



F I N A N C E

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UNAUDITED INTERIM FINANCIAL ACCOUNTS AS OF JUNE 30, 2010

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REPORT OF THE BOARD ON OPERATIONS AS OF JUNE 30, 2010

The first half of the year 2010 of Telecom Italia Finance (the "Company") ends with a profit of EUR 58.936.271,21 versus a loss of EUR 19.917.914,73. The difference is mainly due to EUR 85 million of depreciation in participation registered in the six month interim account 2009.

During the concerned period, 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 69,46 million (EUR 68,17 million for the corresponding period 2009).

During the first six months Telecom Italia Finance booked dividends on Telecom Italia S.p.A. shares for a net amount of EUR 6.2 million being equal to those booked in the corresponding period 2009.

The fiscal charges amount to EUR 2,8 million (EUR 1,5 million as at June 30, 2009). Such amount includes 1,5 million of net wealth tax and 1,3 million of withholding tax charged on dividend 2008 paid on Telecom Italia S.p.A. shares deposited with Lehman Brothers International (Europe) in Administration ("LBIE").

The net financial position as of June 30, 2010 is positive for EUR 1.403,58 million (EUR 1.340,00 million as at December 31, 2009).

▪ Notes

As of June 30, 2010, the total outstanding nominal amount of notes issued by Telecom Italia Finance amounts to EUR 5.065,8 million (EUR 5.151,34 million as of 31 December, 2009). The notes are unconditionally and irrevocably guaranteed by the parent company Telecom Italia S.p.A.

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 31.115.000,00 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 107.715.000,00. Bond holders having elected not to extend have been paid on June 14.

During the first six months, 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. EUR 88 million of the repurchased notes have been cancelled and due to the cancellation, the principal amount of debt outstanding with regards to these notes is EUR 1.909.317.000.00

▪ Participations

On April 28 in the framework of a Claim Resolution Agreement, 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.

On June 11, Telecom Italia Finance 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.

The participations detail is reported in the Note 4.

- **Share Capital**

The subscribed share capital of TI Finance is EUR 542,090,241.00, consisting of 55,428,450 ordinary shares, nominal value EUR 9.78 per share; all of the shares have been issued and are fully paid-up.

- **Events subsequent to June 30, 2010**

During the second half of the year 2010 it is foreseen to continue the activity of financial assistance to Telecom Italia Group companies and continue to manage the market risks related to the funding and investment activity.

No event after the closing has a material impact on the financials herein reported.

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

Financials as of June 30, 2010 herein reported comprise the balance sheet, the profit and loss account, the cash flow statement and the explanatory notes.

The interim financials have not been audited.

The Board of Directors

TELECOM ITALIA FINANCES.A.
BALANCE SHEET AS AT 30 JUNE 2010

ASSETS - EUR	30/06/2010	31/12/2009	LIABILITIES - EUR	30/06/2010	31/12/2009
A. Not paid in subscribed capital	-	-	A. Share capital	1.532.947.017,73	1.474.010.746,52
B. Incorporation expenses	-	-	I. Subscribed share capital [n. 10]	542.090.241,00	542.090.241,00
C. Non current assets	6.952.535.688,82	8.961.849.972,55	IV. Reserves [n. 11]		
II. Tangible assets [n. 3]			3. Legal reserve	4.812.715,87	1.584.401,26
2. Plant and equipments	34.050,06	27.848,89	4. Other reserves	865.769.812,13	865.769.812,13
3. Other equipment, equipments and furniture	12.237,74	13.753,64	V. Retained earnings	61.337.977,52	-
III. Non current financial assets			VI. Result of the period	58.936.271,21	64.566.292,13
1. Securities with Telecom Italia S.p.A. (Parent company)	3.900.000.000,00	5.546.526.000,00	B. Provisions for liabilities and charges	22.566.188,49	10.852.276,94
2. Receivables from group companies [n. 4]	2.883.590.971,65	3.246.990.832,16	2. Tax provision	5.075.165,00	5.141.165,00
3. Equity investments [n. 5]	44.510,24	44.510,24	3. Other provisions	17.491.023,49	5.711.111,94
5. Securities other than equity investments [n.5]	161.272.646,17	156.861.179,46	C. Liabilities	9.816.451.713,62	9.770.428.856,97
6. Other receivables [n. 6]	7.581.272,96	11.385.848,16	1. Notes		
D. Current Assets	4.309.619.773,64	2.311.300.783,22	b) Non convertible notes [n. 12]		
II. Financial receivables			a) payable within 1 year	1.909.317.000,00	138.830.000,00
1. Trade and services receivables			b) payable beyond 1 year	3.156.555.426,51	5.012.512.253,83
a) receivable within 1 year	-	-	2. Payables to banks (and financial institutions)		
2. Receivables from group companies [n. 7]			a) payable within 1 year	-	28.737,16
a) receivable within 1 year	1.577.460.133,71	1.676.031.526,03	b) payable beyond 1 year	433.840.426,51	400.195.253,83
4) Other receivables			4. Trade and services payables	-	-
a) receivable within 1 year	159.494,18	324.075,20	a) payable within 1 year	203.620,05	159.313,50
b) receivable beyond 1 year	-	-	6. Payables to associated companies [n. 13]		
III. Securities in current assets			a) payable within 1 year	4.309.059.164,14	4.212.177.120,02
1. Parts in group companies	1.646.526.000,00	-	8. Tax payables and social security contributions		
2. Own securities with its nominal value or its accounting value	26.641.104,00	19.460.000,00	a) payable within 1 year	12.006,56	26.510,86
3. Other securities [n. 8]	300.155.504,68	482.011.601,04	9. Other payables		
IV. Cash and cash equivalent	758.677.537,07	133.473.580,95	a) payable within 1 year	2.620.783,17	1.376.899,97
E. Accrued income and prepaid expenses [n. 9]	240.317.171,94	324.398.183,40	b) payable beyond 1 year	4.843.286,68	5.122.767,80
TOTAL ASSETS	11.502.472.634,40	11.597.548.939,17	D. Accrued expenses and prepaid income [n. 14]	130.507.714,56	342.257.058,74
			TOTAL LIABILITIES	11.502.472.634,40	11.597.548.939,17

TELECOM ITALIA FINANCE S.A.
PROFIT AND LOSS AS OF 30 JUNE 2010

A. EXPENSES - EUR	30/06/2010	30/06/2009	B. INCOME - EUR	30/06/2010	30/06/2009
1. Net change in work in progress, semifinished and finished goods	-	-	1. Net income	-	-
2.a) Acquisition of goods and services	-	-	2. Net change in work in progress, semifinished and finished goods	-	-
b) Other expenses	-	-			
3. Personnel expenses	349.192,15	362.073,69	3. Increases in capitalized internal construction costs of intangible assets	-	-
a) Wages and salaries	311.549,34	327.319,47			
b) Social security contributions	37.642,81	34.754,22	4. Other operating income	96.761,56	88.254,71
4.a) Value adjustment in respect of tangible and intangible assets	12.483,22	13.080,18			
b) Value adjustment in respect of current assets	-	-	5. Income from Equity Investments	6.227.218,65	6.243.542,31
5. Other operating expenses	1.389.892,43	638.083,57	a) from group companies	6.227.218,65	6.243.542,31
6. Value adjustment in respect of Financial assets [n. 15]	6.214.733,49	87.333.056,83	6. Income from other securities	204.541.826,54	194.437.558,27
7. Interest and similar expenses [n. 16]	320.489.362,06	359.860.208,20	a) from group companies	200.071.615,18	196.448.648,38
a) concerning group companies	19.069.284,98	61.445.677,91	b) other income	4.470.211,36	2.011.090,11
b) other interests and charges	301.420.077,08	298.414.530,29	7. Other interests and similar income [n. 19]	185.409.991,49	233.589.136,29
10. Exceptional expenses [n. 17]	6.124.860,33	4.549.865,26	a) from group companies	90.953.076,97	153.509.874,82
12. Other taxes non mentioned in the points above [n. 18]	2.798.364,17	1.520.457,67	b) other interests and similar income	94.456.914,52	80.079.261,47
13. Net income for the period	58.936.271,21	-	9. Exceptional income	39.360,82	419,09
			10. Net loss for the period	-	19.917.914,73
TOTAL EXPENSES	396.315.159,06	454.276.825,40	TOTAL INCOMES	396.315.159,06	454.276.825,40

TELECOM ITALIA FINANCE S.A.
CASH FLOW STATEMENT AS AT 30 JUNE 10

	30/06/2010	30/06/2009
Operating Activities		
Profit before tax	58.936.271,21	-19.917.914,73
Non cash items		
Amortization of property, plant and equipment	12.483,22	13.080,18
Amortization and impairment of intangible assets	0,00	0,00
Finance Income	-399.741.196,07	-429.254.030,64
Finance Expenses	332.215.096,25	450.896.980,87
Changes in trade and other receivables	5.173.220,11	-4.856.175,49
Changes in trade and other payables	-862.593,14	-1.204.925,81
Net cash flows from operating activities	-4.266.718,42	-4.322.985,62
Cash flows from Investing activities		
Changes in Property, plant and equipment	-17.168,49	-5.075,25
Changes in Intangible assets	0,00	0,00
Changes in Participations, funds and other securities	78.828.231,28	-102.665.015,36
Investments and re-payments in Financial Receivables	563.906.086,03	891.687.005,68
Interest, commissions and other financial income received	354.887.482,85	596.046.777,70
Dividends received	9.789.378,04	1.211.012,42
Income received from participations and funds	29.000,00	218.323,66
Net cash flows from investing activities	1.007.423.009,71	1.386.493.028,85
Cash flows from Financing activities		
Net change in short-term financial payables	97.729.619,27	21.036.337,12
Proceeds from borrowings	0,00	0,00
Repayments of borrowings	-31.115.000,00	-1.500.000.000,00
Interest, commissions and other financial expenses paid	-426.915.199,79	-506.948.672,43
Dividends paid	0,00	0,00
Net cash flows from financing activities	-360.300.580,52	-1.985.912.335,31
Net Increase / Decrease in Cash and Cash Equivalents	642.855.710,77	-603.742.292,08
Net foreign exchange differences in C&CE	-17.651.754,65	-3.488.726,14
Cash and cash equivalents at 01 January 2010	133.473.580,95	1.098.305.558,26
Cash and cash equivalents at 30 June 2010	758.677.537,07	491.074.540,04

TELECOM ITALIA FINANCE S.A.
CASH FLOW STATEMENT AS AT 30 JUNE 10

	30/06/2010	31/12/2009
Operating Activities		
Profit before tax	58.936.271,21	64.566.292,13
Non cash items		
Amortization of property, plant and equipment	12.483,22	26.756,39
Amortization and impairment of intangible assets	0,00	0,00
Finance Income	-399.741.196,07	-791.714.545,54
Finance Expenses	332.215.096,25	725.297.258,36
Changes in trade and other receivables	5.173.220,11	-6.543.466,60
Changes in trade and other payables	-862.593,14	1.693.008,62
Net cash flows from operating activities	-4.266.718,42	-6.674.696,64
Cash flows from Investing activities		
Changes in Property, plant and equipment	-17.168,49	-16.962,57
Changes in Intangible assets	0,00	0,00
Changes in Participations, funds and other securities	78.828.231,28	-425.945.943,05
Investments and re-payments in Financial Receivables	563.906.086,03	2.660.735.990,93
Interest, commissions and other financial income received	354.887.482,85	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	1.007.423.009,71	3.038.283.440,20
Cash flows from Financing activities		
Net change in short-term financial payables	97.729.619,27	27.721.990,41
Proceeds from borrowings	0,00	0,00
Repayments of borrowings	-31.115.000,00	-3.349.232.000,00
Interest, commissions and other financial expenses paid	-426.915.199,79	-674.682.944,96
Dividends paid	0,00	0,00
Net cash flows from financing activities	-360.300.580,52	-3.996.192.954,55
Net Increase / Decrease in Cash and Cash Equivalents	642.855.710,77	-964.584.210,99
Net foreign exchange differences in C&CE	-17.651.754,65	-247.766,32
Cash and cash equivalents at 01 January 2010	133.473.580,95	1.098.305.558,26
Cash and cash equivalents at 30 June 2010	758.677.537,07	133.473.580,95

Notes to the accounts

As of June 30th, 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.

Euro (EUR) is the book accounting currency.

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 » 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 with the intention of holding to maturity are evaluated to acquisition cost that is never over the pair. The Board of Directors decides which bonds follow the criteria exposed.

Accrued income and prepaid expenses/accrued expenses and prepaid 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 discounts/premiums and the other similar charges. 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 amortization and any impairment adjustments. Amortization 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 can 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 June 30, 2010 and December 31, 2009 the tangible assets can be detailed as follows:

	June 2010 EUR	December 2009 EUR
Acquisitions at the beginning of the year	492.827,71	501.100,52
Acquisitions during the period	17.202,65	17.241,53
Disposal or reduction during the period	(819,95)	(25.514,34)
Acquisitions cost at the end of the period	509.210,41	492.827,71
Value adjustments at the beginning of the year	451.225,18	449.704,17
Value adjustments during the period	12.483,22	26.756,39
Disposal or reduction during the period	(785,79)	(25.235,38)
Value adjustments at the end of the period	462.922,61	451.225,18
	<u>46.287,80</u>	<u>41.602,53</u>

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

	June 2010 EUR	December 2009 EUR
Receivables from Parent Company	2.873.811.817,56	3.246.990.832,16
Receivables from Group Companies	9.779.154,09	0,00
	<u>2.883.590.971,65</u>	<u>3.246.990.832,16</u>

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	Value adjustments at the end of the period	Net book value at the end of the period
			EUR	EUR	EUR	EUR	EUR	EUR	EUR
A) Equity investments									
ITALTEL GROUP SpA	19.37	43,015,840	110,996,916.75	---	110,996,916.75	(110,996,916.75)	---	(110,996,916.75)	---
PIEDMONT INT. S.A. (*)	17.13	180,000 (**)	---	---	---	---	---	---	---
OLIVETTI HOLDING BV	100.00	1,588,277	0.01	---	0.01	---	---	---	0.01
MOVENDA SpA	25.00	33,333	44,510.23	---	44,510.23	---	---	---	44,510.23
Total (A)			111,041,426.99	---	111,041,426.99	(110,996,916.75)	---	(110,996,916.75)	44,510.24
B) Other securities in non-current assets									
TELECOM ITALIA SpA (*)	0.64	124,544,373	473,126,647.40	---	473,126,647.40	(344,390,270.54)	3,606,032.99	(340,784,237.55)	132,342,409.85
DOCUNET INC	0.18	124,528	0.01	---	0.01	---	---	---	0.01
TI MEDIA SpA (*)	2.25	32,624,295	44,794,890.95	5,383,008.35	50,177,899.30	(36,739,809.29)	(1,677,701.03)	(38,417,510.32)	11,760,388.98
INFOMASTER SpA	12.00	19,412	413,304.84	---	413,304.84	---	(139,391.28)	(139,391.28)	273,913.56
LOCATIONET SYSTEM LTD	6.05	947,874	840,183.67	---	840,183.67	---	(189,218.28)	(189,218.28)	650,965.39
CONSOLIDATED IP HOLDINGS INC.	2.93	2,131,366	0.01	---	0.01	---	---	---	0.01
FONDO CLESSIDRA CAPITAL PARTNERS	3.05	---	17,262,366.45	(2,397,470.45)	14,864,896.00	---	---	---	14,864,896.00
THE GOLDEN MOUSE PARTNERSHIP	20.00	---	1,273,743.40	(15,000.00)	1,258,743.40	---	---	---	1,258,743.40
ACCEL INTERNET/STRATEGIC TECHNOLOGY FUND LP	12.49	---	55,267.94	9,615.97	64,883.91	---	---	---	64,883.91
NET LAUNCH VENTURES LP	4.17	---	224,854.62	(168,409.56)	56,445.06	---	---	---	56,445.06
Total (B)			537,991,259.29	2,811,744.31	540,803,003.60	(381,130,079.83)	1,599,722.40	(379,530,357.43)	161,272,646.17

(*) ownership percentage on the whole share capital

(**) 100.000 Subordinated Junior Preferred Stock; 80.000 Senior Cumulative Preferred Stock

Note 6 – Non current financial assets – Other receivables

This item represents a receivable of USD 9.302.980,06 registered vs Lehman Brothers Special Financing Inc in Liquidation (LBSF) with which Ti Finance had entered into a derivative transaction. The amount represents the estimated recovery value of the initial credit equal to 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) and, in accordance with market evaluations, adjusted by USD 2.192.422,05 (i.e. up to 26,17% of the initial credit). The credit in hands is supported by the guarantee from Lehman Brothers Holding Inc in Liquidation.

During 2010, the Company cashed in the credit registered in 2009 related to the dividend pertaining to 99.936.853 Telecom Italia S.p.A. ordinary shares deposited with Lehman Brothers International Europe pursuant to a master custody agreement.

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:

	June 2010	December 2009
	EUR	EUR
Bbned NV	22.000.000,00	22.000.000,00
Hansenet Telekommunikation GmbH	0,00	349.012.456,25
Latin American Nautilus Ltd	47.265.911,50	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.	0,00	205.000.000,00
Telecom Italia Netherlands BV	4.000.000,00	4.400.000,00
Telecom Italia S.p.A.	1.461.061.489,85	1.000.061.853,00
Telecom Italia Spain SL	4.250.020,66	4.250.020,66
TI Sparkle s.a.	8.942.893,08	8.971.761,87
TI Sparkle France s.a.	4.000.000,00	4.000.000,00
Others	2.586.283,24	2.345.466,29
	<u>1.577.460.133,71</u>	<u>1.676.031.526,03</u>

Note 8 – Other Securities

	June 2010	December 2009
	EUR	EUR
Notes	165.414.406,11	112.350.069,06
Euro Commercial Papers	134.741.098,57	19.965.061,15
SICAV	0,00	349.696.470,83
	<u>300.155.504,68</u>	<u>482.011.601,04</u>

Note 9 – Accrued income and prepaid expenses

	June 2010	December 2009
	EUR	EUR
Accrued interest on related companies securities	104.026.939,18	210.641.623,85
Accrued interest on other securities	779.215,39	480.734,51
Accrued interest on loans to the Parent Company	114.420.820,45	77.673.520,57
Accrued interest on loans to related companies	270.013,88	3.276.717,99
Accrued interest on bank deposits	267.033,56	46.325,90
Accrued interest on other financial operations	1.911.027,81	11.092.563,62
Prepaid charges and costs on notes (issue discounts and other similar charges)	18.538.109,75	20.955.386,51
Other prepaid	104.011,92	231.310,45
	<u>240.317.171,94</u>	<u>324.398.183,40</u>

Note 10 – Subscribed share capital

As of June 30, 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 June 30, 2010 and December 31, 2009 the shareholders of the Company are:

	June 2010	December 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:

	June 2010 EUR	December 2009 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.

Note 12 – Non convertible notes

	June 2010 EUR	December 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%	1.909.317.000,00	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%	183.840.426,51	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>5.065.872.426,51</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:

	June 2010	December 2009
	EUR	EUR
ICH – International Comm. Holding NV	248.265.706,07	247.811.993,23
Mediterranean Nautilus Ltd	5.297.041,81	0,00
TI Deutschland Holding GmbH	10.074.208,66	0,00
Ti International NV	4.040.019.335,57	3.957.703.295,93
Others	5.402.872,03	6.661.830,86
	<u>4.309.059.164,14</u>	<u>4.212.177.120,02</u>

Note 14 – Accrued expenses and prepaid income

	June 2010	December 2009
	EUR	EUR
Accrued interest on notes	102.050.333,87	284.408.111,06
Accrued interest on payables to banks	15.372.382,60	7.453.146,34
Accrued interest on payables to Group Companies	2.484.864,69	2.762.904,66
Accrued interest on other financial operations	512.277,27	36.509.035,50
Prepaid income (issue premiums)	9.961.809,01	11.062.304,43
Other prepaid	64.490,37	0,00
Commissions to be paid	61.556,75	61.556,75
	<u>130.507.714,56</u>	<u>342.257.058,74</u>

Note 15 – Value adjustment in respect of financial assets

	June 2010	June 2009
	EUR	EUR
Value adjustments on securities in non-current assets	2.006.310,59	85.449.769,65
Value adjustments on other securities	4.208.422,90	1.883.287,18
	<u>6.214.733,49</u>	<u>87.333.056,83</u>

Note 16 – Interest and similar expenses

	June 2010 EUR	June 2009 EUR
Guarantee fee due to Parent Company	610.556,50	843.666,62
Interest for derivative contracts entered with Group Companies	6.246.473,36	30.577.369,03
Losses on exchange rates	1.789.950,70	3.187.917,79
Interest due to Group Companies Concerning Group Companies	<u>10.422.304,42</u> <u>19.069.284,98</u>	<u>26.836.724,47</u> <u>61.445.677,91</u>
Interest and charges vs bank	12.155.428,38	12.160.826,35
Interest and other charges on debentures	183.684.542,25	249.438.039,38
Interest for derivative contracts vs third parties	19.217.077,01	2.285.342,97
Losses on exchange rates	<u>86.363.029,44</u>	<u>34.530.321,59</u>
Other interest and charges	<u>301.420.077,08</u>	<u>298.414.530,29</u>

Note 17 – Exceptional expenses

	June 2010 EUR	June 2009 EUR
Losses on disposal of securities	6.124.860,33	4.549.826,30
Losses on disposal of tangible assets	0,00	38,96
	<u>6.124.860,33</u>	<u>4.549.865,26</u>

Note 18 – Other taxes

	June 2010 EUR	June 2009 EUR
Withholding tax on dividend received	1.365.976,67	88.070,17
Net Wealth Tax	<u>1.432.387,50</u>	<u>1.432.387,50</u>
	<u>2.798.364,17</u>	<u>1.520.457,67</u>

Note 19 – Other interest and similar income

	June 2010 EUR	June 2009 EUR
Interest on receivables from Group Companies	85.336.943,08	152.347.797,40
Gain on exchange rates	333.511,21	193.136,42
Interest for derivative entered with Group Companies	5.282.622,68	968.941,00
Concerning Group Companies	<u>90.953.076,97</u>	<u>153.509.874,82</u>
Interest on banks	2.507.551,96	5.100.668,35
Gain on exchange rates	87.667.757,28	36.823.656,57
Interest on derivatives contracts vs third parties	4.281.605,28	38.154.936,55
Other interest and income	<u>94.456.914,52</u>	<u>80.079.261,47</u>

Note 20 – 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 21 – Commitments off balance sheet

The Company has concluded the below-mentioned contracts:

	June 2010 EUR	December 2009 EUR
Currency swaps	94.038.515,50	83.624.472,09
Interest rate swaps – hedging	617.680.853,02	550.390.507,66
Interest rate swaps – non hedging	1.000.000.000,00	1.000.000.000,00
	<u>1.711.719.368,52</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 June 30, 2010 payments of EUR 22.729.878,04 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 June 30, 2010 payments of EUR 2.349.814,83 have been made.

Note 22 – Tax situation

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

Note 23 – 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.

Note 24 – Directors remuneration

The Directors have not been remunerated in their capacity as Director during year 2010.

Note 25 – Litigation

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

DECLARATION OF THE MANAGER RESPONSIBLE FOR FINANCIAL REPORTING

Pursuant to paragraph 4 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 interim 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 an indication of important events that have occurred during the first six months of the financial year, and their impact on the financial statements, together with a description of the principal risks and uncertainties for the remaining six months of the financial year.

Telecom Italia Finance
Société Anonyme

Adriano TRAPLETTI
Managing Director

