



FINANCE

**Telecom Italia Finance S.A.
12, rue Eugène Ruppert
L-2453 Luxembourg**

R.C.S. Luxembourg B 76.448

**Annual accounts
as at 31 December 2010**

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DIRECTORS' REPORT

Dear Shareholders,

The year 2010 of Telecom Italia Finance ("TI Finance" or the "Company") ends with a profit of EUR 127.013.636,45 (EUR 64.566.292,13 in 2009).

During the year 2010, the Company continued its activity of providing financial assistance to Telecom Italia Group companies.

The ongoing borrowing and lending activity generated a positive margin equal to EUR 153,7 million in line with EUR 155,22 million in 2009.

The Company booked dividends on Telecom Italia S.p.A. for EUR 6,2 million equal to those booked in 2009.

The value of financial assets has been adjusted of EUR 14 million (EUR 85,2 million in 2009) mainly due to the participation in TI Media S.p.A. (EUR 5,8 million) and in the Investment fund Clessidra (EUR 2,3 million).

During the period the company booked EUR 6,3 million (EUR 5,5 million in 2009) of taxes, of which EUR 4,9 million (EUR 5,4 million in 2009) of net wealth tax.

The net financial position as of December 31, 2010 is positive for EUR 1.365,4 million (EUR 1.336,7 million in 2009).

▪ Notes

As of December 31, 2010, the total outstanding nominal amount of notes issued by Telecom Italia Finance amounts to EUR 5.040.677.312,47 (EUR 5.141.342.253,83 in 2009).

During the year, the Company bought back in the market a nominal amount EUR 113,4 million of its EUR 1.997.317.000 7,5% guaranteed notes due April, 2011. Such notes have been cancelled. Accordingly, the principal amount of debt outstanding with regards to these notes is EUR 1.883.885.000.

Between February 22 and March 8, 2010 the holders of the EUR 138.830.000 Guaranteed Floating Rate Extendable Notes due June 2010 had an election period in order to exercise their option not to extend the maturity date of such notes. Considering that the holders of EUR 31.115.000 in aggregate principal amount have elected to exercise their right, on March 12 the Company issued new notes having maturity March 2012 for a nominal amount of EUR 107.715.000. Bond holders having elected not to extend have been paid on June 14, 2010.

All the notes are unconditionally and irrevocably guaranteed by the mother company Telecom Italia SpA.

▪ **Participations**

On June 11,2010 Telecom Italia Finance S.A. subscribed n° 25.095.610 newly issued shares of Telecom Italia Media S.p.A. for a total issue price of EUR 5,4 million.

In the framework of a financial restructuring of Italtel Group S.p.A. ("Italtel"), on September 23,2010 Telecom Italia Finance S.A. subscribed n° 4.440.365 newly issued Class B shares of Italtel for a consideration of EUR 35 million.

On December 15,2010 has been incorporated a controlled subsidiary in Ireland having a share capital of EUR 1.360.000.000 fully subscribed by Telecom Italia Finance S.A. and paid in for EUR 68.000.000.

On April 28,2010 the n° 99.936.853 Telecom Italia S.p.A. ordinary shares deposited with LBIE were released by the Administrators together with the net dividend paid by Telecom Italia S.p.A. in 2009, versus the payment by the Company of EUR 0,85 million (0,75% of the total asset) as administrative fees.

The participations detail is reported in the Note 4 of these annual accounts.

▪ **Share Capital**

The subscribed share capital of TI Finance is EUR 542.090.241, consisting of n° 55.428.450 ordinary shares, nominal value EUR 9,78 per share; all of the shares have been issued and are fully paid-up.

▪ **Subsequent Events**

During the month of January and February till to date, TI Finance purchased in the market EUR 50,2 million of its EUR 1.883.885.000 notes maturing on April 2011 and EUR 187,4 million of its € 1.000.000.000 notes maturing on April 2012.

No further relevant event occurred after the closing of the accounts.

During the year 2011 it is foreseen to continue the activity of financial and administrative assistance to Telecom Italia Group companies.

The Company doesn't perform research and development activities. The Company did not acquire and doesn't hold its own shares.

Annual accounts as of December 31, 2010 herein reported comprise the balance sheet, the profit and loss account, the cash flow statement and the explanatory notes.

The Board invites you to approve the aforesaid financial statements and propose to allocate the benefit of EUR 127.013.636,45 as follows:

- EUR 6.351.000,00 to the legal reserve;
- EUR 120.662.636,45 as retained earnings

Finally, we remind that the Mandate of all members of the Board shall expire with the shareholders general meeting called in order to approve the 2010 accounts.

For the Board of Directors
The Managing Director

TELECOMITALIA FINANCE S.A.

BALANCE SHEET AS AT DECEMBER 31, 2010

	31/12/2010	31/12/2009		31/12/2010	31/12/2009
ASSETS - EUR					
C. Non current assets	7.152.858.512,75	8.961.849.972,55			
I. Tangible assets					
1. Plant and machinery	32.533,31	27.848,89			
2. Other fixtures and fitting, tools and equipments	10.721,84	13.753,64			
II. Non current financial assets					
1. Securities with Telecomitalia S.p.A. (Parent company)	3.900.000.000,00	5.546.526.000,00			
2. Receivables from group companies	1.733.934.687,72	3.246.990.832,16			
3. Equity investments	1.395.041.523,72	44.510,24			
5. Securities other than equity investments	151.785.640,63	156.861.179,46			
6. Other receivable	10.053.405,53	11.385.848,16			
III. Current Assets	3.787.067.130,59	2.311.300.783,22			
1. Financial receivables					
2. Receivables from group companies					
a) receivable within 1 year	725.364.888,66	1.676.031.526,03			
4) Other receivables	675.372,70	324.075,20			
III. Securities in current assets					
1. Parts in group companies	1.646.526.000,00	-			
2. Own securities with its nominal value or its accounting value	360.048.857,31	19.460.000,00			
3. Other securities		482.011.601,04			
IV. Cash and cash equivalent	1.054.451.112,92	133.473.580,95			
E. Prepayments and accrued income	307.480.341,85	324.398.183,40			
TOTAL ASSETS	11.287.405.993,19	11.597.548.939,17			
LIABILITIES - EUR					
A. Capital and reserves	1.601.024.302,97	1.474.010.746,52			
I. Subscribed share capital	542.090.241,00	542.090.241,00			
IV. Reserves					
3. Legal reserve	4.811.715,87	1.584.401,26			
4. Other reserves	865.769.812,13	865.769.812,13			
V. Profit brought forward	61.337.977,53				
VI. Result of the period	127.013.636,45	64.566.292,13			
B. Provisions for liabilities and charges	11.201.402,02	10.852.276,94			
2. Provisions for taxation	351.000,00	5.141.165,00			
3. Other provisions	11.850.402,02	5.711.111,94			
C. Creditors	9.339.399.302,98	9.770.428.856,97			
I. Notes					
b) Non convertible notes					
a) payable within 1 year	1.883.885.000,00	138.830.000,00			
b) payable beyond 1 year	3.156.792.312,47	5.012.512.253,83			
2. Payables to banks (and financial institutions)					
a) payable within 1 year	27.420,92	28.737,16			
b) payable beyond 1 year	434.077.312,47	400.195.253,83			
4. Trade and services payables					
a) payable within 1 year	144.630,76	159.313,50			
6. Payables to associated companies					
a) payable within 1 year	2.567.431.360,42	4.212.177.120,02			
b) payable beyond 1 year	1.292.000.000,00				
8. Tax payables and social security contributions					
a) payable within 1 year	27.414,53	26.510,86			
9. Other payables					
a) payable within 1 year	455.178,09	1.376.699,97			
b) payable beyond 1 year	4.558.173,32	5.122.767,80			
D. Accrued and deferred income	334.780.403,22	342.257.058,74			
TOTAL LIABILITIES	11.287.405.993,19	11.597.548.939,17			

The accompanying notes are an integral part of these annual accounts.

		TELECOM ITALIA FINANZIAL	
		PROFIT AND LOSSES FOR THE YEAR ENDED DECEMBER 31, 2010	
		2010	2009
A. CHARGES - EUR		2010	2009
3. Staff costs		757,492,07	844,510,84
a) Wages and salaries		674,444,40	767,214,25
b) Social security contributions		83,047,67	77,296,59
4.a) Value adjustment in respect of tangible and intangible assets		24,757,72	26,756,39
5. Other operating expenses		4,375,880,51	1,351,284,92
6. Value adjustment in respect of financial assets		14,027,652,99	85,202,726,04
	(n 15)		
7. Interest and similar expenses		578,334,175,91	636,343,529,75
a) concerning group companies	(n 16)	87,965,697,68	122,023,566,48
b) other interests and charges	(n 16)	496,368,478,23	514,319,963,27
10. Extraordinary expenses	(n 17)	7,734,293,62	4,742,904,66
12. Other taxes (non mentioned in the points above)	(n 18)	6,327,836,88	5,474,045,17
13. Net income for the period		127,013,636,45	64,566,292,13
TOTAL CHARGES		736,595,656,15	799,051,059,90
		2010	2009
B. INCOME - EUR		2010	2009
4. Other operating income		201,056,68	177,598,66
5. Income from Equity investments		6,227,218,65	6,243,560,26
a) from group companies		6,227,218,65	6,243,560,26
6. Income from other securities		403,834,718,18	405,907,013,26
a) from group companies	(n 19)	396,187,500,00	396,170,566,19
b) other income	(n 19)	7,647,218,18	9,736,447,07
7. Other interests and similar income		329,244,819,94	386,159,617,72
a) from group companies	(n 20)	218,895,788,51	299,616,660,87
b) other interests and similar income	(n 20)	110,349,031,43	86,542,956,85
9. Extraordinary income		77,872,70	564,270,00
TOTAL INCOME		739,515,685,15	729,051,059,90

The accompanying notes are an integral part of these annual accounts.

TELECOM ITALIA FINANCE S.A.
CASH FLOW STATEMENT AS AT DECEMBER 31, 2010

Operating Activities		
Profit before tax	127.013.636,45	64.566.292,13
Non cash items		
Amortization of property, plant and equipment	24.757,72	26.756,39
Finance Income	-739.731.663,09	-791.714.545,54
Finance Expenses	599.860.339,72	725.297.258,36
Changes in trade and other receivables	2.076.406,92	-6.543.466,60
Changes in trade and other payables	-5.134.745,77	1.693.008,62
Net cash flows from operating activities	-15.891.268,05	-6.674.696,64
Cash flows from Investing activities		
Changes in Property, plant and equipment	-26.410,34	-16.962,57
Changes in Participations, funds and other securities	-21.644.942,12	-425.945.943,05
Investments and re-payments in Financial Receivables	2.559.310.153,33	2.660.735.990,93
Interest, commissions and other financial income received	617.420.460,32	801.860.000,86
Dividends received	9.789.378,04	1.227.354,03
Income received from participations and funds	29.000,00	423.000,00
Net cash flows from Investing activities	3.164.877.639,23	3.038.283.440,20
Cash flows from Financing activities		
Net change in short-term Financial Payables	-1.709.984.631,32	27.721.990,41
Repayments of borrowings	-31.115.000,00	-3.349.232.000,00
Interest, commissions and other financial expenses paid	-473.191.787,62	-674.682.944,96
Net cash flows from financing activities	-2.214.291.418,94	-3.996.192.954,55
Net Increase / Decrease in Cash and Cash Equivalents	934.694.952,24	-964.584.210,99
Net foreign exchange differences in C&CE	-13.716.315,27	-247.766,32
Cash and cash equivalents at 01 January	133.473.580,95	1.098.305.558,26
Cash and cash equivalents at 31 December	1.054.452.217,92	133.473.580,95

The accompanying notes are an integral part of these annual accounts.

Notes to the accounts
As of December 31, 2010

Note 1 – General

Telecom Italia Finance S.A. (“The Company”, “Ti Finance”) was incorporated on June 2, 2000 for an unlimited duration. The registered office is established at 12, Rue Eugène Ruppert L-2453 Luxembourg. The registered number is B 76.448.

The corporate object is to provide any financial assistance to Telecom Italia S.p.A. (Parent Company) itself as well as to all companies in which the Parent Company has a direct or indirect interest. This is implemented by the provision of loans and the granting of guarantees or securities in any kind or form. The object of the Company is further to provide domiciliation and administration services to companies being part of the Telecom Italia Group and to exercise any activity in relation thereto as provided in the law of May 31, 1999 on the domiciliation of companies, as amended. The Company may acquire and hold interests in Luxembourg and/or in foreign undertakings. The Company may also use its funds to invest in real estate and in intellectual property rights in any kind or form. The Company may participate at the creation and development of any other companies and entities and provide financial assistance in any kind or form. The Company may borrow in any kind or form and issue bonds or notes. Generally the Company may carry out any commercial, industrial or financial operation, relating directly or indirectly to its object.

The financial year begins on January 1st and ends on December 31st of each year.

Note 2 – Summary of significant accounting policies

Basis of presentation

The accounts in hand are prepared in accordance with the accounting principles and regulations generally accepted in the Grand Duchy of Luxembourg.

The Board of Directors of the company has decided to include the cash flow statement based on the indirect method in order to improve clarity.

Euro (EUR) is the book accounting currency.

In accordance with article 4 of the law dated December 10, 2010, the Board of Directors of the Company has resolved for the year ended December 31, 2010 not to implement the changes brought by this law to the content and the layout of the annual accounts, as well as to the related accounting principles and valuation policies.

Use of estimates

The preparation of financial statements in accordance with Luxembourg GAAP, requires management to make estimates and assumptions that affect the reported amount of assets and liabilities, disclosure of contingent assets and liabilities at the date of the accounts, and reported amounts of revenues and expenses during that reporting period. Actual results could differ from those estimates.

Foreign currency translation

The Company follows the multi-currency accounting policy that consists in recording the assets and the liabilities in their original currencies, the same being converted into Euro at the end of each month. The net exchange differences that arise from these conversions are reflected in the profit and loss account in the item "other financial charges/ financial income".

The realized income and charges in currencies other than Euro are recorded in their respective currencies and converted at the exchange rate prevailing on the respective transaction dates.

The exchange differences arising from the transactions expressed in currencies other than EUR are hedged either by balanced deposits and loans, or through currency swap contracts using the account « exchange revaluation » Incorporated Into "Interest and similar expenses" and "Other interest and similar Income" whose valuation at the year-end rate allows to hedge off the exchange risk.

Derivative instruments

The commitments related to currency and interest rates swaps are recorded as off-balance sheet items at the nominal value of the contracts.

Equity investments and other securities in non-current assets

Equity investments and other securities in non-current assets are evaluated according to the historical cost method. The contingent write-downs are recorded in case of a permanent impairment loss of the investments estimated by the Board of Directors while comparing the net book value with the market value or with the net equity of the company.

Equity investments and other securities are reported in non-current assets if held in Telecom Italia Group Companies.

Receivables

Receivables are recorded at their nominal value. The contingent write-downs are recorded in case of non recovery risk.

Securities in current assets

Securities in current assets are evaluated to the minor between the market value and the acquisition cost. Bonds purchased are evaluated to acquisition cost that is never over the pair. The contingent write-downs are recorded in case of a permanent impairment loss of the investments estimated by the Board of Directors while comparing the net book value with the market value. The Board of Directors decides which bonds follow the criteria exposed.

Prepayments and accrued income/accruals and deferred income

On one hand, these items include the accrued interest receivable in connection with the deposits and loans granted, as well as in connection with the related interest rate swaps transactions (assets) and on the other hand the accrued interest payable on the notes and on other payables as well as the related interest rate swap transactions (liabilities).

The accrued income and expenses also reflect the issuance of bonds at a discount or premium and transaction costs. These are amortized through the profit and loss account on a straight-line basis over the lifetime of the notes.

Tangible assets

Tangible assets are stated at cost less accumulated depreciation and any impairment adjustments. Depreciation is calculated on a straight-line basis over the estimated useful life of

the assets. The carrying values of tangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable.

Other operations on financial instruments

The commitments related to derivative instruments are recorded off-balance sheet at their nominal value as of transaction date. In case of negative Mark to Market value of non hedging instruments at the financial statements closing date, a provision shall be recorded.

Debtors

Debtors are recorded at their probable collection value corresponding to the nominal value subject to individual value adjustments regarding any amount due which appears to be irrecoverable.

Cash and cash equivalents

Cash on hand and in banks and short-term deposits which are held to maturity are carried at cost. Cash and cash equivalents are defined as cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and subject to insignificant risk of changes in value.

Provisions

Provisions are recognized when the Group has a present obligation as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Note 3 –Tangible assets

As of December 31, 2010 and December 31, 2009 the tangible assets can be detailed as follows:

	December 31, 2010 EUR	December 31, 2009 EUR
Acquisitions at the beginning of the year	492.827,71	501.100,52
Acquisitions during the period	26.444,50	17.241,53
Disposal or reduction during the period	(819,95)	(25.514,34)
Acquisitions cost at the end of the period	518.452,26	492.827,71
Value adjustments at the beginning of the year	451.225,18	449.704,17
Value adjustments during the period	24.757,72	26.756,39
Disposal or reduction during the period	(785,79)	(25.235,38)
Value adjustments at the end of the period	475.197,11	451.225,18
	<u>43.255,15</u>	<u>41.602,53</u>

4.

Note 4 – Non current financial assets - Receivables from Group Companies

	December 31, 2010	December 31, 2009
Final payment date	EUR	EUR
Receivables from Parent Company:		
January 20, 2011	0,00	440.469.360,21
July 30, 2011	0,00	156.130.964,29
June 6, 2012 [*]	108.799.371,28	2.100.000.000,00
August 7, 2014	250.000.000,00	250.000.000,00
October 29, 2029 [**]	184.077.312,47	150.195.253,83
May 5, 2032 [**]	184.077.312,47	150.195.253,83
July 28, 2033	1.000.000.000,00	0,00
Receivables from Other Group Companies:		
Mediterranean Nautilus telekomünikasyon Hizmetleri T. A.S. - August 31, 2012	8.980.691,50	0,00
	<u>1.735.934.687,72</u>	<u>3.246.990.832,16</u>

[*] By decision of the debtor the loan has been reduced on 29th December, 2010.

[**] The differences are due to exchange rate impact.

Note 5 – Non current financial assets – Equity investments and other securities

	Ownership (%)	Number of shares	Book value at the beginning of the year		Changes during the period		Book value at the end of the period		Value adjustments at the beginning of the year		Value adjustments during the period	
			EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR	EUR
A) Equity investments												
TI FINANCE IRELAND LTD	100,00	1.360.000,000	—	1.360.000,000,00	—	1.360.000,000,00	—	—	—	—	—	—
3 Harbourmaster place, International financial Services Centre,												
ITALTEL GROUP SpA	34,68	6.160.999 (***)	110.996.916,75	34.997.013,48	145.993.930,23	(1.10.996.916,75)	—	—	—	—	—	—
Via Reiss Bonoli - Località Castellietto												
I-20019 Settimo Milanese												
Piedmont Int. S.A. (*) [in Liquidation]	17,13	180.000 (**)	—	—	—	—	—	—	—	—	—	—
Not Available												
Prins Bernhardplein 200 NL-1097	100,00	1.588.277	0,01	—	0,01	—	—	—	—	—	—	—
OLIVETTI HOLDING BV												
JB AMSTERDAM												
Via Plain Di Sco 82	25,00	33.333	44.510,33	—	44.510,33	—	—	—	—	—	—	—
MOVENDA SpA												
00138 ROMA (Italy)												
Total (A)			111.041.426,99	1.394.997.013,48	1.506.996.440,47	(110.996.916,75)						
B) Other securities in non-current assets												
TELECOMITALIA SpA (*)	0,64	134.544.373	473.126.647,40	—	473.126.647,40	(144.390.270,54)	(811.403,64)					
20123 Milan (Italy)												
400 Oyster Pt Blvd Ste 111	0,18	134.528	0,01	—	0,01	—	—	—	—	—	—	—
South San Francisco CA 94080 (US)												
TI MEDIA SpA (*)	2,25	32.624.295	44.794.890,95	5.383.008,35	50.177.899,30	(66.739.809,20)	(5.793.150,65)					
Via della Pineta Sacchetti, 229												
00168 ROMA (Italy)												
Via V. Maglio 81,	12,00	19.412	413.304,84	—	413.304,84	—	(139.391,78)					
16147 Genova (Italy)												
Gold Bldg, 2nd Hamelache St.	6,05	947.874	840.183,67	—	840.183,67	—	(811.555,31)					
P O Box 6673 Polig Industrial Zone,												
Metaripa 42505, ISOMEL												
c/o Sherwood Partners	2,93	2.131.366	0,01	—	0,01	—	—	—	—	—	—	—
101 University Avenue, Suite 100												
Palo Alto, California 94301 (US)												
Via Dei Lauro, 7	3,05	—	17.262.366,45	(2.323.342,45)	14.939.024,00	—	—	—	—	—	—	—
20121 Milan (Italy)												
Via Camuzio, 19	20,00	—	1.273.743,40	(411.003,20)	862.740,20	—	—	—	—	—	—	—
CH-6901 LUGANO (Switzerland)												
THE GOLDEN MOUSE PARTNERSHIP												
428, University Avenue Palo Alto,	12,49	—	55.267,94	4.318,24	59.586,18	—	—	—	—	—	—	—
CA 94301 (USA)												
NET LAUNCH VENTURES LP [in Liquidation]	4,17	—	224.854,62	(173.030,29)	51.824,33	—	—	—	—	—	—	—
Becht Science Center												
B Harton Street P O Box 45145												
Jerusalem 91451 - ISRAEL												
Total (B)			517.961.259,29	2.479.962,45	540.471.221,94	(881.130.079,23)	(7.555.501,48)					

(*) Ownership percentage on the whole share Capital

(**) 100,000 Subordinated Junior Preferred Stock, 80,000 Senior Cumulative Preferred Stock

(***) 1,720,634 Ordinary Shares, 4,440,365 Preferred Shares

Note 6 – Non current financial assets – Other receivables

This item reflects the estimated recovery value of the credit registered vs. Lehman Brothers Special Financing Inc In Liquidation (LBSF). Such credit was originally booked for EUR 25.016.035,74. During year 2009 based on the documentation filed with the US Courts, the position has been converted from EUR into USD (for an amount of USD 35.552.789,99). During the year 2010, in accordance with market evaluations, the credit has been adjusted by USD 4.130.380,42 (i.e. up to 38,67% of the Initial value). The credit in hands is supported by the guarantee from Lehman Brothers Holding Inc In Liquidation.

Furthermore, during 2010, the Company cashed the credit registered in 2009 related to the dividend pertaining to n° 99.936.853 Telecom Italia S.p.A. ordinary shares deposited with Lehman Brothers International Europe (in Liquidation).

Note 7 – Current assets – Receivables from Group Companies

The item refers to the loan receivables within one year granted to Group Companies as detailed herein:

	December 31, 2010 EUR	December 31, 2009 EUR
Bbnd NV	0,00	22.000.000,00
Hansenet Telekommunikation GmbH	0,00	349.012.456,25
Latin American Nautilus Ltd [*]	33.677.593,17	42.343.468,00
Mediterranean Nautilus Ltd [**]	0,00	10.412.328,20
Olivetti S.p.A.	23.353.535,38	23.234.171,76
Telecom Italia Media S.p.A.	20.000.000,00	205.000.000,00
Telecom Italia Netherlands BV	2.300.000,00	4.400.000,00
Telecom Italia S.p.A.	617.130.596,85	1.000.061.853,00
Telecom Italia Spain SL	3.750.020,66	4.250.020,66
TI Sparkle Luxembourg S.A.	0,00	8.971.761,87
TI Sparkle France S.A.	18.000.000,00	4.000.000,00
Telecom Italia Germany	2.600.000,00	1.500.000,00
TMI Telemedia Int.	3.500.000,00	0,00
Others	1.052.942,60	845.466,29
	<u>725.364.688,66</u>	<u>1.676.031.526,03</u>

[*] Merged on 8th December, 2010 into TI Sparkle Luxembourg S.A.

[**] On 30th June, 2010 formally changed the name into Lan Med Nautilus.

Note 8 – Current assets - Other Securities

	December 31, 2010 EUR	December 31, 2009 EUR
Notes	145.630.035,57	112.350.069,06
Euro Commercial Papers	214.418.821,74	19.965.061,15
SICAV	0,00	349.696.470,83
	<u>360.048.857,31</u>	<u>482.011.601,04</u>

Note 9 – Prepayments and accrued income

	December 31, 2010 EUR	December 31, 2009 EUR
Accrued interest on related companies securities	210.622.602,74	210.641.623,85
Accrued interest on other securities	3.172.870,37	480.734,51
Accrued interest and commissions on loans to the Parent Company	65.114.112,80	77.673.520,57
Accrued interest and commissions on loans to related companies	91.868,21	3.276.717,99
Accrued interest on bank deposits	1.027.240,26	46.325,90
Accrued interest on other financial operations	11.131.729,11	11.092.563,62
Prepaid charges and costs on notes (issue discounts and other similar charges)	16.081.484,52	20.955.386,51
Other prepaid expenses	238.433,84	231.310,45
	<u>307.480.341,85</u>	<u>324.398.183,40</u>

Note 10 – Subscribed share capital

As of December 31, 2010 and December 31, 2009, the authorized, issued and fully paid capital of EUR 542.090.241,00 is represented by 55.428.450 ordinary shares with a nominal value EUR 9,78 per share.

As of December 31, 2010 and December 31, 2009 the shareholders of the Company are:

	December 31, 2010	December 31, 2009
	No of shares	No of shares
Telecom Italia S.p.A.	55.428.449	55.428.449
Mr Adriano Trapletti	1	1
	<u>55.428.450</u>	<u>55.428.450</u>

Note 11 – Reserves

The reserves are split as follows:

- a) Legal reserve of EUR 4.812.715,87, set aside for an amount of EUR 1.584.401,26 by shareholders meeting as of April 4, 2008 and set up for an amount of EUR 3.228.314,61 by shareholder meeting of April 28, 2010.
- b) Other reserves split as follows:

	December 31, 2010	December 31, 2009
	EUR	EUR
Reserves unavailable for distribution	394.805.662,41	394.805.662,41
Other reserve	470.964.149,72	470.964.149,72
	<u>865.769.812,13</u>	<u>865.769.812,13</u>

The reserves unavailable for distribution comprise the reserve created subsequently to the share capital increase and decrease respectively on October 8, 2004 and April 5, 2006 and the reserve relating to Telecom Italia S.p.A. shares owned by Ti Finance.

	Legal reserve (EUR)	Other reserves (EUR)	Profit brought forward (EUR)	Profit for financial year (EUR)
Balance as at 31.12.2009	1.584.401,26	865.769.812,13	-	64.566.292,13
Movements of the year				
- Allocation of prior year's profit	3.228.314,61	-	61.337.977,52	-64.566.292,13
- Profit for the year	-	-	-	127.013.636,00
Balance as at 31.12.2010	4.812.715,87	865.769.812,13	61.337.977,52	127.013.636,00

Note 12 – Non convertible notes

	December 31, 2010 EUR	December 31, 2009 EUR
EUR 138.830.000,00 Expiring date: 14/06/2010 Floater rate: Euribor 3m + 1,300%	0,00	138.830.000,00
EUR 2.000.000.000,00 Expiring date: 20/04/2011 Fixed rate: 7,500%	1.883.885.000,00	1.997.317.000,00
EUR 107.715.000,00 Expiring date: 14/03/2012 Floater rate: Euribor 3m + 1,300%	107.715.000,00	0,00
EUR 1.000.000.000,00 Expiring date: 24/04/2012 Fixed rate: 7,250%	1.000.000.000,00	1.000.000.000,00
EUR 850.000.000,00 Expiring date: 24/01/2013 Fixed rate: 6,875%	850.000.000,00	850.000.000,00
JPY 20.000.000.000 Expiring date: 14/05/2032 Fixed rate: 3,550%	184.077.312,47	150.195.253,83
EUR 800.000.000,00 Expiring date: 24/01/2033 Fixed rate: 7,750%	765.000.000,00	765.000.000,00
EUR 250.000.000,00 Expiring date: 24/01/2033 Fixed rate: 7,750%	250.000.000,00	250.000.000,00
	<u>5.040.677.312,47</u>	<u>5.151.342.253,83</u>

Note 13 – Payables to affiliated companies

The item includes amounts owed to affiliated Group Companies payable within one year:

	December 31, 2010 EUR	December 31, 2009 EUR
ICH – International Comm. Holding NV	248.701.973,80	247.811.993,23
TI Sparkle Luxembourg S.A.	48.206.674,97	0,00
TI Deutschland Holding GmbH	6.583.620,73	0,00
TI International NV	2.094.109.279,95	3.957.703.295,93
TI United Kingdom	7.811.976,66	0,00
ETI TI International	71.608.510,57	208.494,61
Mediterranean Nautilus Israel Ltd	17.226.496,09	0,00
Olivetti Holding BV	2.417.556,36	2.472.828,16
Telecom Italia Finance Ireland Ltd [*]	67.980.000,00	0,00
Others	2.785.271,29	3.980.508,09
	<u>2.567.431.360,42</u>	<u>4.212.177.120,02</u>

[*] The amount includes Promissory Notes for EUR 66.000.000,00.

The amount of EUR 1.292.000.000,00 represents a payable beyond one year for Telecom Italia Ireland Ltd and corresponds to the unpaid portion of the share capital in this company.

Note 14 – Accruals and deferred income

	December 31, 2010 EUR	December 31, 2009 EUR
Accrued Interest on notes	278.584.690,67	284.408.111,06
Accrued interest on payables to banks	7.511.821,48	7.453.146,34
Accrued interest on payables to Group Companies	2.525.478,36	2.762.904,66
Accrued interest on other financial operations	37.315.339,38	36.509.035,50
Prepaid income (issue premiums)	8.843.073,33	11.062.304,43
Commissions to be paid	0,00	61.556,75
	<u>334.780.403,22</u>	<u>342.257.058,74</u>

Note 15 – Value adjustment in respect of financial assets

	2010 EUR	2009 EUR
Value adjustments on securities in non-current assets	7.555.501,48	83.971.139,53
Value adjustments on other securities in non-current assets	3.316.104,95	457.805,42
Value adjustments on other securities in current assets	3.156.006,56	773.781,09
	<u>14.027.612,99</u>	<u>85.202.726,04</u>

Note 16 – Interest and similar expenses

	2010 EUR	2009 EUR
Guarantee fee due to Parent Company	1.222.094,67	1.487.504,99
Interest for derivative contracts entered with Group Companies	50.780.986,11	75.626.610,95
Losses on exchange rates	5.847.734,88	2.715.273,29
Interest due to Group Companies	25.114.882,02	42.194.177,25
Concerning Group Companies	<u>82.965.697,68</u>	<u>122.023.566,48</u>
Interest and charges vs. bank	24.036.481,07	23.865.400,62
Interest and other charges on debentures	366.713.827,04	447.037.369,26
Interest and other charges for derivative contracts vs. third parties	13.631.253,17	6.328.698,42
Losses on exchange rates	91.976.916,95	37.588.494,97
Other interest and charges	<u>496.358.478,23</u>	<u>514.819.963,27</u>

Note 17 – Extraordinary expenses

	2010 EUR	2009 EUR
Losses on disposal of securities	7.734.293,62	4.742.865,70
Losses on disposal of tangible assets	0,00	38,96
	<u>7.734.293,62</u>	<u>4.742.904,66</u>

The losses on disposal of securities arise from the difference between the book value and the sale price of the securities disposed of during the year (see note 8) and from the difference between the acquisition price and the book value of the own securities bought back during the year (see note 12).

Note 18 – Other taxes

	2010	2009
	EUR	EUR
Withholding tax on dividend received	85.535,74	88.070,17
Withholding tax on dividend related to previous years dividends cashed-in	1.280.440,93	0,00
Withholding tax on Interest received	22.335,71	0,00
Net Wealth Tax	4.939.524,50	5.385.975,00
	<u>6.327.836,88</u>	<u>5.474.045,17</u>

Note 19 – Income from other securities

	2010	2009
	EUR	EUR
From group companies – in non-current assets	396.187.500,00	396.170.556,19
From other companies – in current assets	7.647.218,18	9.736.447,07
	<u>403.834.718,18</u>	<u>405.907.013,26</u>

Note 20 – Other interest and similar income

	2010	2009
	EUR	EUR
Interest and commissions on receivables from Group Companies	168.063.004,95	254.609.378,14
Gain on exchange rates	3.577.234,82	661.857,36
Interest for derivatives entered with Group Companies	47.255.548,74	44.345.425,37
Concerning Group Companies	<u>218.895.788,51</u>	<u>299.616.660,87</u>
Interest on banks	5.007.542,31	4.791.224,84
Issue premiums	2.219.231,10	2.219.231,09
Positive adjustment on other receivables	3.114.917,36	1.454.439,47
Gain on exchange rates	93.918.124,95	38.125.719,75
Interest on derivative contracts vs. third parties	6.089.215,71	39.952.341,70
Other Interest and Income	<u>110.349.031,43</u>	<u>86.542.956,85</u>

Note 21 – Warranties

All issued notes, derivative instruments, hedging interest and exchange risks and debts towards other financial institutions (JPY 20.000.000.000 and EUR 250.000.000,00) are guaranteed by the Parent Company.

Note 22 – Off balance sheet commitments

The Company has concluded the below-mentioned contracts:

	2010	2009
	EUR	EUR
Currency swaps	76.090.658,44	83.624.472,09
Interest rate swaps on liabilities	618.154.624,94	550.390.507,66
Interest rate swaps on assets	<u>1.000.000.000,00</u>	<u>1.000.000.000,00</u>
	<u>1.694.245.238,38</u>	<u>1.634.014.979,75</u>

Furthermore, the Company has the commitment to subscribe up to EUR 25.000.000,00 in the investment fund Clessidra Capital Partner. As of December 31, 2010 payments of EUR 22.922.378,04 have been made.

The Company has also the commitment to subscribe up to EUR 2.400.000,00 in the investment fund Golden Mouse. As of December 31, 2010 payments of EUR 2.399.814,83 have been made.

Note 23 – Tax situation

The Company is subject to the fiscal law in force in Luxembourg applicable to all commercial companies.

Note 24 – Consolidation

The accounts of the Company are included in the consolidated accounts of Telecom Italia S.p.A., which are available at its registered office located in Milano, Piazza degli Affari 2. Based on the criteria defined by Luxembourg law, the Company is exempted from establishing consolidated accounts and a consolidated management report for the year ended December 31, 2010.

Note 25 – Directors remuneration

No remuneration has been paid to Directors during the fiscal year 2010.

Note 26 – Litigation

The Company has not been and is not involved in any litigation.

DECLARATION OF THE MANAGER RESPONSIBLE FOR FINANCIAL REPORTING

Pursuant to paragraph 3 of Luxembourg's Transparency Law, the undersigned Adriano Trapletti, Managing Director of the Company, to the best of his knowledge, hereby declares that the above financial statements prepared in accordance with the applicable set of accounting standards give a true and fair view of the assets, liabilities, financial position and profit or loss of the issuer and that the management report includes a fair review of the development and performance of the business and the position of the issuer, together with a description of the principal risks and uncertainties that the issuer faces.

Adriano Trapletti
Managing Director



Audit report

To the Shareholders of
Telecom Italia Finance S.A.

Report on the annual accounts

We have audited the accompanying annual accounts of Telecom Italia Finance S.A., which comprise the balance sheet as at 31 December 2010, the profit and loss account and cash flow statement for the year then ended and a summary of significant accounting policies and other explanatory information.

Board of Directors responsibility for the annual accounts

The Board of Directors is responsible for the preparation and fair presentation of these annual accounts in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts, and for such internal control as the Board of Directors determines is necessary to enable the preparation of annual accounts that are free from material misstatement, whether due to fraud or error.

Responsibility of the "Réviseur d'entreprises agréé"

Our responsibility is to express an opinion on these annual accounts based on our audit. We conducted our audit in accordance with International Standards on Auditing as adopted for Luxembourg by the "Commission de Surveillance du Secteur Financier". Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the annual accounts are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the annual accounts. The procedures selected depend on the judgment of the "Réviseur d'entreprises agréé", including the assessment of the risks of material misstatement of the annual accounts, whether due to fraud or error. In making those risk assessments, the "Réviseur d'entreprises agréé" considers internal control relevant to the entity's preparation and fair presentation of the annual accounts in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Board of Directors, as well as evaluating the overall presentation of the annual accounts.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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Cabinet de révision agréé. Expert-comptable (autorisation gouvernementale n°00123693)
R.C.S. Luxembourg B 65 477 - Capital social EUR 516 950 - TVA LU17564447



Opinion

In our opinion, the annual accounts give a true and fair view of the financial position of Telecom Italia Finance S.A. as of 31 December 2010, and of the results of its operations and its cash flow for the year then ended in accordance with Luxembourg legal and regulatory requirements relating to the preparation of the annual accounts.

Report on other legal and regulatory requirements

The Directors' report, which is the responsibility of the Board of Directors, is consistent with the annual accounts.

PricewaterhouseCoopers S.à r.l.
Represented by

Luxembourg, 17 March 2011

A handwritten signature in black ink, appearing to read 'F. Goffin', written over a horizontal line.

Fabrice Goffin

Decision taken by shareholders during the General Meeting held on April 11, 2011

The shareholders, approved the financials as of December 31, 2010, which comprise the balance sheet, the profit and loss account, the cash flow statement and the explanatory notes and the proposal to allocate the benefit amounting to EUR 127,013,636.45 as follows:

- EUR 6,351,000.00 to the legal reserve;
- EUR 120,662,636.45 as retained earnings.

The shareholders appointed for a three year period (2011/12/13), the following persons as Board members:

Mr. Andrea Balzarini, born on September 19, 1970 in Bollate (Italy), domiciled in Milano, Piazza degli Affari 2, 20123;
Mr. Adriano Trapletti, born on May 25, 1953 in Alzano Lombardo (Italy), domiciled in Luxembourg, 12 rue Eugène Ruppert, 2453;
Ms. Francesca Petralia, born on August 30, 1953 in Bologna (Italy), domiciled in Milano, Piazza degli Affari 2, 20123;
Mr. Jacques Loesch, born on April 9, 1928 in Luxembourg, domiciled in Luxembourg 35, Avenue John F. Kennedy, 1855;
Mr. Riccardo Taranto born on March 11, 1958 in Genova (Italy), domiciled in Milano, Piazza degli Affari 2, 20123;
Mr Antonio Sica, born on May 27, 1964 in Cuneo (Italy), domiciled in Luxembourg, 12 rue Eugène Ruppert, 2453

The aforesaid members will remain in charge till the annual general shareholders meeting which will take place on 2014.

Board of directors Members

1. Mr Andrea Balzarini, Manager, domiciled in Milano (Italy) Chairman
2. Mr. Adriano Trapletti, Manager, domiciled in Luxembourg, Managing director
3. Mr Jacques Loesch, lawyer, domiciled in Luxembourg, Director
4. Ms Francesca Petralia, Manager, domiciled in Milano (Italy), Director
5. Mr Riccardo Taranto, Manager, domiciled in Milano (Italy) Director
6. Mr. Antonio Sica, Manager, domiciled in Luxembourg, Director.