



CAPITAL

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

R.C.S. Luxembourg B 77.970

**Annual accounts
as at 31 December 2010**

Telecom Italia Capital S.A.
Soociété Anonyme

Table of contents

Report of the Board on operations as of December 31, 2010	Pag. 2-3
Balance sheet as of 31 December, 2010	Pag. 4
Profit and loss account for the year ended 31 December 2010	Pag. 5
Cash flow statement for the year ended 31 December 2010	Pag. 6
Explanatory notes to the financial statements	Pag. 7-17
Declaration of the Manager responsible for financial reporting	Pag. 17
Independent Auditor's report	Pag. 18 -19
Decision taken by shareholders during the General Meeting held on April 11, 2011	Pag.20

Director's report

Dear Shareholders,

The year 2010 of your Company ends with a profit of EUR 11.796.021,96 (EUR 683.766,11 in 2009) after having booked tax charges for EUR 493.824,60 (EUR 488.903,30 in 2009).

During the year 2010, your Company continued its activity of providing financial assistance to Telecom Italia Group companies. The ongoing lending and borrowing activity generated a positive margin equal to EUR 1.4 million. In the second part of the year following the exercise of breakage clauses of a number of derivative agreements, the Company registered costs for EUR 3.2 million.

Furthermore, the recovery value of the credits vs Lehman Brothers International Europe and Lehman Brothers Holding Inc (guarantor) has been restored by EUR 14.9 million up to EUR 24,8 in accordance with market evaluation of such defaulted credits.

In this respect the management is continuing to perform all activities in order to preserve the rights of the Company both in the United Kingdom where the debtor is located and in the United States of America where is located the mother company, Lehman Brothers Holdings, which granted a guarantee in favor of its subsidiary. Timing of the credit recovery is not predictable.

As per December 31, 2010 the aggregate principal amount of the outstanding notes equals to USD 13.6 billion (USD 15.6 billion in 2009). The revenues of the aforesaid notes have been utilized to provide funding to Telecom Italia Group companies. During the fiscal year 2010 came to expiration and were repaid notes for an aggregate amount of USD 1,950 million.

All the notes are unconditionally and irrevocably guaranteed by the mother Company Telecom Italia S.p.A. As far as the interest and currency exchange risk is concerned, all the outstanding notes have been covered by means of hedging contracts.

As of December 31, 2010 the fully paid in share capital amounts to EUR 2.336.000,00.

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

On February 1, 2011 matured and was repaid with accrued interest the USD 400.000.000,00 floating rate notes issued on September 28, 2005.

During the year 2011 it is foreseen to continue the activity of financial assistance to Telecom Italia Group companies and new bond issuances are advisable, depending on favorable market conditions. On July 18, 2011 will come to maturity two bond issuances for an aggregate principal amount of USD 1.500.000.000,00.

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

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

The Board invites to approve the aforesaid financial statements and propose to:

a) allocate the benefit of the year 2010 as follows:

- EUR 407.500,00 to the net wealth tax reserve. Following art 8a of the law October 16, 1934, as modified, which authorizes the Company to deduct net wealth tax from its own basis, the new created reserve is equal to five (5) times the amount of the net wealth tax to be paid for year

2010 (EUR 81.500,00) and shall be kept unavailable for five year starting from the year immediately following the one in which the reserve has been created.

- EUR 11.388.521,96 as retained earnings

b) to reallocate the amount of EUR 812.174,06 to retained earnings (see note 10).

For the Board of Directors
The Managing Director
Adriano Trapletti

		TELECOM ITALIA CAPITAL S.A.		
		PROFIT AND LOSS FOR THE YEAR ENDED DECEMBER 31, 2010		
A. CHARGES - EUR		2010	2009	
3	Staff costs			
	a) Wages and salaries	181.716,58	152.896,02	
	b) Social security contributions	23.286,93	17.799,94	
4.a)	Value adjustment in respect of tangible and intangible assets	2.889,24	1.326,39	
5	Other operating expenses	1.032.185,31	1.205.759,02	
7	Interest and similar expenses			
	a) concerning group companies	313.168.143,56	1.607.278.603,41	
	b) other interest and charges	666.800.993,65	1.276.458.838,95	
11	Income tax	493.824,60	488.903,30	
13	Net income for the period	11.796.021,96	683.766,17	
TOTAL CHARGES		993.499.061,83	2.886.287.892,20	
B. INCOME - EUR		2010	2009	
4	Other operating income	0,00	29.348,44	
7	Other interest and similar income			
	a) from group companies	934.374.868,72	1.379.961.611,55	
	b) other interest and similar income	59.124.193,11	1.506.296.937,21	
TOTAL INCOME		993.499.061,83	2.886.287.892,20	

The accompanying notes are an integral part of these Annual Accounts.

ASSETS - EUR		31/12/2010	31/12/2009
B	Incorporation expenses	10.340,90	13.230,14
C	Non current assets		
III	Non current financial assets		
2	Receivables from group companies	9.984.105.204,14	10.373.958.426,07
6	Other receivables	24.827.231,75	10.801.956,20
D	Current Assets		
2	Receivables from group companies		
a)	receivable within 1 year	290.882.383,31	1.357.721.694,72
b)	receivable beyond 1 year	207.460.276,36	70.369.951,99
4)	Other receivables		
a)	receivable within 1 year	207.960,06	0,00
b)	receivable beyond 1 year	64.409.877,66	31.868.429,86
IV	Cash and cash equivalent	27.779.677,06	14.721.740,15
E	Prepayments and accrued income	209.627.496,12	241.553.593,58
TOTAL ASSETS		10.809.310.447,36	12.101.009.062,71
LIABILITIES - EUR		31/12/2010	31/12/2009
A.	Capital and reserves		
I.	Subscribed share capital	2.336.000,00	2.336.000,00
II.	Issuance premium	11.810.696,39	11.810.696,39
IV.	Reserves		
1.	Legal reserve	234.000,00	234.000,00
4.	Other reserves	1.240.249,06	1.235.541,06
V.	Profit brought forward	679.658,11	0,00
VI.	Result of the period	11.796.021,96	683.766,11
C.	Creditors		
1.	Notes		
b)	Non convertible notes		
a)	payable within 1 year	1.496.781.918,87	1.353.602.665,55
b)	payable beyond 1 year	8.718.754.677,46	9.475.218.658,92
2.	Payables to banks and financial institutions		
b)	payable beyond 1 year	41.149.516,17	44.970.310,40
4.	Trade and services payables		
a)	payable within 1 year	710.660,81	1.004.760,73
6.	Payables to group companies		
a)	payable within 1 year	102.058.582,32	211.517.681,97
b)	payable beyond 1 year	267.556.739,56	787.133.009,92
8.	Tax payables and social security contributions		
a)	payable within 1 year	1.088.954,28	2.540.937,42
9.	Other payables		
a)	payable within 1 year	258.405,79	30.434.852,25
D.	Accruals and deferred income	152.854.966,59	178.286.181,99
TOTAL LIABILITIES		10.809.310.447,36	12.101.009.062,71

The accompanying notes are an integral part of these Annual Accounts.

TELECOM ITALIA CAPITAL S.A.		
CASH FLOW STATEMENT AS AT DECEMBER 31, 2010		
	31/12/2010	31/12/2009
Operating Activities		
Profit before tax	12.289.846,56	1.172.669,47
Non cash items		
Amortization of property, plant and equipment	0,00	110,25
Amortization and impairment of Incorporation expenses	2.889,24	1.216,14
Financial Income	-978.580.686,04	-2.884.977.554,01
Financial Expenses	977.480.747,51	2.881.209.904,63
Changes in trade and other receivables	-14.197.714,04	-1.063.020,64
Changes in trade and other payables	-2.154.951,28	535.160,67
Net cash flows from operating activities	-5.159.868,05	-3.121.513,49
Cash flows from Investing activities		
Changes in Intangible assets	0,00	-14.446,28
Investments and re-payments in Financial Receivables	1.619.678.907,06	-1.496.866.160,59
Interest, commissions and other financial income received	1.000.246.209,70	2.984.882.119,59
Net cash flows from Investing activities	2.619.925.116,76	1.488.001.512,72
Cash flows from Financing activities		
Increase in capital	0,00	50.000.000,00
Net change in short-term financial payables	0,00	-810.454,32
Proceeds from borrowings	0,00	1.423.034.612,99
Repayments of borrowings	-1.612.115.196,17	-7.752.213,69
Interest, commissions and other financial expenses paid	-987.423.527,95	-2.976.779.845,29
Net cash flows from financing activities	-2.599.538.724,12	-1.512.307.900,31
Net Increase / Decrease in Cash and Cash Equivalents	15.226.524,59	-27.427.901,08
Net foreign exchange differences in C&CE	-2.168.587,68	-31.050,60
Cash and cash equivalents at 01 January	14.721.740,15	42.180.691,83
Cash and cash equivalents at 31 December	27.779.677,06	14.721.740,15

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 Capital S.A. ("the Company") was incorporated in Luxembourg on September 27, 2000 for an unlimited duration. The registered office is established at 12, Rue Eugène Ruppert L-2453 Luxembourg. The registered number is B 77.970.

The corporate object is to provide financial assistance to all the companies within Telecom Italia Group. In this respect, the Company can acquire assets by issuing securities, bonds or any other financial instrument and by taking loans in whatever form from banks and institutional investors or in any other form, the above-mentioned list being purely enumerative and not limitative.

The Company may also have participating interest in any Luxembourg or foreign Company and administrate, manage and develop its portfolio.

The Company may carry out any commercial, industrial or financial operation and perform real estate transactions pertaining directly or indirectly to its object.

Generally, the Company may carry out all transactions considered as useful to the achievement and development of 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 annual accounts have been prepared in accordance with 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 statements 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 annual 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 swaps 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 variance 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.

Prepayments and accrued income/accruals and deferred income

On one hand, this item includes 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 the related interest rate swap transactions (liabilities).

The accrued income also reflects the issuance of bonds at a discount 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.

Receivables

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

Incorporation expenses

Incorporation expenses are valued at purchase price including the expenses incidental thereto or at production cost, less cumulated depreciation amounts written off and value adjustments.

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.

Notes and other liabilities

Notes and other liabilities are recorded at their nominal value.

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 – Non current financial assets – Receivables from group companies

This item is composed by EUR 9.984.105.204,14 being the total amount of medium-long term loans granted to the Parent Company utilizing the proceeds received by issuing notes (2009 – EUR 10.373.958.426,07).

Note 4 – Non current financial assets – Other receivables

This item reflects the estimated recovery value of the credit registered vs. Lehman Brothers International Europe in Administration. Such credit, originally booked for EUR 47.953.608,68, has been converted into USD 68.151.668,66,00, based on the claims filing.

During the year 2010, in execution of a decision of the UK High Court, the position has been converted into GBP 37,934,980.37. Furthermore, in accordance with market evaluations, the recovery value has been adjusted by GBP 12.708.218,42 (i.e. up to 56,33% of the original value).

Note 5 – Financial receivables - Receivables from group companies within 1 year

The loans the Company entered into with affiliates are detailed as follows:

	December 31, 2010	December 31, 2009
	EUR	EUR
Long Term Loan with Parent Company expiring within 1 year	271.682.383,31	1.121.560.460,92
Short Term Loan with Parent Company	0,00	100.000.000,00
Short Term Loan with TI UK	6.500.000,00	6.501.818,17
Short Term Loan with TI Germany	12.700.000,00	12.700.000,00
Short Term Loan with TIS France	0,00	16.000.000,00
Short Term Loan with Hansanet	0,00	100.959.415,63
	<u>290.882.383,31</u>	<u>1.357.721.694,72</u>

Note 6 – Financial receivables – Receivables from group companies and other beyond 1 year

These items refer to the positive difference between the contractual exchange rate and the exchange rate as of December 31, 2010 of Cross Currency Interest Rate Swaps agreements (CCIRS):

	December 31, 2010	December 31, 2009
	<u>EUR</u>	<u>EUR</u>
Receivables from group companies (CCIRS towards Ti Spa)	207.460.276,36	70.369.991,99
Other receivables (CCIRS towards third parties)	64.409.877,66	31.868.429,86
	<u>271.870.154,02</u>	<u>102.238.421,85</u>

Note 7 – Prepayments and accrued income

	December 31, 2010	December 31, 2009
	<u>EUR</u>	<u>EUR</u>
Accrued interest on bank deposits	5.344,32	1.373,48
Accrued interest on hedging instruments	104.415.118,22	119.193.571,73
Accrued Interest on amount owed by Parent Company	50.545.818,31	62.010.972,43
Accrued interest on amount owed by related companies	383.824,54	1.521.866,21
Prepaid charges and costs on notes (issue discounts and other similar charges)	50.801.712,46	54.591.651,08
Other prepaid expenses	3.475.678,27	4.234.158,65
	<u>209.627.496,12</u>	<u>241.553.593,58</u>

Note 8 – Subscribed share capital

As of December 31, 2010 the authorized, issued and fully paid In share capital of EUR 2.336.000,00 is represented by 100.000 shares with a nominal value of EUR 23,36 per share.

As of December 31, 2010 and December 31, 2009, the Company is 100% held by Telecom Italia S.p.A.

Note 9 – Issuance premium

The extraordinary shareholders meeting held on May 15, 2009 decided to recapitalize the Company by injecting EUR 50.000.000,00 in cash, of which EUR 47.664.000,00 as issuance premium and EUR 2.336.000,00 as share capital. Such premium, paid on the same date, has been utilized in order to cover residual losses after capital reduction (EUR 35.853.303,61) emerging from the interim accounts as of February 28, 2009. As of December 31, 2010, and December 31, 2009, the Issuance premium amounts to EUR 11.810.696,39.

Note 10 – Reserves

The reserves are split as follows:

- (a) Legal reserve of EUR 234.000,00 equal to the 10% of the share capital, set up by the shareholders meeting as of March 2, 2005 by converting a quote of other unavailable reserves;
- (b) Other reserves of EUR 1.240.249,06 are divided as follows:
 - (i) Reserves set up by the 2009 General Meeting in order to cover losses matured until February 2009 for EUR 812.174,06;
 - (ii) Tax reserve for an amount of EUR 428.075,00. Such reserve has been created by the annual shareholders meetings held between the years 2006 and 2009 and is equal to five times the amount of the net wealth tax to be paid for year 2005, 2006, 2007 and 2008. It will be unavailable for distribution for a five year period since the year following its creation and is detailed as below:

– Fiscal year 2005	EUR 83.225,00
– Fiscal year 2006	EUR 86.400,00
– Fiscal year 2007	EUR 110.325,00
– Fiscal year 2008	EUR 148.125,00

	Legal Reserve (EUR)	Other reserves (EUR)	Profit brought forward (EUR)	Profit for the financial year (EUR)
Balance as at 31.12.2009	234.000,00	1.235.541,06	-	683.766,17
Movements for the year				
– Allocation of prior year's profit	-	4.708,00	679.058,11	-683.766,17
– Profit for the year	-	-	-	11.796.021,96
Balance as at 31.12.2010	234.000,00	1.240.249,06	679.058,11	11.796.021,96

Note 11 – Non convertible notes

The Company has issued non convertible notes for a total outstanding amount of USD 13.650.000.000,00 as at December 31, 2010 (2009 – EUR 10.215.536.596,33). USD 2.000.000.000,00 (2009 – EUR 1.496.781.918,87) of the total amount will mature within one year.

On January 15, 2010, Telecom Italia Capital S.A. reimbursed USD 1.250.000.000,00 fixed interest rate 4,0 % issued on October 6, 2004; on October 1 , 2010 Telecom Italia Capital S.A. reimbursed USD 700.000.000,00 fixed interest rate 4,8750 % issued on September 28, 2005.

	December 31, 2010	December 31, 2009
	EUR	EUR
USD 1.250.000.000,00 06/10/2004 – 15/01/2010 Fixed Interest Rate 4,00 %	0,00	867.694.016,38
USD 700.000.000,00 28/09/2005 – 01/10/2010 Fixed Interest Rate 4,87 %	0,00	485.908.649,17
USD 400.000.000,00 28/09/2005 – 01/02/2011 Floating Rate Libor 3m + 0,48 %	299.356.383,77	277.662.085,24
USD 750.000.000,00 18/07/2006 – 18/07/2011 Fixed Interest Rate 6,20 %	561.293.219,58	520.616.409,83
USD 850.000.000,00 18/7/2006 – 18/7/2011 Floating Rate Libor 3m + 0,61 %	636.132.315,52	590.031.931,14
USD 2.000.000.000,00 29/10/2003 – 15/11/2013 Fixed Interest Rate 5,25 %	1.496.781.918,87	1.388.310.426,21
USD 1.000.000.000,00 18/06/2009 – 18/06/2014 Fixed Interest Rate 6,18 %	748.390.959,44	694.155.213,11
USD 1.250.000.000,00 06/10/2004 – 30/09/2014 Fixed Interest Rate 4,95 %	935.488.699,30	867.694.016,38
USD 1.400.000.000,00 28/09/2005 – 01/10/2015 Fixed Interest Rate 5,25 %	1.047.747.343,21	971.817.298,35
USD 1.000.000.000,00 04/06/2008 – 04/06/2018 Fixed Interest Rate 6,99 %	748.390.959,44	694.155.213,11
USD 1.000.000.000,00 18/06/2009 – 18/06/2019 Fixed Interest Rate 7,18 %	748.390.959,44	694.155.213,11
USD 1.000.000.000,00 29/10/2003 – 15/11/2033 Fixed Interest Rate 6,37 %	748.390.959,44	694.155.213,11

USD 1.000.000.000,00		
06/10/2004 – 30/09/2034		
Fixed Interest Rate 6,00 %	748.390.959,44	694.155.213,11
USD 1.000.000.000,00		
18/07/2006 – 18/07/2036		
Fixed Interest Rate 7,20 %	748.390.959,44	694.155.213,11
USD 1.000.000.000,00		
04/06/2008 – 04/06/2038		
Fixed Interest Rate 7,72 %	748.390.959,44	694.155.213,11
	<u>10.215.536.596,33</u>	<u>10.828.821.324,47</u>

Note 12 – Payables to banks and financial Institutions

The issuance costs linked to some of the above-reported notes have been funded through bank loans having the same duration as the related notes:

- USD 31.300.000,00 for notes Issued as of October 29, 2003;
- USD 35.652.500,00 for those issued as of October 6, 2004;
- USD 19.684.000,00 for those issued as of September 28, 2005;
- USD 14.036.250,00 for those Issued as of July 18, 2006.

The loans have a quarterly amortizing period.

Final payment date	December 31, 2010	December 31, 2009
	EUR	EUR
January 15, 2010	0,00	266.697,65
October 1, 2010	0,00	467.259,97
February 1, 2011	51.448,63	245.610,14
July 18, 2011	492.985,63	1.039.388,00
July 18, 2011	368.658,23	783.756,84
November 15, 2011	1.682.382,88	3.120.921,84
November 15, 2013	3.582.874,08	4.356.743,50
September 30, 2014	3.163.324,21	3.642.766,66
October 1, 2015	6.261.328,74	6.827.919,63
November 15, 2033	8.671.665,50	8.223.523,46
September 29, 2034	11.945.724,76	11.328.077,07
July 18, 2036	4.929.123,51	4.667.645,64
	<u>41.149.516,17</u>	<u>44.970.310,40</u>

Note 13 – Payables to group companies

This item refers to the following payables due to Parent Company:

	December 31, 2010	December 31, 2009
	EUR	EUR
Guarantee fee	2.488.389,19	2.402.537,25
Payables to group companies (CCIRS towards Ti Spa)	99.570.193,13	209.115.144,72
Payable within 1 year	102.058.582,32	211.517.681,97
Payables to group companies (CCIRS towards Ti Spa)	267.556.739,56	787.133.009,92
Payable beyond 1 year	267.556.739,56	787.133.009,92

Note 14 – Tax payables and social security contributions

It represents the amount provisioned in relation to taxes to be paid with a total amount of EUR 1.088.954,28 (2009 - EUR 2.540.937,42).

	December 31, 2010	December 31, 2009
	EUR	EUR
Tax debts	1.082.585,02	2.536.008,62
Social security debts	6.369,26	4.928,80
Payable within 1 year	1.088.954,28	2.540.937,42

Note 15 – Other payables

The item amounting to EUR 258.405,79 (2009- EUR 30.434.852,25) corresponds to the negative difference between the contractual exchange rate and the exchange rate as of December 31, 2010 for Currency swaps entered with banks.

Note 16 – Accruals and deferred income

	December 31, 2010	December 31, 2009
	EUR	EUR
Accrued interest on debentures	106.549.656,72	120.724.562,93
Accrued interest on due to Bank	211.199,32	241.375,72
Accrued interest on derivative contracts	46.094.110,55	57.320.243,34
	<u>152.854.966,59</u>	<u>178.286.181,99</u>

Note 17 – Interest and similar expenses

	2010	2009
	EUR	EUR
Interest on loans vs. group companies	142.046,40	0,00
Interest on derivatives vs. Parent Company	310.412.707,46	1.604.751.065,68
Guarantee fee due to Parent Company	2.488.389,70	2.402.537,73
Financial fee due to TI Finance S.A.	125.000,00	125.000,00
Concerning group companies	<u>313.168.143,56</u>	<u>1.607.278.603,41</u>
Interest on loans and charges vs. banks	2.029.921,84	2.111.946,36
Interest and other charges on debentures	626.412.807,43	577.943.124,71
Interest on derivatives vs. banks	29.978.867,62	694.110.892,47
Loss on exchange rates	8.379.396,76	2.292.875,41
Other interest and charges	<u>666.800.993,65</u>	<u>1.276.458.838,95</u>

Note 18 – Other interest and similar income

	2010 EUR	2009 EUR
Interest on group companies	328.527.154,31	401.273.352,59
Commission from group companies	2.369,79	3.560,77
Interest on derivatives vs. Parent Company	<u>605.845.344,62</u>	<u>978.684.698,19</u>
	<u>934.374.868,72</u>	<u>1.379.961.611,55</u>
Interest on Bank deposit	46.559,67	280.545,11
Interest on derivatives vs. Bank	38.394.849,58	1.502.643.441,56
Partial reversal of impairment	14.918.375,79	1.280.989,75
Gain on exchange rates	<u>5.764.408,07</u>	<u>2.091.955,79</u>
	<u>59.124.193,11</u>	<u>1.506.296.932,21</u>

Note 19 – Hedging contracts

In order to hedge the exchange and interest rate risks linked to the notes issued, the Company entered into several currency and interest rate swap contracts (CCIRS) for the same duration of the hedged notes:

	December 31, 2010 EUR	December 31, 2009 EUR
Currency and interest rate swap contracts with the Parent Company	8.475.176.971,34	9.082.201.916,67
Currency and interest rate swap contracts with third parties	384.624.698,00	588.174.608,00
Interest rate swap contracts with the Parent Company	7.109.714.114,65	7.253.921.976,95
interest rate swap contracts with third parties	374.195.479,72	347.077.606,55
Currency swaps with third parties	<u>30.000.161,01</u>	<u>15.337.413,49</u>
	<u>16.373.711.424,72</u>	<u>17.286.713.521,66</u>

Note 20 – Tax situation

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

Note 21– Consolidations

The accounts of the Company are included in the consolidated accounts of Telecom Italia S.p.A. which are available at the registered office located in Milano, Piazza degli Affari 2.

Note 22 – Directors remuneration

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

Note 23 – 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 Capital S.A.

Report on the annual accounts

We have audited the accompanying annual accounts of Telecom Italia Capital 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.

PricewaterhouseCoopers S.à r.l., 400 Route d'Esch, B.P. 1443, L-1014 Luxembourg
T: +352 494848 1, F: +352 494848 2900, u:www.pwc.lu

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 Capital 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

Telecom Italia Capital S.A.
Société Anonyme

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

The shareholders meeting 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 decided to allocate the benefit of EUR 11.796.021,96 as follows:

- EUR 407.500,00 to the net wealth tax reserve. Following art 8a of the law October 16, 1934, as modified, which authorizes the Company to deduct net wealth tax from its own basis, the new created reserve is equal to five (5) times the amount of the net wealth tax to be paid for year 2010 (EUR 81.500,00) and shall be kept unavailable for five year starting from the year immediately following the one in which the reserve has been created.
- EUR 11.388.521,96 as retained earnings.

And to reallocate the amount of EUR 812.174,06 to retained earnings.

The shareholders appointed as director till the annual general shareholders meeting which will take place on 2012:

Ms Chiara Elena Maria Pizzamiglio born in Milano (Italy) on July 17, 1966, and domiciled in Milano, Piazza degli Affari 2, I-20123 .

Members of the Board of directors

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 Chiara Elena Maria Pizzamiglio, Manager, domiciled in Milano (Italy), Director
5. Mr. Antonio Sica, Manager, domiciled in Luxembourg, Director.