwill allocated to the Core Domestic CGU. When the Board of Directors approved the impairment results at December 31, 2010 it however established that for the purpose of the next interim impairment test the revised consensus of the analysts following the announcement of the plan would have to be considered. In the first half of 2011, the worsening of financial market variables and forecasts of a weaker macroeconomic scenario led to a downward revision of the analysts consensus about the Core Domestic CGU. When impairment was tested at June 30, 2011 even though the results of the first half enabled the Group to confirm the guidance announced to the market in accordance with IAS 36.33, which requires greater emphasis to be given to external indications for purposes of the projection of future cash flows used in estimating the value in use, consideration had to be given to the revised consensus of the analysts owing to greater uncertainty over the prospects of economic growth in the following years. In such a scenario, also under the impairment testing procedure approved by the Group, the estimate of the value in use is based on the results of the CGU aligned to the updated budget forecasts for 2011 and also for the following years, as a result of which a greater weight is attributed to the forecasts of market consensus which projects lower results for the next three years (which will then stabilize), compared to the plan forecasts which instead project improving results for the next three years. As for the long-term growth rate (g) relating to the Core Domestic CGU, the same rate was used as the one for the impairment test at December 31, 2010 (-0.26%). In compliance with the impairment procedure, the variable represented by the capital expenditures (Capex) needed to support the long-term performance of the business was drawn from the consensus of the analysts and considered at 15.42% of revenues.

The estimate of the value in use for the CGUs International Wholesale and Brazil is based on the data in the three-year plan.

The net improvement in the consensus of the analysts relating to the performance of the Brazil CGU partly as a result of the new competitive scenario linked to the acquisition of AES Atimus led, instead, with regard to the latter CGU, to an upward revision of the long-term growth rate (g), in line with awaited inflation rate.

The nominal growth rates used to estimate the terminal value are the following (the growth rate of Brazil refers to flows in Brazilian reais):

Core Domestic	International Wholesale	Brazil
-0.26%	-0.5%	+3.10%

Such rates fall within the range of growth rates applied by the analysts who follow Telecom Italia shares (as can be seen in the reports published after the announcement of the Group s first-quarter 2011 results and up to July 21, 2011).

Also the cost of capital, relating to the Core Domestic CGU, recorded an increase from December 31, 2010, mainly driven by the upswing in the long-term rates of Italian government securities from 7.90% to 8.19%.

The cost of capital was estimated by considering the following:

a) the criterion for the estimate of CAPM - Capital Asset Pricing Model (the criterion used by the Group to estimate the value in use and referred to in Annex A of IAS 36);

b) the Beta coefficient for the Core Domestic CGU and International Wholesale arrived at by using the Beta coefficients of the European telephone incumbents, including Telecom Italia itself, adjusted to take into account the financial structure (beta coefficient = 1.14 vs. 1.06 at December 31, 2010);

c) the Beta coefficient for the Brazil CGU calculated on the basis of the list price of the corresponding ADR compared to the relative stock market index (beta coefficient = 0.97 vs. 1.06 at December 31, 2010);

d) in the case of International Wholesale, a full equity financial structure was considered since it is representative of the normal financial structure of the business;

e) for the principal operating segments of the Group, reference for comparison purposes was made to the weighted average cost of capital (wacc) identified by the analysts who follow Telecom Italia stock in their reports published after the announcement of the Group s first-quarter 2011 results and up to July 21, 2011.

On the basis of these elements, the post-tax and pre-tax weighted average cost of capital and the capitalization rates (WACC - g) have been estimated for each cash-generating unit (the values of Brazil refer to flows in Brazilian reais) as follows:

	Core Domestic %	International Wholesale %	Brazil %
WACC post tax	8.19	10.62	11.36
WACC post tax g	8.45	11.12	8.26
WACC pre tax	12.06	15.63	15.34
WACC pre tax g	12.32	16.13	12.24

The differences between the values in use and the carrying amounts at June 30, 2011 of the three CGUs before the impairment test are the following:

	Core Domestic	International Wholesale	Brazil
		(millions of euros)	
Difference between value in use and carrying amounts	(3,182)	153	3,106

Compared to December 31, 2010, the changes in the values in use of the individual CGUs are the following:

	Core Domestic	International Wholesale	Brazil
		(millions of euros)	
Value in use changes 06/30/2011 vs. 12/31/2010	(6,110)	(96)	2,003

For purposes of the sensitivity analysis, four principal variables were considered for the two CGUs whose value in use is in excess of the carrying amount: the pre-tax discount rate, the growth rate in the terminal value (g), the compound annual growth rate (CAGR) of EBITDA in the years 2012-2013 (CAGR 2011-2013) and capital expenditures in proportion to revenues (capex/revenues). The following tables report the values of the key variables used in estimating the value in use and the changes in such variables needed to render the recoverable amount of the respective CGUs equal to their carrying amount.

Value of key variables used in estimating the value in use

	Core Domestic %	International Wholesale %	Brazil %
Pre-tax discount rate	12.06	15.63	15.34
Long-term growth rate (g)	(0.26)	(0.5)	3.10
Compound Annual Growth Rate (CAGR) of EBITDA 2011-2013	(0.26)	4.37	12.87
Capital expenditures rate (Capex/Revenues)	15.42	from 6.04 to 7.84	from 14.39 to 18.77

Changes in key variables needed to render the recoverable amount equal to the carrying amount

	International Wholesale %	Brazil %
Pre-tax discount rate	3.00	5.21
Long-term growth rate (g)	(3.54)	(5.74)
Compound Annual Growth Rate (CAGR) of EBITDA 2011-2013	(6.13)	(10.53)
Capital expenditures rate (Capex/Revenues)	1.90	4.92

A second level impairment test was then conducted to test for impairment at the level of the entire Group, in order to include the Central Functions and the cash-generating units of the Group without any goodwill allocation (Olivetti). The total recoverable amount of all the cash-generating units of the Group was compared with the carrying amount of the total operating capital referring to the same units/segments post-impairment losses at the first level. No impairment losses resulted at this further level of testing.

NOTE 5 OTHER INTANGIBLE ASSETS

Other intangible assets decreased by 444 million euros compared to December 31, 2010. Details on the composition and movements are as follows:

	As of December 31, 2010	Additions	Amortization	Impairment losses/ reversals	Disposals	Exchange differences	Other changes	As of June 30, 2011
				Unaudited (millions of euros)				
Industrial patents and intellectual property rights	2,629	460	(718)			(8)	112	2,475
Concessions, licenses, trademarks and similar rights	3,700	44	(163)		(1)	(109)	5	3,476
Of which licenses with indefinite useful life	*462*					*(48)*		*414*
Other intangible assets	1,179	158	(211)			(103)	2	1,025
Work in progress and advance payments	395	191					(103)	483
Total	**7,903**	**853**	**(1,092)**		**(1)**	**(220)**	**16**	**7,459**

Additions in the first half of 2011 include 145 million euros of internally generated assets (178 million euros in the first half of 2010).

Industrial patents and intellectual property rights at June 30, 2011 consist almost entirely of applications software purchased outright and user license rights acquired for an indefinite period of time. They mainly refer to Telecom Italia S.p.A. (1,569 million euros) and the Brazil Business Unit (798 million euros).

Concessions, licenses, trademarks and similar rights at June 30, 2011 mainly refer to:

- unamortized cost of telephone licenses (1,504 million euros for Telecom Italia S.p.A., 822 million euros for the Brazil Business Unit and 434 million euros for the Argentina Business Unit);
- Indefeasible Rights of Use-IRU (209 million euros) referring mainly to the Telecom Italia Sparkle group companies (International Wholesale);
- TV frequencies of the Media Business Unit (119 million euros);
- unamortized cost of the trademarks of the Argentina Business Unit (317 million euros).

Other intangible assets at June 30, 2011 mainly include the increase in value attributed to the customer portfolio of the Argentina Business Unit, measured provisionally following the business combination on the acquisition of control of Sofora Telecomunicaciones S.A. (777 million euros), the capitalization of subscriber acquisition costs for 215 million euros (227 million euros at December 31, 2010), referring to some sales offerings of Telecom Italia S.p.A. (142 million euros), the Brazil Business Unit (3 million euros) and the Argentina Business Unit (70 million euros).

This line item also includes entry fees and charges for goodwill relating to the Telecom Italia S.p.A. stores project . The unamortized amount is equal to 31 million euros.

Work in progress and advance payments increased 88 million euros owing principally to the lower levels of operations normally recorded in the first part of the year by Telecom Italia S.p.A.

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NOTE 6 TANGIBLE ASSETS (OWNED AND UNDER FINANCE LEASES)

Property, plant and equipment owned

Property, plant and equipment owned decreased 785 million euros compared to December 31, 2010. Details on the composition and movements are as follows:

	As of December 31, 2010	Additions	Depreciation	Impairment losses / Reversals	Disposals	Exchange differences	Other changes	As of June 30, 2011
				Unaudited (millions of euros)				
Land	244					(13)	1	232
Buildings (civil and industrial)	810	2	(34)			(35)	23	766
Plant and equipment	12,184	735	(1,476)	&nbs				