Milan, January 31, 2011

Sir David Tweedie
Chairman
International Accounting
Standards Board
30 Cannon Street
London EC4M 6XH
United Kingdom

Ref.: "Request for Views on Effective Dates and Transition Methods"

Dear Sir David,

we are writing in response to your invitation to comment the "Request for Views on Effective Dates and Transition Methods" published by IASB in October 2010 (the "Request for Views").
Even if we believe that all the new proposed IFRSs will affect our company, we have focused our comments on the proposed Exposure Drafts on "Revenue from Contracts with Customers" and "Leases" because we consider these two projects as extremely critical in terms of complexity, cost and time for their implementation.
With regard to the Exposure Draft on "Revenue from Contracts with Customers", once again, we would underline that, since we believe that in our industry the current revenue accounting model is not broken, the material costs to comply with the new proposed standard clearly outweigh the benefits for financial reporting users.
Furthermore, due to the various issues that the IASB and FASB Boards (the "Boards") have to address as a result of the high number of comment letters received with respect to the two above mentioned projects, we invite the Boards to issue new exposure drafts before proceeding with the final standards.
In general terms, we expect that a period of three/four years should be left since the issue of the final standards for their adoption. Nevertheless, in this particular case, considering the material and pervasive impacts of the proposed above mentioned two standards and in order to allow an appropriate review and a smooth and effective implementation of the related final standards, we recommend that their mandatory adoption should not be earlier than July 1, 2017, assuming that the new standards are issued by June 2011.

We thank you for the opportunity to submit our contribution on the Request for Views.

Yours faithfully,

Riccardo Taranto
Chief Accounting Officer

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Question 1 - Please describe the entity (or the individual) responding to this Request for Views. For example: a) Please state whether you are primarily a preparer of financial statements, an auditor, or an investor, creditor or other user of financial statements (including regulators and standard-setters). Please also say whether you primarily prepare, use or audit financial information prepared in accordance with IFRSs, US GAAP or both. b) If you are a preparer of financial statements, please describe your primary business or businesses, their size (in terms of the number of employees or other relevant measure), and whether you have securities registered on a securities exchange. c) If you are an auditor, please indicate the size of your firm and whether your practice focuses primarily on public entities, private entities or both. d) If you are an investor, creditor or other user of financial statements, please describe your job function (buy side/sell side/regulator/credit analyst/lending officer/standard-setter), your investment perspective (long, long/short, equity, or fixed income), and the industries or sectors you specialise in, if any. e) Please describe the degree to which each of the proposed new IFRSs is likely to affect you and the factors driving that effect (for example, preparers of financial statements might explain the frequency or materiality of the transactions to their business and investors and creditors might explain the significance of the transactions

Response:

Telecom Italia S.p.A., with its subsidiaries, operates mainly in Europe, the Mediterranean Basin and South America, with around 95 million of mobile lines, more than 22 million fixed-line network connections, and around 10 million of broadband accesses, as of September 30, 2010, including Telecom Argentina group. In 2009, the Group recorded revenues for approximately 27 billion euros.
The Telecom Italia Group is engaged principally in the communications sector and, particularly, the fixed and mobile national and international telecommunications sector, the television sector and the office products and Information Technology services sector.

The Telecom Italia ordinary and savings shares are listed on the Italian Stock Exchange (Borsa Italiana) and on the New York Stock Exchange in the form of American Depositary Shares (each corresponding to ten ordinary or savings shares, respectively, represented by American Depositary Receipts).
Telecom Italia shares are included in more than 50 indices. The most important are: FTSE MIB, FTSE Italia All Share, FTSE Eurotop 100, DJ STOXX 600 and DJS Telecom.
Telecom Italia reports under IFRS as adopted by the European Union for Italian reporting purposes and under IFRS as issued by the IASB in order to comply with US listing rules.

We regard the proposed new IFRSs as highly pervasive changing and we believe that our company will be significantly affected by the proposed new IFRSs. As we have discussed within our industry and with some members of IASB Staff, the proposed new IFRSs will have material impacts on our business model, information systems, and control and reporting procedures.

In particular we are strongly concerned by the proposed model on revenue recognition. Having in mind the nature of telecommunication business that is characterised by millions of customers, rapidly changing offerings, and a tremendous volume of daily transactions, the implementation of the new model on revenue recognition would be extremely difficult and would entail material costs and time. Since the proposed model requires to account separately for contracts, telecom operators will be forced to implement new information technology systems, solely for the purpose of revenue recognition. As we have shared with other companies of our industry, such estimated costs could reach hundred millions of euro for each company and would imply a time schedule of several years.

> Question 2 - Focusing only on those projects included in the table in paragraph 18 above:
> a) Which of the proposals are likely to require more time to learn about the proposal, train personnel, plan for, and implement or otherwise adapt?
> b) What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?

Response:

The impact of the new proposed standards on the company accounting process and financial reporting cannot be properly assessed until the final standards are issued. Nevertheless, we outline the following preliminary comments on the basis of our previous experience in changing IT systems and the awareness of the complexity of TLC business model.

a) We summarise our opinion on the expected time to comply with the proposed IFRSs as follows:

Project	**Grade of expected impact in term of implementation time**
Consolidation	Low
Fair value measurement	Medium
Financial instruments (IFRS 9)	High
Insurance contracts	n/a
Joint arrangements	Low
Leases	Very high
Post-employment benefits – Defined benefit plans	Low
Presentation of items of other comprehensive income	Low
Revenue from contracts with customers Retrospective	Very high
Low = less than, equal to 1 year. Medium = more than 1 year, and less than, equal to 3 years. High = more than 3 years, and less than, equal to 5 years. Very high = more than 5 years.	

b) The types of costs, the main drivers and relative significance of each cost component we expect to incur in planning for and adapting to the new requirements, are outlined as follows:

Main type of cost	Expected relative significance	Main drivers
Project management	High - medium	▪ business operations in Italy, Brazil, Argentina and other countries, with over 100 reporting/legal entities consolidated; ▪ 95 million of mobile lines, more than 22 million fixed-line network connections, and around 10 million of broadband
IT system development & deployment	Extremely high	
Training staff	Medium – low	
Review and adaptation of internal control, planning, and reporting procedures	Medium	

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<table>
<tr><td>Changes in external communications and education of analysts</td><td>Medium</td><td rowspan="2">accesses;
▪ high level of offering turnover;
▪ rapid obsolescence of TLC devices;
▪ billions of low value transactions;
▪ huge number of combinations in contracts with customers; at the inception of the contract and during the contract period, each customer can select from a wide range of devices, continuously changing tariffs and service options;
▪ time schedule of the project for change is expected to be over several years;
▪ involvement of several departments (Sales & Marketing, Operations, IT, Planning & control, Accounting, Tax, etc.).</td></tr>
<tr><td>Collection and assessment of data for retrospective application purposes.</td><td>High</td></tr>
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We would highlight that the expected material impacts, and related costs and time for implementation, arise from the complexity of the new requirements when they are applied in our business model. In particular:

- *Revenue from contracts with customers*
  - The proposed allocation method of the transaction price in proportion to the stand-alone selling price generates a mismatch between revenue and cash flow patterns whenever the contract-stated prices are not in proportion with the stand-alone selling price. This gives rise to further detailed adjustments relating, for example, to the time value of money and potentially complex accounting adjustments arising from customer activity, such as out of bundle usage, purchase of 'add-on' services and early termination of the contract;
  - The determination of the stand-alone selling price represents a challenging task. In our business, at the same measurement date, the price of a handset significantly varies depending on the sale channel (mass market chain, local retailer, direct channel, Internet shop, country, etc.) and the obsolescence grade of the product (the price of a handset can collapse within few months). The same issue can be raised with respect to services, e.g. for mobile services, the price of a minute of airtime can vary depending on the several usage profiles (length of the plan, flat monthly fees or pay as you talk, free calls to other subscribers, with or without connection fee, length of the call, etc.). This instable market basis will imply a high volatility and uncertainty in determining stand-alone selling prices.
  - The Exposure Draft requires additional disclosure with respect to contract assets and liabilities. Since the features of our business, and in particular considering the huge number of product/service combinations and the huge number of transactions with customers, such disclosure will be extremely difficult to implement.
- *Leases*
  - the new requirements have a significant impact on financial debt (gross and net) and operating margins (EBITDA, EBIT) and, as a consequence, on some ratios like the Debt/EBITDA and "interest coverage". Although these measures are regarded as "Alternative Performance Measures", they are widely used by the financial community

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in order to evaluate companies (in particular, with regard to valuations based on multiples). Therefore, the financial community should be fully educated in order to avoid distortions to company value and target price evaluation;

- the new proposed standard leads to a significant increase in accounting records in relation to the high number of lease transactions that are currently regarded as operating leases;
- the new proposed standard requires a significantly increased volume of disclosures.

Question 3 - Do you foresee other effects on the broader financial reporting system arising from these new IFRSs? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

Response:

As we have mentioned before, under European law, Telecom Italia is required to prepare its financial reporting on the basis of the IFRS standards endorsed by the European Union ("EU"), whereas for US regulatory purposes, Telecom Italia is required to file IFRS accounts on the basis of the IFRS standards issued by the IASB. Should any new standards not be endorsed by the EU on a timely basis, we will be required to report under two different versions of IFRS (both an "as issued" and an "as endorsed" basis). Given the pervasive effects of the new proposed standards, such scenario would be awkward and undesirable. Hence, we believe that the mandatory application of the new standards for EU based companies should be subject to the EU endorsement.

Question 4 - Do you agree with the transition method as proposed for each project, when considered in the context of a broad implementation plan covering all the new requirements? If not, what changes would you recommend, and why? In particular, please explain the primary advantages of your recommended changes and their effect on the cost of adapting to the new reporting requirements.

Response:

We generally agree with the proposed retrospective and limited retrospective methodology, however we believe that the Boards should provide sufficient time to the preparers for the adoption after the issue of each final standard.
With regard to the Leases project, we agree that a simplified approach should be applied, since a mandatory full retrospective application would be onerous, due to the large number of contracts and the complexity of long-term leases. However, in order to further simplify the limited retrospective method, we propose to apply the new standard only to the existing contracts that will expire later than a certain period of time after the application date (i.e. at least 3 years).

Question 5 - In thinking about an overall implementation plan covering all of the standards that are the subject of this Request for Views: a) Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimise the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimising disruption, or other synergistic benefits). b) Under a single date approach and assuming the projects noted in the introduction are completed by June 2011, what should the mandatory effective date be and why? c) Under the sequential approach, how should the new IFRSs be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new IFRSs. d) Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.

Response:

We strongly support the single date approach because it allows a better management of the entire implementation plan and it minimises the efforts in financial statement restatements and in communications of the change to the financial community.
Whether a sequential approach were to be preferred, it would be preferable that the revenue and lease standards become effective in later periods and at the same time.
Under the single date approach and assuming the projects mentioned in the introduction are completed by June 2011, we recommend that the mandatory effective date should be not earlier than July 1, 2017.
This suggestion is based on the following:

- according to the Securities and Exchange Commission requirements, the Telecom Italia financial statements include two comparative periods;
- as a result of the above, in case of a change in accounting principles under the retrospective application method, two comparative periods should therefore be restated and an opening statement of financial position is required at the beginning of the earliest period presented;
- the selected financial information (highlights) presented in Item 3 of our Form 20-F as well as in our annual report for the Italian market include four comparative periods;
- an appropriate time should be allocated to the different phases of the implementation process including, among others, analysis of the new standards, agreement with auditors on interpretation of the new requirements, design and implementation of IT systems, review and adaptation of organization procedures and staff training;
- for the purposes of a retrospective application, data should be captured and recovered by new systems and procedures; since our contracts for bundle offerings commonly range up to 24 months, it will be necessary a data collecting period of at least two years.

Question 6 - Should the IASB give entities the option of adopting some or all of the new IFRSs before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

Response:

In order to preserve the comparability of financial reports, we believe that, for the current IFRS adopters, the early adoption of some or all of the new IFRSs should not be permitted.
However, we think that the new first-time adopters may benefit from an early adoption (please see our response to question 8).

Question 7 - Do you agree that the IASB and FASB should require the same effective dates and transition methods for their comparable standards? Why or why not?

Response:

We agree with the proposal to require by IASB and FASB the same effective dates and transition methods. Such approach would clearly avoid comparability issues between IFRS and US GAAP preparers.
Please see also our comments in question 3 regarding the EU endorsement of the new proposed standards.

Question 8 - Should the IASB permit different adoption dates and early adoption requirements for first-time adopters of IFRSs? Why, or why not? If yes, what should those different adoption requirements be, and why?

Response:

We believe that a certain grade of flexibility should be granted to the first-time adopters that should not be forced to apply the current standards whenever they are very closed to the effective date of the new proposed standards.
We suggest the Boards to permit the early adoption only when the first-time adopters face a first-time adoption date not earlier than 1 year from the effective date of the new standards.