TELECOM ITALIA S P A
Form 6-K
November 19, 2008
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16

UNDER THE SECURITIES EXCHANGE ACT OF 1934

FOR THE MONTH OF NOVEMBER, 2008

Commission File Number 001-13882

TELECOM ITALIA S.p.A.

(Translation of registrant s name into English)

Piazza degli Affari 2

20123 Milan, Italy

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover of Form 20-F or Form 40-F:

FORM 20-F x FORM 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1): ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7): ¨

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

YES ¨ - NO x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82-

This Report on Form 6-K shall be deemed to be incorporated by reference in the Registration Statement on Form F-3 of Telecom Italia Capital S.A. (Registration No. 333-127351) and Telecom Italia S.p.A. (Registration No. 333-127351-01) and to be a part thereof from the date on which this report is furnished, to the extent not superseded by documents or reports subsequently filed or furnished.

2008 Third Quarter Financial Report

TABLE OF CONTENTS

Table of Contents

TELECOM ITALIA GROUP RESULTS FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2008

On November 7, 2008, the Board of Directors of Telecom Italia examined and approved the Group s results for the nine months ended September 30, 2008.

n **Selected Financial and Statistical Information**

The summary selected financial data set forth below are consolidated financial data of the Telecom Italia Group as follows:

with respect to the income statement information, the unaudited financial data for the third quarter 2008 and 2007, and for the nine-month periods ended September 30, 2008 and 2007; and

with respect to the balance sheet information, the unaudited financial data as of September 30, 2008 and the audited financial data as of December 31, 2007.

In the opinion of the management of Telecom Italia, the unaudited interim consolidated financial data of the Telecom Italia Group reflects all adjustments (consisting only of normal recurring adjustments) necessary for a fair presentation of the Telecom Italia Group s consolidated results of operations for the unaudited interim periods. Results for the nine-month period ended September 30, 2008, are not necessarily indicative of results that may be expected for the entire year.

The accompanying consolidated financial data has been prepared in accordance with IFRS as issued by the IASB.

	Third Quarter		**Nine months ended September 30,**	
	2008 (1)	**2007 (1)**	**2008 (1)**	**2007 (1)**
	(Unaudited) (millions of Euro)			
Income Statement Data:				
Revenues	**7,561**	**7,667**	**22,399**	**23,004**
Operating profit	**1,596**	**1,733**	**4,204**	**5,287**
Profit from continuing operations	**503**	**757**	**1,759**	**2,382**
Profit (loss) from Discontinued operations/Non-current assets held for sale	120	(51)	(28)	(174)
Profit for the period	**623**	**706**	**1,731**	**2,208**
of which:				
Profit attributable to equity holders of the Parent (2)	*630*	*720*	*1,770*	*2,220*
Profit (loss) attributable to Minority Interest	*(7)*	*(14)*	*(39)*	*(12)*

	Nine months ended September 30, 2008 (1)	2007 (1)
	(Unaudited) (thousands of Euro, except percentages, ratio of earnings to fixed charges and per share amounts)	
Financial Ratios:		
Revenues/Employees (average number in the Group) (3)	293.5	295.1
Operating profit/Revenues (ROS) (%)	18.8	23.0
Ratio of earnings to fixed charges (4)	2.31	3.14
Basic and Diluted earnings per Share (EPS) (5):		
Ordinary Share	**0.09**	**0.11**
Savings Share	**0.10**	**0.12**
Of which:		
From continuing operations:		
¡ *Ordinary Share*	*0.09*	*0.11*
¡ *Savings Share*	*0.10*	*0.12*
From Discontinued operations/Non-current assets held for sale:		
¡ *Ordinary Share*		
¡ *Savings Share*		

3

Table of Contents

	As of September 30, 2008 (1) (Unaudited)	As of December 31, 2007
	(millions of Euro)	
Balance Sheet Data:		
Total Assets	**84,365**	**87,425**
Equity:		
Equity attributable to equity holders of the Parent	25,936	25,922
Equity attributable to Minority Interest	816	1,063
Total Equity	**26,752**	**26,985**
Total Liabilities	**57,613**	**60,440**
Total Equity and Liabilities	**84,365**	**87,425**
Share capital(6)	**10,591**	**10,605**

	As of September 30, 2008 (1) (Unaudited)	As of December 31, 2007
Financial Ratios:		
Net financial debt/Net invested capital (debt ratio)(%)(7)	57.2	57.0
Employees (number in the Group at period-end, excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale and including personnel with temporary work contracts)	80,077	83,429

	Nine months ended September 30, 2008 (1)	2007(1)
	(Unaudited) (millions of Euro)	
Cash Flows from (used in) Operating Activities	**5,846**	**6,737**
Cash Flows from (used in) Investing Activities	**(3,831)**	**(3,535)**
Cash Flows from (used in) Financing Activities	**(2,884)**	**(6,018)**
Cash Flows from (used in) Discontinued operations/Non-current assets held for sale	**(10)**	**(274)**
Aggregate Cash Flows	**(879)**	**(3,090)**

Table of Contents

	As of and for the period ended		
	September 30, 2008	**December 31, 2007**	**September 30, 2007**
Statistical Data:			
Domestic Fixed:			
Fixed network connections in Italy (thousands)	20,539	22,124	22,538
Physical accesses (Consumer + Business) (thousands)	17,786	19,221	19,577
Voice pricing plans (thousands)	5,919	6,375	6,548
BroadBand Accesses in Italy (thousands)	7,914	7,590	7,395
Virgilio page views powered by Alice for the period (millions)	12,060	14,737	10,952
Virgilio powered by Alice average daily single visitors (millions)	2.4	2.1	2.1
Network infrastructure in Italy:			
access network in copper (millions of km pair)	106.8	106.8	106.8
access network and transport in optical fiber (millions of km of fiber)	3.9	3.8	3.8
Network infrastructure abroad:			
European backbone (km of fiber)	55,000	55,000	55,000
Mediterranean (km of submarine cable)	7,000	7,000	7,000
South America (km of fiber)	30,000	30,000	30,000
Domestic Mobile:			
Mobile telephone lines in Italy at period-end (thousands)	35,274	36,331	35,310
Of which prepaid lines at period-end (thousands) (8)	*29,279*	*30,834*	*30,114*
European BroadBand:			
BroadBand accesses in Europe at period-end (thousands)(9)	2,501	2,537	2,424
Brazil Mobile:			
Mobile telephone lines in Brazil at period-end (thousands)	35,206	31,254	29,160
Media:			
La7 average audience share Free to Air (analog mode) for the period (%)	3.1	3.0	3.0
La7 average audience share Free to Air (analog mode) for the last month of the period (%)	3.0	3.1	2.8

(1) Starting from January 1, 2008, the Liberty Surf group has been treated as a Discontinued operations/Non-current asset held for sale; the sale was completed on August 26, 2008. All periods presented for comparison purposes have been restated.

(2) Parent means Telecom Italia S.p.A.

(3) The average number of employees in the Group (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale and including personnel with temp work contracts) was 76,317 in the nine months ended September 30, 2008 and 77,952 in the nine months ended September 30, 2007.

(4) For purposes of calculating the ratio of earnings to fixed charges :

Earnings is calculated by adding:

- profit before tax from continuing operations;

- fixed charges (as defined below);

- amortization of capitalized interest and issue debt discounts or premiums;

- dividends from associates and joint ventures accounted for using the equity method; and

- share of losses of associates and joint ventures accounted for using the equity method;

and then subtracting:

- capitalized interest for the applicable period; and

- share of earnings of associates and joint ventures accounted for using the equity method.

Fixed charges is calculated by adding:
- interest expenses (both expensed and capitalized);

- issue costs and any original issue debt discounts or premiums; and

- an estimate of the interest within rental expense for operating leases.

(5) In accordance with IAS 33 (*Earnings per share*), basic earnings per Ordinary Share is calculated by dividing the Group s profit available to shareholders by the weighted average number of shares outstanding during the period, excluding treasury shares. Since Telecom Italia has both Ordinary and Savings Shares outstanding, the calculations also take into account the requirement that holders of Savings Shares are entitled to an additional dividend equal to 2% of the par value of shares above dividends paid on the Ordinary Shares.

For the purpose of these calculations, the weighted average number of:

Ordinary Shares was 13,252,198,965 for the nine months ended September 30, 2008 and 13,254,926,313 for the nine months ended September 30, 2007; and

Savings Shares was 6,026,120,661 for the nine months ended September 30, 2008 and 2007.

For diluted earnings per share the weighted average number of shares outstanding is adjusted assuming conversion of all dilutive potential shares. Potential shares are those securities that, if converted into shares, would increase the total number of shares outstanding and reduce the earnings attributable to each share. Potential shares include options, warrants and convertible securities. The Group s profit is also adjusted to reflect the impact of the conversion of potential shares net of the related tax effects.

(6) Share capital represents share capital issued net of the par value of treasury shares.

(7) Net Financial Debt is a Non-GAAP Financial Measure as defined in Item 10 of Regulation S-K under the 1934 Act, but is widely used in Italy by financial institutions to assess liquidity and the adequacy of a company s financial structure. Telecom Italia believes that Net Financial Debt provides a useful indicator of the ability to meet financial obligations (represented by gross debt) by available liquidity, represented by the other items shown in the reconciliation table below. Net Financial Debt allows Telecom Italia to show investors the trend in net financial condition over the periods presented. The limitation on the use of Net Financial Debt is that it effectively assumes that gross debt can be reduced by cash and other liquid assets. In fact, it is unlikely that Telecom Italia would use all of its liquid assets to reduce its gross debt all at once, as such assets must also be available to pay employees, suppliers, and taxes, and to meet other operating needs and capital expenditure requirements. Net Financial Debt and its ratio to equity (including Minority Interest), or leverage, are used to evaluate financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether financial structure is adequate to achieve business plan and financial targets (which include debt ratio, or Net Financial Debt divided by net invested capital, the latter meaning net assets excluding Net Financial Debt).

Telecom Italia management monitors the Net Financial Debt and leverage or similar measures as reported by other telecommunications operators in Italy and outside Italy, and by other major listed companies in Italy, in order to assess its liquidity and financial structure relative to such companies. Telecom Italia also monitor the trends in its Net Financial Debt and leverage in order to optimize the use of internally generated funds versus funds from third parties.

Table of Contents

Net financial debt is reported in Telecom Italia s Annual Report to shareholders and is used in presentations to investors and analysts. Net Financial Debt is detailed in the following table:

	As of September 30, 2008 (Unaudited)	As of June 30, 2008	As of December 31, 2007
		(millions of Euro)	
GROSS FINANCIAL DEBT			
Non-current financial liabilities (Long-term debt)			
Financial payables	33,489	35,459	35,241
Finance lease liabilities	1,742	1,766	1,809
Other financial liabilities	1	1	1
	35,232	**37,226**	**37,051**
Current financial liabilities (Short-term debt), excluding financial liabilities directly associated with Discontinued operations/Non current assets held for sale			
Financial payables	7,405	5,330	6,315
Finance lease liabilities	258	260	262
Other financial liabilities	7	7	8
	7,670	**5,597**	**6,585**
Financial liabilities directly associated with Discontinued operations/Non current assets held for sale		**823**	
TOTAL GROSS FINANCIAL DEBT (A)	**42,902**	**43,646**	**43,636**
FINANCIAL ASSETS			
Non-current financial assets			
Securities other than investments	14	14	9
Financial receivables and other non-current financial assets	936	727	686
	950	**741**	**695**
Current financial assets, excluding financial assets classified under Discontinued operations/Non-current assets held for sale			
Securities other than investments	154	166	390
Financial receivables and other current financial assets	423	1,124	377
Cash and cash equivalents	5,605	4,413	6,473
	6,182	**5,703**	**7,240**

Financial assets classified under Discontinued operations/Non-current assets held for sale		**30**	
TOTAL FINANCIAL ASSETS (B)	**7,132**	**6,474**	**7,935**
NET FINANCIAL DEBT (A-B)	**35,770**	**37,172**	**35,701**

(8) Excludes not-human Subscriber Identity Modules (SIM).

(9) The data presented excludes broadband accesses of the Liberty Surf group (902 thousand at December 31, 2007 and 882 thousand at September 30, 2007) due to the related completion of the sale to Iliad S.A. on August 26, 2008.

Table of Contents

n **Telecom Italia Group Consolidated Results**

v **Revenues**

Revenues in the nine months ended September 30, 2008 were 22,399 million, a decrease of 605 million, or 2.6%, compared to 23,004 million in the nine months ended September 30, 2007.

In particular, revenues for the nine months ended September 30, 2008, were impacted by the decrease in revenues of the **Domestic Business Unit** which, among other things, was adversely affected by the following regulatory changes:

application of the Bersani Decree starting from March 2007 (a decrease of 125 million, fully recorded in the first quarter);

reduction in the termination rates which occurred in the second half of 2007 (a decrease of 190 million);

rate adjustments for international roaming traffic within the EU (a decrease of 156.5 million); and

change in prices for regulated wholesale bitstream services, unbundling and shared access (a decrease of 71 million).

Overall, as a result of these regulatory changes revenues decreased by 542.5 million. Other factors which caused a reduction in the revenues of the **Domestic Business Unit** were the renegotiation of the national roaming contract with H3G (a negative effect of 48.5 million) and the termination of certain international wholesale transit contracts from the second quarter of 2007 (a negative effect of 166 million).

Furthermore, Revenues benefited from the positive contribution of the European BroadBand Business Unit and the growth of the **Brazil Mobile Business Unit** which was driven by the expansion of voice and value-added services supported by the increase of the customer base.

In the third quarter of 2008, revenues were 7,561 million (7,667 million in the third quarter of 2007), a decrease of 1.4% compared to the corresponding period in 2007. Revenue performance in the third quarter of 2008 was impacted by the above-mentioned regulatory changes (a decrease of 149 million), and by the renegotiation of the national roaming contract with H3G (a decrease of 18 million).

v **Operating Profit**

Operating profit was 4,204 million for the nine months ended September 30, 2008 compared to 5,287 million for the nine months ended September 30, 2007, a decrease of 1,083 million, or 20.5%.

As a percentage of revenues, operating profit was 18.8% for the nine months ended September 30, 2008 (23.0% for the nine months ended September 30, 2007).

In particular, such decrease was in part due to:

the negative impact of the above-mentioned regulatory changes as well as the renegotiation of the national roaming contract with H3G;

employee-related charges of 287 million following the start of the mobility procedures under Law 223/91 that begun at the end of June 2008 and for which an agreement was signed with the unions on September 19, 2008 (the employee benefits expenses for the nine months of 2007 were positively impacted by a one off bonus for a total of 110 million, of which 79 million due to the elimination of the profit bonus accrued in 2006 as a result of agreements reached with unions in June 2007 and 31 million due to the positive impact of the new law regarding supplementary pension benefits on the actuarial calculation of the provision for employee severance indemnity); and

the increased level of depreciation and amortization (4,437 million for the nine months ended September 30, 2008 compared to 4,209 million for the nine months ended September 30, 2007, an increase of 228 million).

In the third quarter of 2008, operating profit was 1,596 million compared to 1,733 million in the third quarter of 2007, a decrease of 137 million, or 7.9%.

v Finance Income and Expenses, Net

Total finance income and expenses showed a net expense of 1,963 million for the nine months ended September 30, 2008 compared to a net expense of 1,425 million for the nine months ended September 30, 2007, an increase of 538 million.

Net finance expenses are detailed as follows:

	Nine months ended September 30, 2008	2007
	(Unaudited) (millions of Euro)	