

TELECOM ITALIA S P A
Form 20-F
May 08, 2008
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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 20-F

.. REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934
OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended: December 31, 2007

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from N/A to N/A

OR

.. SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report

Commission file number 1-13882

Telecom Italia S.p.A.

(Exact name of Registrant as specified in its charter)

Italy

(Jurisdiction of incorporation or organization)

Piazza degli Affari 2, 20123 Milan, Italy

(Address of principal executive offices)

Enrico PARAZZINI

Chief Financial Officer

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
American Depositary Shares, each representing 10 Ordinary Shares of 0.55 par value each (the Ordinary Share ADSs)	The New York Stock Exchange
Ordinary Shares of 0.55 par value each (the Ordinary Shares)	The New York Stock Exchange*
American Depositary Shares, each representing 10 Savings Shares of 0.55 par value each (the Savings Share ADSs)	The New York Stock Exchange
Savings Shares of 0.55 par value each (the Savings Shares)	The New York Stock Exchange*

Securities registered or to be registered pursuant to Section 12(g) of the Act:

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

Ordinary Shares 13,254,959,926

Savings Shares 6,026,120,661

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statement included in this filing:

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

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If Other has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

* Not for trading, but only in connection with the registration of American Depositary Shares representing such Ordinary Shares or Savings Shares, as the case may be, pursuant to the requirements of the Securities and Exchange Commission.

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Introduction

INTRODUCTION

Telecom Italia S.p.A. is incorporated as a joint stock company under the laws of Italy. As used in this Annual Report, 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.

Unless otherwise indicated, the financial information contained in this Annual Report has been prepared in accordance with International Financial Reporting Standards issued by the IASB International Accounting Standard Board (**IFRS**). IFRS also include all effective International Accounting Standards (**IAS**) and all Interpretations issued by the International Financial Reporting Interpretations Committee (**IFRIC**), comprising those previously issued by the Standing Interpretations Committee (**SIC**). Unless otherwise indicated, any reference in this Annual Report to Consolidated Financial Statements is to the Consolidated Financial Statements of the Telecom Italia Group (including the notes thereto) included elsewhere herein.

Telecom Italia adopted IFRS for the first time in its annual Consolidated Financial Statements for the year ended December 31, 2005, which included comparative financial statements for the year ended December 31, 2004. See Item 3. Key Information 3.3 Selected Financial and Statistical Information .

Cautionary Statement for Purposes of the Safe Harbor Provisions of the United States Private Securities Litigation Reform Act of 1995. The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. This Annual Report contains certain forward-looking statements. Forward-looking statements are statements that are not historical facts and can be identified by the use of forward-looking terminology such as believes, may, is expected to, will, will continue, seeks or anticipates or similar expressions or the negative thereof or other comparable terminology, or by the forward-looking nature of discussions of strategy, plans or intentions.

The forward-looking statements in this Annual Report include, but are not limited to, the discussion of the changing dynamics of the telecommunications marketplace, including the continuing developments in competition in all aspects of our businesses from new competitors and from new and enhanced technologies, our outlook for growth in the telecommunications industry both within and outside of Italy, including our outlook regarding developments in the telecommunications industry, and certain trends we have identified particularly in our core Italian market, including regulatory measures regarding pricing and access for other local operators. Such statements include, but are not limited to, statements under the following headings: (i) Item 3. Key Information 3.1 Risk Factors , (ii) Item 4. Information on the Telecom Italia Group 4.1 Business 4.1.7 Updated Strategy , (iii) Item 4. Information on the Telecom Italia Group 4.3 Regulation , (iv) Item 5. Operating and Financial Review and Prospects , (v) Item 8. Financial Information 8.2 Legal Proceedings and (vi) Item 11. Quantitative and Qualitative Disclosures About Market Risks , including statements regarding the likely effect of matters discussed therein.

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 our control, that could significantly affect expected results.

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

- 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;
- our ability to restructure our organizational model from one based on technology (fixed and mobile) to one based on customer segments (consumers, SOHOs, SMEs, Corporates) in order to focus on customers and their needs in utilizing our products and services;
- our ability to utilize our relationship with Telefónica to attain synergies primarily in areas such as network, IT, purchasing, sales activities in Germany and international mobile roaming;

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- our ability to introduce new services to stimulate increased usage of our fixed and wireless networks to offset declines in the traditional fixed-line voice business due to the continuing impact of regulatory required price reductions, market share loss, pricing pressures generally and shifts in usage patterns;
- our ability to successfully implement our internet and broadband strategy both in Italy and abroad;
- our ability to successfully achieve our debt reduction targets;
- 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 and economic developments in Italy and other countries in which we operate;
- the impact of fluctuations in currency exchange and interest rates;
- our ability to successfully implement our strategy over the 2008-2010 period;
- our ability to build up our business in adjacent markets (pay-TV and IT services) and in international markets (particularly Brazil in mobile telecommunications and Europe Germany in BroadBand), 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 in Brazil on mobile and in Europe on BroadBand;
- the amount and timing of any future impairment charges for our licenses, goodwill or other assets; and
- the outcome of litigation, disputes and investigations in which we are involved or may become involved.

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

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Key Definitions

KEY DEFINITIONS

The following terms appearing in this Annual Report have the meanings set forth below.

EU	means the European Union.
IASB	means the International Accounting Standards Board.
IFRS	means International Financial Reporting Standards issued by the IASB. IFRS also include all effective International Accounting Standards (IAS) and all Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), comprising those previously issued by the Standing Interpretations Committee (SIC).
Merger	means the merger of Old Telecom Italia into Olivetti, which became effective on August 4, 2003.
Old Telecom Italia and Old Telecom Italia Group	means Telecom Italia as well as Telecom Italia and its consolidated subsidiaries, respectively, as they existed immediately prior to the effective date of the Merger.
Olivetti	unless otherwise indicated, means Olivetti S.p.A., the holding company and controlling shareholder of Old Telecom Italia.
Olivetti Group	means Olivetti and its consolidated subsidiaries, including Old Telecom Italia.
Ordinary Shares	means the Ordinary Shares, 0.55 par value each, of Telecom Italia.
Parent	means Telecom Italia S.p.A..
Savings Shares	means the Savings Shares, 0.55 par value each, of Telecom Italia.
Telecom Italia	means the entity which resulted from the Merger.

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.

TIM

means Telecom Italia Mobile S.p.A., the Telecom Italia Group's subsidiary which operated in the mobile telecommunications business, and merged with and into Telecom Italia, with Telecom Italia as the surviving company, effective as from June 30, 2005.

Tim Italia

means the company deriving from the spin-off of TIM's domestic mobile operations, effective as from March 1, 2005. After the merger of TIM with and into Telecom Italia, Tim Italia became a wholly-owned subsidiary of Telecom Italia. Subsequently Tim Italia merged with and into Telecom Italia, with Telecom Italia as the surviving company, effective as from March 1, 2006.

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Item 1. Identity of Directors, Senior Management and Advisers /

Risk Factors

Item 2. Offer Statistics and Expected Timetable

Item 3. Key Information

PART I

Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not Applicable

Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not Applicable

Item 3. KEY INFORMATION

3.1 RISK FACTORS

RISKS RELATED TO TELECOM ITALIA

Our business will be adversely affected if we are unable to successfully transform the Group by implementation of our revised strategic objectives. Factors beyond our control may prevent us from successfully implementing our strategy.

On March 7, 2008, we set out our strategic priorities for the 2008-2010 period.

Our strategy is aimed at implementing a deep transformation of the Telecom Italia Group in order to put it back on a growth and development track. To achieve this goal, the Group will leverage its strengths (a leading competitive position in our domestic market, sustained by strong internal know how in technology, marketing and customer service, and a relevant international presence) while at the same time addressing its weaknesses (the level of service quality to be improved, a high level of litigation and substantial debt). The new guidelines aim to create the conditions for Telecom Italia to become a leader on the domestic and international market through plans that will provide for:

- a new business operations model on the domestic market based on:
 - service quality and improved relations with competitors and regulatory authorities;
 - convergence, a tool for managing market positioning vis-à-vis the various types of customer and the dynamics of fixed to mobile market migration;
 - development of innovative/adjacent businesses, particularly ICT and Digital Media & Advertising; and
 - the customer, by transforming the organizational model from one based on technology (fixed-mobile) to one based on customer needs;

- the search for new efficiencies and synergies in domestic and international activities through:
 - integration and rationalization of sales channels, along the lines of the new organizational focus on customer segments;
 - rationalization of information systems development and integration of operating processes and network systems (OSS) and business systems (BSS);
 - organizational integration of network operating activities and field services;
 - rationalization of staff structures; and
 - pursuit of synergies with the Telefónica group;

- a strategy to recover international scope by consolidating the Group's presence in countries that have good growth prospects, divesting where our market share is marginal or significant growth prospects cannot be achieved and assessing new business opportunities in markets with strong development potential through financial alliances and partnerships;

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Item 3. Key Information

Risk Factors

- a financial plan aimed at reducing the debt to profit ratio by:

the monetization of non-core assets;

a dividend policy sustainable in the long-term; and

a careful management of resources earmarked for investments with priority given to organic development and a prudent selection of opportunities to expand in key international markets.

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

- growing market competition with a consequent decline in the prices of services;
- our ability to manage costs;
- our ability to attract and retain highly qualified employees;
- entry of new competitors in the Italian telecommunications market which could cause Telecom Italia to lose further market share;
- our ability to strengthen our competitive position through our focus on adjacent markets (pay-TV and IT services) and in international markets (particularly Brazil for mobile telecommunications and Europe for broadband), based on our specialized skills and technical resources;
- our ability to develop and introduce new technologies attractive to the market, to manage innovation, to supply value-added services and to increase the use of our fixed and mobile networks;
- the effect of adverse economic trends in the major markets in which the Group operates;
- the success of disruptive new technologies which could cause significant reductions in revenues from fixed and mobile telephony;
- the effect of exchange rate fluctuations on the operating revenues and margins and financial management of Telecom Italia.

There can be no assurance that the objectives identified by management could effectively be attained in the manner and within the time frames described.

The Group remains highly leveraged and the inability to reduce our debt could have a material adverse effect on our business.

Net financial debt of the Telecom Italia Group at December 31, 2007 amounted to 35,701 million (37,301 million at December 31, 2006) against total equity (attributable to equity holders of Parent and the minority interest) of 26,985 million (27,098 million at December 31, 2006). See Item 5. Operating Financial Review and Prospects 5.4 Results of Operations for the Three Years Ended December 31, 2007 5.4.2 Non-GAAP Financial Measures , which reconciles our net financial debt to the gross financial debt.

Our new strategy focuses on our most important assets (domestic market, Brazil, Germany and Argentina) and is based on competences and disciplined financial management to resume a path to growth.

Telecom Italia, therefore, intends to sustain its capital expenditures in the 2008-2010 three-year plan while maintaining appropriate dividend levels and gradually reducing its Net Financial Debt to EBITDA ratio (with EBITDA calculated for these purposes as Operating profit before depreciation and amortization, capital gains (losses) realized and impairment reversals (losses) on non-current assets).

Factors which are beyond our control such as a deterioration in the performance by the fixed and/or mobile telephone sectors, unfavorable fluctuations in the interest rates and/or exchange rates, continuing disruptions in the capital markets, particularly debt capital markets, and, in a broader sense, deterioration in general economic conditions, could have a significant effect on our ability to reduce our debt, or on the ability of the Group to refinance existing debt through further access to the financial markets.

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Item 3. Key Information

Risk Factors

Due to the competitive environment and the economic conditions in which the Telecom Italia Group operates, there could be a deterioration in our results of operations and balance sheet ratios. To this end, rating agencies base their ratings on the Group's ability to repay its debt using these same ratios.

The most recent ratings of Telecom Italia S.p.A. are:

- Moody's: Baa2 with a Negative outlook: rating confirmed on February 20, 2008;
- Standard and Poor's: BBB with a Stable outlook: one notch downgrade which occurred on March 17, 2008;
- Fitch Ratings: BBB+ with a Stable outlook: rating confirmed on March 10, 2008.

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 payouts, or on its relative cost to us, downgrades could lead to a greater risk with respect to refinancing existing debt or higher refinancing costs.

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

Our strategic objectives include expansion and further investments in our international activities and we may not achieve the expected return on our significant investments and capital expenditures in our international markets.

Telecom Italia intends to rebuild its international presence by consolidating its international activities in countries or regions that have good growth prospects, divesting where its market share is marginal or it is believed that there are not significant growth prospects and assessing new business opportunities in markets with a high development potential through financial alliances and partnerships which could increase the technological and business competences of the Group.

Our strategic plans provide for:

- improving our position in Germany through organic growth as well as taking advantage of any opportunities originating from the consolidation process currently underway in that market;

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- growth in Brazil by strengthening mobile operations and the development of convergent offerings;
- a build up of International Wholesale by proposing Telecom Italia as a hub for the Mediterranean regions, the Middle East and Southeast Asia and developing innovative solutions for multinational companies; and
- increasing our ownership interest in Sofora, the indirect controlling shareholder of Telecom Argentina.

Telecom Italia could fail to obtain an adequate return on foreign investments, owing, among other things, to growing competition and changes in technologies in the countries where the Group has an international business presence.

System failures could result in reduced user traffic and reduced revenues and could harm Telecom Italia's reputation.

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

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Item 3. Key Information

Risk Factors

Our business depends on the upgrading of our existing networks.

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

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

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

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

We are subject to numerous risks relating to legal and regulatory proceedings, in which we are currently a party or which could develop in the future. Litigation and regulatory proceedings are inherently unpredictable. Legal or regulatory proceedings in which we are or come to be involved (or settlements thereof) may have a material adverse effect on our results of operations or financial condition.

Furthermore, our involvement in litigation and regulatory proceedings may adversely affect our reputation.

The Italian Collective Action for Damages for the Protection of Consumers was recently introduced and will enter into force at the end of June 2008. The new law will allow collective action lawsuits and is similar in many respects to common law class actions. Contracts between public utilities and consumers and the business practices of companies that provide public services (such as Telecom Italia) are covered by the Collective Action law. Therefore there will be a risk of claims against Telecom Italia by consumers' associations on behalf of broad classes of consumers.

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For information concerning the most important legal and regulatory proceedings pending in which the Telecom Italia Group is involved, please refer to the Note Contingent assets and liabilities, commitments and other guarantees of the Notes to Consolidated Financial Statements included elsewhere herein in this Annual Report.

For information concerning our regulatory framework, see Item 4. Information on the Telecom Italia Group 4.3. Regulation .

Fluctuations in currency exchange rates and interest rates could have an adverse effect on our results of operations

In the past, the Telecom Italia Group has made substantial international investments, principally in U.S. dollars, and has significantly expanded its operations outside the euro zone, particularly in Latin America.

The Group generally hedges its foreign exchange exposure, but not the translation risk relating to its foreign subsidiaries. Therefore, fluctuations in the euro exchange rates against other currencies (and particularly against the Brazilian real) could have an adverse effect on our consolidated results. A rise in value of the euro against other currencies in certain countries in which the Group operates or has made investments could reduce the relative value of revenues or assets of the Group in those countries and, therefore, could have an adverse effect on the operating results or the financial position of the Group.

In addition, the Group has raised, and could raise in future, financing denominated in currencies other than the euro, principally in U.S. dollars and British pounds. The Group systematically hedges currency exchange risk exposure relating to non-euro denominated liabilities using cross currency and interest rate swaps.

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Item 3. Key Information

Risk Factors

Furthermore, the Telecom Italia Group has entered into derivative transactions to hedge interest rate exposure and to diversify debt parameters in order to reduce debt cost and volatility to within predefined limits.

Risks associated with Telecom Italia s ownership chain

Telco S.p.A. (**Telco**) a company in which interests are held by the Generali group (28.1%), Intesa San Paolo S.p.A. (10.6%), Mediobanca S.p.A. (10.6%), Sintonia S.A. (8.4%) and Telefónica S.A. (42.3%) is Telecom Italia s largest shareholder with an interest of approximately 24.5% of the voting rights.

From 2001, the main shareholder of Telecom Italia was Olimpia S.p.A. (80% of its capital was held by Pirelli & C. S.p.A. and the remaining percentage by Sintonia S.p.A., and Sintonia S.A.) which held approximately 18% of the ordinary share capital of the Company. On April 28, 2007, Pirelli & C. S.p.A., Sintonia S.p.A. and Sintonia S.A. announced that they had reached an agreement with leading financial institutional investors and industry operators to sell their 100% interest in Olimpia S.p.A..

The acquisition by Telco was finalized on October 25, 2007 and, on the same date, Mediobanca S.p.A. and companies in the Generali group contributed 5.6% of Telecom Italia Ordinary Shares to Telco, such that Telco had a total investment of 23.59% in Telecom Italia Ordinary Share capital.

On March 20, 2008, Telco acquired another 121.5 million Ordinary Shares bringing its investment in Telecom Italia to 24.5%.

Although Telco does not own a controlling interest in Telecom Italia voting shares, Telco may exert a significant influence on all matters to be decided by a vote of shareholders. In addition, as a result of its proposal and election of twelve of the recently elected 15 Telecom Italia Board members, Telco may be able to influence certain corporate actions. In principle, the interests of Telco in deciding shareholder matters could be different from the interests of Telecom Italia s other Ordinary Shareholders, and it is possible that certain decisions could be taken that may be influenced by the needs of Telco. In addition, Telefónica is the largest shareholder of Telco. Presently Telefónica and Telecom Italia are direct competitors in certain countries outside of their respective domestic markets; nevertheless, the agreement among the above mentioned parties provides that the Telecom Italia and Telefónica groups will be managed autonomously and independently. For further information on this topic, please see Item 10. Additional Information 10.1 Corporate Governance 10.1.2 General Impact of Shareholders Agreements on the Nomination of Telecom Italia Group s Companies Boards .

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

The financial position of Telecom Italia is independent of that of Telco and Telecom Italia has no obligation to repay the debt held by Telco since they are two distinct legal entities, even though certain rating agencies consider the Telco level of debt a hurdle to a

quick reduction of Telecom Italia's debt due to the fact that Telco is likely to absorb a significant portion of free cash through dividends to repay Telco's debt.

For additional information on the ownership structures and shareholders' agreements, please refer to Item 7.1. Major Shareholders.

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

Although no shareholder is in a position to prevent a takeover of Telecom Italia, the Italian State, through the Treasury, is in a position to exert certain powers with respect to Telecom Italia through the exercise of the special powers included in Telecom Italia's Bylaws pursuant to compulsory legal provisions. The exercise of such powers could make a merger with or takeover of Telecom Italia more difficult or discourage certain bidders from making an offer. Please see Item 7. Major Shareholders and Related-Party Transactions-7.1 Major Shareholders-7.1.3 Continuing Relationship with the Italian Treasury for more information.

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Risk Factors

RISKS RELATED TO THE TELECOMMUNICATIONS INDUSTRY AND FINANCIAL MARKETS

The value of our operations and investments may be adversely affected by political and economic developments in Italy or other countries.

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

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

Our fixed and mobile telecommunications operations, as well as our broadband services and television broadcasting businesses, are subject to extensive regulatory requirements in Italy and our international operations and investments are subject to regulation in their host countries.

As a member of the EU, Italy has adapted its telecommunications regulatory framework to the legislative and regulatory framework established by the EU for the regulation of the European telecommunications market. The EU Commission approved a new electronic communications framework in March 2002, which has been effective in Italy since September 2003. See Item 4. Information on the Telecom Italia Group-4.3. Regulation .

Included within this new framework is the obligation on the part of the Italian regulator responsible for the regulation of the telecommunications, radio and television broadcasting sector (the Italian Communications Authority or **AGCom**) to identify operators with significant market power based on a market analysis in the relevant retail and wholesale markets that are deemed to be susceptible to ex-ante regulation. The framework established criteria and procedures for identifying remedies applicable to operators with significant market power . During 2006 and 2007, AGCom concluded the first round of the analysis of the markets and introduced regulatory measures as a result of this analysis. The ongoing second round of market analysis may modify the current regulatory measures. For further details please see Item 4. Information on the Telecom Italia Group-4.3. Regulation .

In Italy, we are subject to universal service obligations, which require us to provide fixed-line public voice telecommunications services in non-profitable areas. We are the only operator in Italy which has this obligation. In addition, the AGCom has identified us as an operator having significant market power in most relevant markets. As a result, we are, and, if we continue to be identified as having significant market power in most relevant markets, will be, subject to a number of regulatory constraints, including:

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- a requirement to conduct our business in a transparent and non-discriminatory fashion;
- a requirement to have our prices for fixed voice telephony services and the tariffs charged to other operators to utilize our network, subject, respectively, to a price cap and a network cap mechanism. This cap mechanism places certain limits on our ability to change our prices for certain services; and
- a requirement to provide interconnection services, leased lines and access to the local loop to other operators at cost-orientated prices. These services include allowing other operators to connect to our network and transport traffic through the network as well as offering certain services related to our local access network, or local loop, on an unbundled basis to these other operators to enable these operators to directly access customers connected to the network by leasing the necessary components from us.

These constraints have had an adverse impact on our fixed line network pricing and service offerings and future regulatory decisions are expected to continue to have an adverse impact on our market shares and margins.

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Risk Factors

In addition, AGCom intends to address other markets that are currently not subject to regulation (for example virtual private networks and VoIP). VoIP is an emerging market for nomadic voice telephony services that are based on the Internet and are not dependent on specific customer telephone lines. Nevertheless, AGCom has included VoIP in the same market as conventional voice telephony services. Therefore these markets may be treated in the same way as the market for conventional telephone services for the purpose of regulation and may also be subject to price regulation.

We are unable to predict the impact of any proposed or potential changes in the regulatory environment in which we operate both in Italy and internationally. Changes in laws, regulation or government policy could adversely affect our business and competitiveness. In particular, our ability to compete effectively in our existing or new markets could be adversely affected if regulators decide to expand the restrictions and obligations to which we are subject or extend them to new services and markets. Finally, decisions by regulators regarding the granting, amendment or renewal of licences, to us or to third parties, could adversely affect our future operations in Italy and in other countries where we operate.

Changes in the rules relating to radio and television broadcasting could adversely affect the development of our activities in this field.

Please see Item 4. Information on the Telecom Italia Group-4.3. Regulation in this report for more information on the regulatory requirements to which we are subject.

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

Strong competition exists in all of the principal telecommunications business areas in Italy in which we operate, including, most significantly, the fixed-line and mobile voice telecommunications businesses. The use of the single European currency and the liberalizations of the Italian telecommunication market (since January 1998) have intensified competition by facilitating international operators' entry into the Italian market and direct competition with our fixed-line and mobile telephony businesses, particularly in the local and long-distance markets.

Competition continued to intensify during 2007. As of December 31, 2007, there were a number of significant competitors offering fixed-line services and three other operators (in addition to Telecom Italia) offering mobile services in the Italian domestic market. Some virtual mobile operators entered the Italian mobile market in 2007 as a result of commercial agreements reached with operators of mobile networks, some of which originated from fixed line operators, which is further evidence of the trend towards convergence. This competition may further increase due to the consolidation and globalizations of the telecommunications industry in Europe, including Italy, and elsewhere.

We anticipate that in the short to medium-term there may be a stronger entry of peer-level international competitors into markets with existing operators, including Italy, increasing the direct competition we face in our Italian domestic fixed-line and mobile telephony businesses and in the local and long-distance markets.

Competition in our principal lines of business could lead to:

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

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Item 3. Key Information

Risk Factors

Although we have taken a number of steps to realize additional efficiencies and introduce innovative and value added services over our networks, and although our plans take into account that we face significant competition from a number of operators in all the markets in which we operate, if any or all of the events described in the preceding paragraph should occur, the impact of such factors could materially adversely affect our results of operations.

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

In order to sustain growth in revenues despite increased competition and lower prices, particularly in our core Italian domestic market, our strategy has been to introduce new services in our fixed-line and wireless businesses to increase traffic on our networks and find alternative revenue sources, in addition to carrying voice traffic on our networks. In the past three years the Group's strategy to increase revenues has been to focus on penetration of the broadband retail market with various broadband offers as well as to increase value added services (VAS) in the mobile businesses. In addition, our strategy is to increasingly focus on service quality, customer care and further development of innovative and convergent services. The broadband and mobile VAS markets have been growing the past three years in line with increased use of the Internet and the enhanced services offered by mobile operators. However, if these markets do not continue to expand, our revenues may not grow, or even decrease, as revenues from other parts of our business, particularly our traditional fixed-line business, decline due to competition or other price pressures.

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

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

Many of the services we offer are technology-intensive and the development or acceptance of new technologies may render such services non-competitive, replace such services or reduce prices for such services. In addition, as convergence of services accelerate, we make and will have to make substantial additional investments in new technologies to remain competitive. The new technologies we choose may not prove to be commercially successful. In addition, we may not receive the necessary licenses to provide services based on new technologies in Italy or abroad. Furthermore, our most significant competitors in the future may be new entrants to our markets who do not have to maintain an installed base of older equipment.

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

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

In recent years, our consolidated revenues have grown modestly in large part because of the rapid growth in the mobile communications business which has offset substantially flat revenues in our Italian fixed-line business. However, as a result of this growth, the mobile communications markets are approaching maturity levels in the voice services segment while the data and value-added services segments are growing.

We acquired a third generation mobile telephone, or UMTS, license to provide UMTS services in Italy for 2,417 million and have made significant investments, in accordance with the terms and conditions of our licenses, to create the infrastructure to offer UMTS services. We commenced offering UMTS services in Italy in the second half of 2004 and have made in the past, and will have to continue to make in the future, significant investments in promotional activities relating to our UMTS services. Given the substantial costs of upgrading our existing networks to support UMTS, the ongoing costs to market and support these new services, and the significant competition among operators who offer these new services, including one operator only offering 3G services, we may not be able to recoup our investments, as planned if at all.

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Risk Factors

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

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

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

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

We may be adversely affected if we fail to successfully implement our Internet and broadband strategy in Italy and internationally.

The introduction of Internet and broadband services is an important element of our growth strategy and means to increase the use of our networks in Italy and expand our operations outside of Italy, particularly in Europe. The broadband market has continued to grow in 2007 at the same rate as 2006 but competitive pressure has also grown. Our strategy is to replace the mature, traditional voice services with value added content and services to consumers and small and medium-sized companies. Our ability to successfully implement this strategy may be affected if:

- Internet usage in Italy grows more slowly than anticipated, for reasons such as changes in Internet users' preferences;

- broadband penetration in Italy and other European countries does not grow as we expect;
- competition increases, for reasons such as the entry of new competitors, consolidation in the industry or technological developments introducing new platforms for Internet access and/or Internet distribution or other operators can provide broadband connections superior to those that we can offer; and
- we experience any network interruptions or related problems with network infrastructure.

Outside of Italy our ability to implement this strategy will depend on whether we are able to acquire assets or networks or utilize networks of incumbent operators that will allow us to offer such services. Any of the above factors may adversely affect the successful implementation of our strategy, our business and results of operations.

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

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

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

Table of Contents**Item 3. Key Information****Exchange Rates****3.2 EXCHANGE RATES**

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

For convenience only (except where noted otherwise), certain euro figures have been translated into dollars at the rate (the Euro/Dollar Exchange Rate) of 1.00= U.S.\$ 1.4603, using the noon buying rate in The City of New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the Noon Buying Rate) on December 31, 2007.

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

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

The following table sets forth for the years 2003 to 2007 and for the beginning of 2008 certain information regarding the Noon Buying Rate for Dollars expressed in U.S.\$ per 1.00.

Calendar Period	High	Low	Average(1)	At Period end
2003	1.2597	1.0361	1.1411	1.2597
2004	1.3625	1.1801	1.2438	1.3538
2005	1.3476	1.1667	1.2448	1.1842
2006	1.3327	1.1860	1.2563	1.3197
2007	1.4862	1.2904	1.3705	1.4603
2008 (through May 5, 2008)	1.6010	1.4495	1.5211	1.5491
Monthly Rates				
December 2007	1.4759	1.4344	1.4559	1.4603
January 2008	1.4877	1.4574	1.4728	1.4841
February 2008	1.5187	1.4495	1.4759	1.5187
March 2008	1.5805	1.5195	1.5520	1.5805
April 2008	1.6010	1.5568	1.5754	1.5568
May 2008 (through May 5, 2008)	1.5491	1.5431	1.5460	1.5491

(1) Average of the rates for each month in the relevant period except for May, 2008 for which the dates used are through May 5, 2008.

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

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

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Selected Financial And Statistical Information

3.3 SELECTED FINANCIAL AND STATISTICAL INFORMATION

The summary selected financial data set forth below are consolidated financial data of the Telecom Italia Group as of and for each of the years ended December 31, 2007, 2006, 2005 and 2004, which have been extracted or derived from the Consolidated Financial Statements of the Telecom Italia Group prepared in accordance with IFRS as issued by IASB and which have been audited by the independent auditor Reconta Ernst & Young S.p.A..

Until December 31, 2004, Telecom Italia prepared its consolidated financial statements and other interim financial information (including quarterly and semi-annual reports) in accordance with Italian GAAP.

Pursuant to SEC Release No. 33-8567, *First-Time Application of International Financial Reporting Standards*, Telecom Italia is only required to include Selected Financial Data prepared in compliance with IFRS extracted or derived from the Consolidated Financial Statements for the years ended December 31, 2007, 2006, 2005 and 2004 (earlier periods are not required to be included).

Furthermore, pursuant to SEC Release No. 33-8879, *Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards Without Reconciliation to U.S. GAAP*, Telecom Italia includes Selected Financial Data prepared in compliance with IFRS, without reconciliation to U.S. GAAP.

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

Table of Contents**Item 3. Key Information****Selected Financial And Statistical Information**

	Year ended December 31,				
	2007	2007	2006	2005	2004
	(millions of U.S. dollars, except percentages and per share amounts)(1)		(millions of Euro, except percentages and per share amounts)		
Income Statement Data:					
Revenues	45,693	31,290	31,275	29,919	28,292
Operating profit	8,417	5,764	7,437	7,499	7,603
Profit from continuing operations	3,532	2,419	2,996	3,140	2,952
Profit (loss) from Discontinued operations/Non-current assets held for sale	53	36	7	550	(118)
Profit for the year	3,585	2,455	3,003	3,690	2,834
<i>of which:</i>					
• Profit attributable to equity holders of the Parent(2)	3,575	2,448	3,014	3,216	1,815
• Profit (loss) attributable to Minority Interest	10	7	(11)	474	1,019
Financial Ratios:					
Revenues/Employees (average number in Group) (thousands of)(3)	573.9	393.0	391.0	374.6	355.4
Operating profit/Revenues (ROS)(%)	18.4	18.4	23.8	25.1	26.9
Basic and Diluted earnings per Share (EPS)(4):					
Ordinary Share	0.18	0.12	0.15	0.17	0.11
Savings Share	0.19	0.13	0.16	0.18	0.12
<i>Of which:</i>					
<i>From continuing operations:</i>					
• Ordinary Share	0.18	0.12	0.15	0.14	0.12
• Savings Share	0.19	0.13	0.16	0.15	0.13
<i>From Discontinued operations/Non-current assets held for sale:</i>					
• Ordinary Share				0.03	(0.01)
• Savings Share				0.03	(0.01)
Dividends:					
• per Ordinary Share	0.1168	0.0800(5)	0.1400	0.1400	0.1093
• per Savings Share	0.1329	0.0910(5)	0.1510	0.1510	0.1203

Table of Contents**Item 3. Key Information****Selected Financial And Statistical Information**

	As of December 31,				
	2007	2007	2006	2005	2004
			(millions of Euro, except percentages and employees)		
	(millions of U.S. dollars, except percentages and employees)(1)				
Balance Sheet Data:					
Total Assets	127,667	87,425	89,457	96,010	81,834
Equity:					
• Equity attributable to equity holders of the Parent	37,854	25,922	26,018	25,662	16,248
• Equity attributable to Minority Interest	1,552	1,063	1,080	1,323	4,550
Total Equity	39,406	26,985	27,098	26,985	20,798
Total liabilities	88,261	60,440	62,359	69,025	61,036
Total equity and liabilities	127,667	87,425	89,457	96,010	81,834
Share capital(6)	15,486	10,605	10,605	10,599	8,809
Financial Ratios:					
• Net financial debt/Net invested capital (debt ratio)(%)(7)	57.0	57.0	57.9	59.6	61.2
• Employees (number in Group at year-end, excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale and including personnel with temp work contracts)	83,429	83,429	83,209	85,484	82,620

Table of Contents**Item 3. Key Information****Selected Financial And Statistical Information**

As of and for the year ended December 31,

	2007	2006	2005	2004	2003
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Statistical Data:**Domestic Fixed:**

Fixed network connections in Italy (thousands)	22,124	23,698	25,049	25,957	26,596
Physical accesses (Consumer + Business) (thousands)	19,221	20,540	21,725	22,395	22,962
Voice pricing plans (thousands)	6,375	6,468	6,321	5,883	5,547
BroadBand accesses in Italy (thousands)	7,590	6,770	5,707	4,010	2,040
Virgilio page views powered by Alice (millions)					