2006 ANNUAL REPORT

CONTENTS

CORPORATE BOARDS AT DECEMBER 31, 2006

Board of Directors

Chairman	Guido Rossi (Executive)
Deputy Chairman	Gilberto Benetton
Executive Deputy Chairman	Carlo Orazio Buora (Executive Director)
Chief Executive Officer	Riccardo Ruggiero (Executive Director)
Directors	Paolo Baratta (Independent Director)
	Diana Bracco (Independent Director)
	John Robert Sotheby Boas (Independent Director)
	Domenico De Sole (Independent Director)
	Francesco Denozza (Independent Director)
	Luigi Fausti (Independent Director)
	Guido Ferrarini (Independent Director)
	Jean Paul Fitoussi (Independent Director)
	Vittorio Merloni (Independent Director)
	Gianni Mion
	Massimo Moratti
	Marco Onado (Independent Director)
	Renato Pagliaro
	Pasquale Pistorio (Independent Director)
	Carlo Alessandro Puri Negri
	Luigi Roth (Independent Director)
Secretary to the Board	Francesco Chiappetta

The shareholders' meeting held on May 6, 2004 established that the board should be composed of 19 members and appointed the board of directors of the company for three years until approval of the financial statements for the year ended December 31, 2006. The shareholders' meeting held on April 7, 2005 then revised the number of members of the board of directors to 21 and appointed Marco De Benedetti and Enzo Grilli as directors to complement the original board.

The shareholders' meeting held on April 13, 2006 appointed Diana Bracco and Vittorio Merloni as directors following the resignations of Marco De Benedetti and Giovanni Consorte.

On September 15, 2006, Marco Tronchetti Provera submitted his resignation from the post of Chairman and director of the board. On the same day, the board of directors appointed Guido Rossi as Chairman while Carlo Buora (the CEO in office) was appointed Executive Deputy Chairman and the post of CEO held by Riccardo Ruggiero has remained unchanged.

In October 2006, lastly, Enrico Grilli passed away without the board of directors appointing another director in his place.

The independent director, Guido Ferrarini, is Chairman of the Committee for internal control and corporate governance and, since September 2004, holds the position of lead independent director.

The board of directors has established three Committees within the board with consulting and advisory functions:

Remuneration Committee	Luigi Fausti (Chairman)
	Paolo Baratta
	Pasquale Pistorio

Committee for Internal Control and Corporate Governance	Guido Ferrarini (Chairman) Domenico De Sole Francesco Denozza Marco Onado
Strategies Committee	Guido Rossi Carlo Orazio Buora Domenico De Sole Marco Onado Pasquale Pistorio

<u>Board of Statutory Auditors</u>

Chairman	Paolo Golia
Acting Auditors	Enrico Maria Bignami Salvatore Spiniello Ferdinando Superti Furga Gianfranco Zanda
Alternate Auditor	Enrico Laghi

The board of statutory auditors was appointed by the shareholders' meeting held on April 13, 2006.
On October 20, 2006, the statutory auditor, Stefano Meroi, tendered his resignation. As established in the bylaws, his post was taken over by the alternative auditor on the minority slate, Enrico Maria Bignami.

<u>Common representatives</u>

- Savings shareholders — Carlo Pasteris
  The common representative of the savings shareholders was appointed for a three-year period by the special shareholders' meeting held on October 26, 2004.

- Bondholders — Francesco Pensato
  "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium"
  Appointed by decree of the Milan Court of May 2, 2005, after failure to establish the corresponding bondholders' meeting.

- Bondholders — Francesco Pensato
  "Telecom Italia 2002-2022 bonds at floating rates, open special series, reserved for subscription by employees of the Telecom Italia Group, in service or retired"
  Appointed by decree of the Milan Court of July 8, 2005, after failure to establish the corresponding bondholders' meeting.

- Bondholders — Francesco Pensato
  "Telecom Italia S.p.A. Euro 750,000,000 notes 4.50% due 2011"
  Appointed by decree of the Milan Court of April 10, 2006, after failure to establish the corresponding bondholders' meeting.

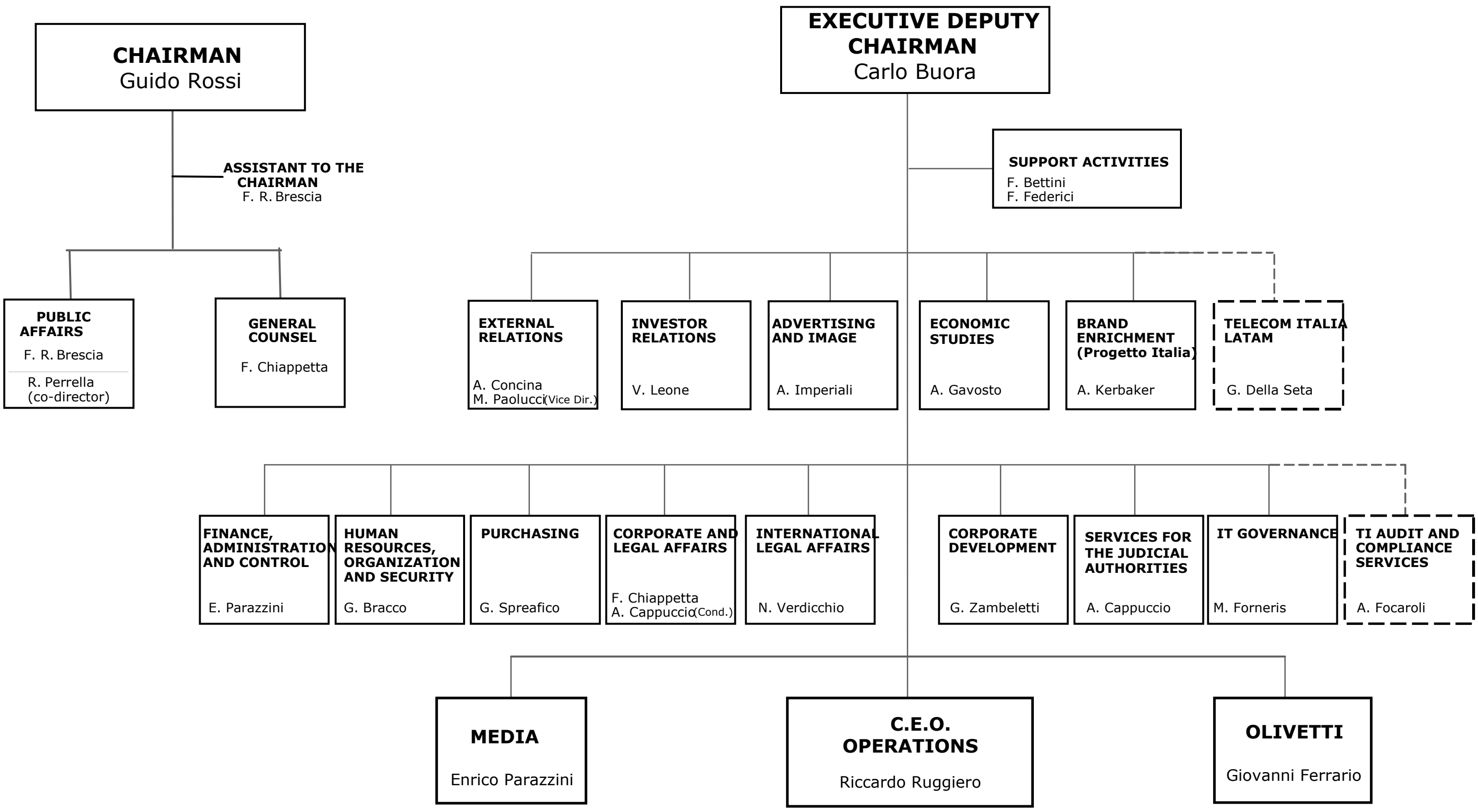
- Bondholders "Telecom Italia S.p.A. Euro 1,250,000,000 notes 5.375% due 2019" — Francesco Pensato

  Appointed by decree of the Milan Court of April 10, 2006, after failure to establish the corresponding bondholders' meeting.

Independent Auditors

Appointment of the audit firm was conferred to Reconta Ernst & Young S.p.A. by the shareholders' meeting held on May 6, 2004 for the three years 2004-2006. Reconta Ernst & Young S.p.A. was first engaged for the three-year period 2001-2003 by the shareholders' meeting of Olivetti S.p.A. (now Telecom Italia S.p.A.) held on July 4, 2000.

MACRO-ORGANIZATION CHART - TELECOM ITALIA GROUP AT DECEMBER 31, 2006



The organizational structure of Telecom Italia Group at December 31, 2006 is as follows:

- Central functions, organized according to Group Functions and/or Service Units, which are in charge of directing the operations of the Group.
- Operations and Business Units, which are responsible for business development and activity coordination for the reference market.

the following report to the Chairman, Guido Rossi:

- the *Public Affairs* Group function
- *General Counsel*

the following report to the Executive Deputy Chairman, Carlo Buora:

- the Chief Executive Officer of *Operations*, Riccardo Ruggiero, who is responsible for ensuring the management and development of the fixed telecommunications, mobile telecommunications and internet services businesses;
- the *Media* and *Olivetti* Business Units;
- the Group Functions of *Advertising & Image, Brand Enrichment (Progetto Italia), Investor Relations, Finance Administration and Control, Human Resources, Organization and Security, Corporate and Legal Affairs, International Legal Affairs, Corporate Development, Purchasing* , *Services for the Judicial Authorities and IT Governance*, *External Relations* and *Economic Studies*;
- *Telecom Italia Audit and Compliance Services* and *Telecom Italia Latam*.

the *Support Activities* function also reports directly to the Executive Deputy Chairman.

Managers with key responsibilities

At December 31, 2006, the “managers with key responsibilities”, that is, those who have the power and responsibility, directly or indirectly, for the planning, direction and control of the operations of Telecom Italia, including the directors, are the following:

Directors:	
Marco Tronchetti Provera (*)	Chairman
Guido Rossi (**)	Chairman
Carlo Orazio Buora	Chief Executive Officer Executive Deputy Chairman from September 15, 2006
Riccardo Ruggiero	Chief Executive Officer General Manager
Managers:	
Gustavo Bracco	Head of Group Human Resources, Organization and Security Function
Enrico Parazzini	Head of Group Finance, Administration and Control Function Head of Media Business Unit CEO of Telecom Italia Media S.p.A.
Massimo Castelli	Head of Market Development in Operations
Francesco Chiappetta	General Counsel Head of Group Corporate and Legal Affairs Function
Luca Luciani	Head of Sales & Customer Services in Operations
Giuseppe Sala (***)	General Manager Head of Top Client and Customer Services in Operations
Stefano Pileri	Chief Technology Officer Head of Technology in Operations
Ramon Grijuela (****)	Head of Top Clients in Operations
Germanio Spreafico	Head of Purchasing

(*) up to September 15, 2006
(**) from September 16, 2006
(***) up to May 31, 2006
(****) from September 11, 2006

***

Starting from January 22, 2007, the Telecom Italia Group implemented an organizational plan aimed at adapting its strategy to the evolution and advances of Technology, the Market, the Competition and the Regulations as well as fostering the convergence of the business areas (fixed-mobile, fixed-media, communication and information technology) with a view towards autonomy and flexibility.

Under this new organizational structure, the following **Group Functions** report to the Chairman, Guido Rossi:

- *Public Affairs (Franco Rosario Brescia)*
- *General Counsel & Corporate and Legal Affairs (Francesco Chiappetta)*

The following report to the Executive Deputy Chairman Carlo Buora:

- the **CEO** of Telecom Italia Riccardo Ruggiero, to whom the following report:
  - the *Domestic Fixed Services Department*, headed by Massimo Castelli, with responsibility for ensuring – at a national level – the development and management of activities relating to wireline telecommunications for consumer and business clientele;
  - the *Domestic Mobile Services Department*, headed by Luca Luciani, with responsibility for ensuring – at a national level – the development and management of activities relating to mobile telecommunications for consumer and business customers;

- the *Top Clients & ICT Services Department*, headed by Mauro Nanni, with responsibility for ensuring the development and management of activities relating to fixed telecommunications and mobile telecommunications and the relative ICT services for TOP customers;
- the *Technology Department*, headed by Stefano Pileri, with responsibility for ensuring the technological innovation of the Group, as well as the development and operation of the fixed and mobile telecommunications networks, systems and IT infrastructures;
- the *Tim Brasil company*, headed by Mario Cesar Araujo, with responsibility for ensuring the development and management of the mobile telecommunications business in Brazil;
- *Quality & Field Services Management*, headed by Ottorino Passariello, with responsibility for ensuring control over delivery processes and technical assistance to the clientele, as well as the monitoring of customer satisfaction and the coordination of plans for improving the quality of service;
- *National Wholesale Services*, headed by Alessandro Talotta, with responsibility for ensuring the management of relations with domestic licensee operators;
- *International Wholesale and Broadband Services,* headed by Stefano Mazzitelli, with responsibility for ensuring the development of the international wholesale business of the Group and also the coordination of broadband operations outside Italy;

and also the Business Development (Giuseppe Zaza) and Regulatory Affairs (Sergio Fogli) Functions;

- the Media Business Unit, headed by Enrico Parazzini;
- the Olivetti Business Unit, headed by Giovanni Ferrario;
- the Group Functions: *Finance, Administration and Control (Enrico Parazzini)*, *Human Resources, Organization and Security (Gustavo Bracco)*, *Domestic Legal Affairs and Services for the Judicial Authorities (Aldo Cappuccio)*, *International Legal Affairs (Nicola Verdicchio)*, *Purchasing (Germanio Spreafico)*, *Strategy (Filippo Bettini)*, *External Relations (Antonio Concina)*, *International Affairs (Giampaolo Zambeletti)* and *Investor Relations (Valeria Leone).*

In addition, *Telecom Italia Audit and Compliance Services,* headed from March 6, 2007 by Federico Maurizio d'Andrea, reports to the Executive Deputy Chairman.

On February 16, 2007, the Telecom Italia board of directors appointed Massimo Castelli, Luca Luciani, Enrico Parazzini and Stefano Pileri as General Managers.

Committees

One of the organizational tools adopted for the management and the operational integration of the Group is the *Committee System* of the Group, with the aim of:

- monitoring the implementation of strategies and the development of plans and results;
- ensuring the overall coordination of business actions and the management of the relative cross-over business issues;
- building up the necessary operating synergies between the various functions involved in the technological, business and support processes;
- fostering the integrated development of the innovation processes of the Group.

In particular, the *Committee System* of the Group includes:

- the *Management Committee*, which coordinates the Group's activities and ensures a unitary approach to the development and implementation of business strategies;
- the *Investments Committee*, which is entrusted with approving investments that exceed specific delegated limits;

- the *Business Reviews Committee for Operations*, *Media* and *Olivetti* which, for each structure, analyzes forecasts, results and operating progress and examines the progress made on the most important projects and action plans;
- the *Technological Innovation Committee*, which ensures an integrated approach to innovation and technological development processes;
- the *IT Governance Committee*, which defines the guidelines for the information strategies of the Group, guides IT strategic decisions and investments consistently with business needs, monitors progress on the most important IT projects, the quality of solutions and cost effectiveness;
- the *Risk Management Committee*, which ensures the identification, the assessment and the management of risks of the Group, coordinating preventive action plans designed to ensure the operating continuity of the business.

THE TELECOM ITALIA GROUP

Name, legal form and duration

Telecom Italia S.p.A. is a joint-stock company established under Italian law with registered offices in Milan at Piazza degli Affari 2. The company is recorded in the Milan Companies Register at number 00488410010, R.E.A. number 1580695.
The duration of the company is fixed by the corporate bylaws until the date of December 31, 2100.

Evolution of the company

Olivetti S.p.A. (now Telecom Italia S.p.A.) was founded in Ivrea (Province of Turin) in 1908 as a manufacturing company to produce typewriters. Subsequently, Olivetti gradually altered its core business from products for the office (mechanical products at first and electronic products later on) to products for information technology and telecommunications.
In May 1999, after the conclusion of a purchase and exchange offer, Olivetti S.p.A. and its subsidiary Tecnost S.p.A. acquired control of the “old” Telecom Italia S.p.A., Italy’s main telecommunications operator, which, at the time, held the monopoly for such operations and was state-controlled (it was privatized in 1997).
In 2003, the “old” Telecom Italia S.p.A. was merged in Olivetti S.p.A., which then took over the name and business purpose of the company it had merged.
In December 2004, the boards of directors of Telecom Italia and Tim S.p.A. (a separate company listed on the stock exchange, controlled by Telecom Italia, engaged in mobile communications services) approved a plan that would eventually lead to the integration of the two companies, thereby ensuring that the Group’s ownership structure would be more streamlined and that the equity and financial structure of the company resulting from the merger would be optimized. At the end of the first stage of this process, in June 2005, TIM was merged in Telecom Italia, after the spin-off of the corporate complex in Italy dealing with mobile communications to Tim Italia S.p.A., a wholly-owned subsidiary of Telecom Italia.
During the course of 2005, activities in the Internet sector, which was already under the control of the subsidiary Telecom Italia Media S.p.A., were also integrated in Telecom Italia through the acquisition of the assets of Virgilio (through the companies Finanziaria Web and Matrix) and Tin.it (through the company Nuova Tin.it).
The final stage in this reorganization process took place in October 2005 when the Telecom Italia board of directors decided to adopt an organizational framework based on the integration of its wireline and mobile businesses (the so-called “One Company Model”). In keeping with this decision, in the following months, Tim Italia was merged in Telecom Italia (with effect from March 1, 2006). At the same time, the process of integrating Internet activities in the Parent continued and, in the second half of the year, led to the merger of the wholly-owned subsidiary Nuova Tin.it S.r.l. (with effect from October 1, 2006).
Given the opportunities offered by the market and technology (especially the focus on the integration between broadband and media content) and the regulatory constraints on the Group’s activities, in September 2006, the board of directors, in a move only apparently out of keeping with the above-mentioned One Company Model, decided to separate (but not sell) its mobile telephony operations and local access network business, and to create other business divisions focused on various market and services segments. In fact, although these are moving towards a growing level of convergence, in terms of operations they will still be fairly independent for some time.
The organizational structure deriving from this approach is illustrated in the section entitled “Macro-organization chart of the Telecom Italia Group”.

Business

The Telecom Italia Group's main business is in the communications sector and, in particular, in phone and data services on the fixed network for final customers and other operators, in the development of fiber optic networks for wholesale customers, in innovative broadband services, in Internet services, in the national and international mobile telecommunications sector, in the television sector using analog and digital terrestrial technology, in the sector of products for the office and in Information Communication Technology, and operates mainly in Europe, the Mediterranean basin and in South America.

At December 31, 2006 the Group was responsible in Italy for the operation of 23,698,000 fixed lines (including the equivalent ISDN lines) and 32,450,000 mobile lines, while, outside Italy, it operated about 25,410,000 mobile lines. The total number of broadband users is 8,660,000, of whom 6,770,000 reside in Italy and 1,890,000 elsewhere in Europe (France, Germany and the Netherlands).

Ownership structure

Telecom Italia is not subject to direction and coordination activities pursuant to art. 2497 and subsequent articles of the Italian Civil Code or to the control of any party pursuant to art. 93 of Legislative Decree 58/1998.

Beginning from 2001, the main shareholder of Telecom Italia is Olimpia S.p.A. (80% of the capital of this company is currently held by Pirelli & C. S.p.A. with the remaining stake owned by Edizione Holding S.p.A. and its wholly-owned subsidiary Edizione Finance International S.A.), which has about an 18% interest in the ordinary share capital of the Company.

Given that Telecom Italia's bylaws state that a slate system for voting should be used for the appointment of the members of the board of directors, at the shareholders' meeting held on May 6, 2004 (approval of the 2003 financial statements and election of the board of directors for the three-year period 2004-2006), Olimpia, with its then holding of approximately 17% of ordinary share capital, designated the election of 15 directors out of a total of 19, having slightly more than half (51%) of the votes expressed at that meeting. At the ordinary shareholders' meeting held on April 7, 2005 (approval of the 2004 financial statements and increase in the number of members of the board of directors from 19 to 21), Olimpia, with a then stake of approximately 21.5% of ordinary share capital, was in possession of approximately 55% of the capital on average represented there.

Moreover, after the merger of TIM in Telecom Italia (with effect from June 30, 2005), Olimpia's investment fell to approximately 18%. With that stake, at the shareholders' meeting held on April 13, 2006 (approval of the 2005 financial statements and substitution of two directors) Olimpia was in possession of a percentage of capital on average represented at the meeting of approximately 55%.

At the date of December 31, 2006, according to the Shareholders Book and other information in the Company's possession, the parties which hold shares with voting rights, directly or indirectly, in excess of 2% of the ordinary share capital of Telecom Italia are the following:

	Type of ownership	No. ordinary shares	% of ordinary share capital
Olimpia S.p.A.	direct	2,407,345,359	17.99%
Assicurazioni Generali S.p.A.	direct and indirect	636,242,171	4.75%
Hopa S.p.A.	direct and indirect	497,901,370	3.72%

At December 31, 2006, Telecom Italia held 1,272,014 ordinary treasury shares, while the subsidiary Telecom Italia Finance S.A. held another 124,544,373 ordinary shares, for a total of 0.94% of capital with voting rights.

Shareholders' agreements

The shareholders of Olimpia (currently the major shareholder of Telecom Italia, with a holding of approximately 18% of the ordinary share capital of the Company) regulated their relationships with an agreement dated August 7, 2001, later amended on September 14, 2001 and on February 13, 2002, containing important clauses for Telecom Italia pursuant art. 122 of Legislative Decree 58/1998.

Under the shareholders' agreement (which will expire on October 4, 2007), Pirelli & C. S.p.A., on one hand, and Edizione Holding S.p.A. and Edizione Finance International S.A. (now, respectively Sintonia S.p.A. and Sintonia S.A.) (together: Sintonia), on the other, have agreed, among other things, to do all in their power so that, within the limits allowed by law, in the board of directors of Telecom Italia:

- one-fifth of the directors (rounded to the next unit up to two directors), whose appointment is not set aside by law, regulation or bylaw to the shareholders or to other parties, shall be designated by Sintonia;
- the Deputy Chairman shall be appointed, with powers of legal representation in the absence or incapacity of the Chairman, from among the directors designated by Sintonia;
- if an Executive Committee is set up, one of its members shall be elected from among the director/directors designated by Sintonia.

Moreover, Pirelli & C. has agreed to see that, within the limits allowed by law, no resolution shall be passed by the board of directors of Telecom Italia without a vote in favor cast by at least one of the directors designated by Sintonia, if present, on the following matters:

- investments individually higher than euro 250 million;
- purchase, sale and acts regarding decisions for whatsoever reason of investments for a controlling or an associated interest individually higher than euro 250 million;
- acts regarding decisions for whatsoever reason of companies or business segments individually higher than euro 250 million;
- motions to call special shareholders' meetings;
- transactions between the Telecom Italia Group and the Pirelli Group for amounts individually higher than euro 50 million;
- transactions with related parties.

On July 12, 2006, Olimpia then signed an agreement with Holinvest S.p.A. covering the pre-emption right of Olimpia on a part (specifically 320,253,610 shares) of the Telecom Italia ordinary shares held in portfolio by Holinvest. At the same time, Holinvest agreed, on behalf of itself and the parent Hopa S.p.A., not to increase the above-mentioned investment without the prior agreement of Olimpia. This agreement is in effect until July 12, 2008.

Finally, notices were rendered public in the national newspapers reporting extracts of the content of the agreement signed on October 18, 2006 between Pirelli & C. S.p.A., Edizione Holding S.p.A. (now Sintonia S.p.A.), Edizione Finance International S.A. (now Sintonia S.A.), Olimpia S.p.A., Mediobanca S.p.A. and Assicurazioni Generali S.p.A., containing important clauses for Telecom Italia pursuant to art. 122 of Legislative Decree 58/1998.

The agreement is managed by a body, the Board, composed of an equal number of members, half of whom are designated by Olimpia (currently: Marco Tronchetti Provera – Chairman and Gilberto Benetton) and one each by the other parties other than Pirelli and Sintonia (currently: Renato Pagliaro for Mediobanca and Giovanni Perissinotto for Generali). The agreement obliges the parties to consult with each other before each Telecom Italia shareholders' meeting on how to exercise their voting rights on the shares contributed to the pact, with the understanding that each party may freely exercise the right to vote where the Board of the pact does not unanimously agree.

The three-year pact initially covered the contribution of Telecom Italia ordinary shares in the following proportions:

Party	No. of ordinary shares	% of ordinary share capital
Olimpia S.p.A.	2,407,345,359	17,99%
Generali Group	490,580,064	3,67%
Mediobanca S.p.A.	206,464,069	1,54%
Total	**3,104,389,492**	**23,20%**

Such shares are covered by lock-up and standstill provisions, with precise rules for a series of exceptions. As an exception to the commitment not to transfer the Telecom Italia shares contributed to the pact, Olimpia keeps, in particular, the faculty to sell its entire stake. However, in that case, Generali and Mediobanca have a pre-emption right. This right cannot be exercised whenever the buyer agrees to purchase the shares of the same Generali and Mediobanca contributed to the pact at the same terms. The same procedure applies in the case of the sale by Pirelli, alone or with Sintonia, of a stake in excess of 50% of the capital of Olimpia.

Special powers

The special powers of the government, under the so-called golden share, were introduced in the bylaws of the "old" Telecom Italia in 1997 during the privatization process. Moreover, the Ministry of the Treasury held an investment of more than 3% of capital with voting rights until December 2002.

The configuration of the special powers has changed over the course of the years. The current article 22 of the bylaws gives the Ministry of Economy and Finance, in concert with the Ministry of Productive Activities, under art. 2 of Law 474 dated July 30, 1994 and later amendments, the following powers:

- objection to the acquisition of investments equal to or higher than 3% of share capital represented by the shares with voting rights in the ordinary shareholders' meeting. Whenever the Ministry deems that the transaction is detrimental to the vital interests of the state, the objection must be expressed within 10 days of the communication made by the Company at the time the buyer requests registration in the shareholders' book. The objection may be appealed within 60 days by the transferee before the Lazio Regional Administrative Court.
- veto, duly justifying the specific detriment to the vital interests of the state, to the adoption of resolutions winding up the Company, the transfer of the business, the merger, demerger, transfer of the registered office outside Italy, change in the corporate business purpose and the suppression or modification of these same special powers. The veto may be appealed within 60 days by the transferee before the Lazio Regional Administrative Court.

In accordance with D.P.C.M. dated June 10, 2004, the special powers can be exercised only in important and crucial matters of law and order, security, health and defense, in specific cases of peril, including also the continuity of providing a public service or the security of the installations and the networks in the public services considered essential.

REGULATORY FRAMEWORK AND COMPETITION

Regulatory framework in ITALY

The sources for the laws used as a benchmark for the electronic communications sector are as follows:

- the "Electronic Communications Code" (ECC – Legislative Decree 259 of August 1, 2003) which incorporated into national law the EU directives of the "*99 Review*" with regard to electronic communications networks and services (the EU directives on "Access", "Authorization", "Framework" and "Universal Service");
- the "Consolidation Act on Radio-Television" (Legislative Decree 177 of July 31, 2005,) which contains the principles for convergence between radio-television and other sectors of interpersonal communications;
- Legislative Decree 262 of October 3, 2006, which contains "Urgent measures with regard to tax and financial matters" and which, with reference to the ECC, partially altered the law on sanctions by introducing further examples of administrative offenses, a generalized increase in the fines for each sanction and the elimination of the custom of fine reductions.

Furthermore, the ECC has confirmed the responsibilities attributed to the Ministry of Communications and the National Regulatory Authority ("NRA") with regard to previous legislation:

- the Ministry is responsible for State functions and services with regard to postal services, telecommunications, multimedia networks, informatics, telematics, radio and television broadcasts and innovative technologies applied to the communications sector.

- The NRA, conceived by Italian Law 249 in 1997, is an independent regulatory authority.
  The NRA must report on its operations to Parliament, which established its powers, defined its bylaws and elected its members. The NRA has the dual responsibility of ensuring that there is fair competition among the operators on the market and also protecting consumers.

Operators with significant market power

In the European Commission Recommendation 2003/311, the EU Commission identified 18 significant markets and asked the national authorities responsible for them to conduct a special analysis of each one with the aim of identifying operators with significant market power. The markets identified were divided into retail markets (markets from 1 to 7: access, national and international phone services and leased lines), wholesale markets (markets from 8 to 14: collection, termination and transit, unbundled access, broadband and wholesale circuits), mobile markets (markets from 15 to 17: collection, termination and international roaming) and the television broadcasting services market (market 18).
During 2006, the NRA concluded all of its preliminary inquiries regarding the analysis of the markets and introduced measures as a result of this analysis which are described below.

Retail markets

A general regulatory framework has been confirmed for all the retail markets and, in particular, the Price Cap has been retained for access services and national telephone services. With regard to the access markets, the NRA has introduced the obligation for Telecom Italia to provide the Wholesale Line Rental ("**WLR**") service, only in those areas where unbundled access services are not provided, with a price which is calculated by means of the retail minus pricing method (equal to the retail subscription charges less 12%). When marketing of the WLR service, which will be available by the end of 2007, begins, Telecom Italia is authorized to offer bundled access-traffic rate plans.
Furthermore, the NRA has removed some of the restrictions for offerings aimed at large business customers together with the obligations with regard to retail leased lines with speeds of more than 2Mbit/s.

Wholesale markets

The NRA has confirmed the continuation of the Network Cap mechanism for calculating the prices of wholesale collection, termination and transit services and of unbundled network-access services (Local Loop Unbundling and Shared Access). This mechanism also applies to circuits, with the aim of ensuring that cost orientation is used to calculate the prices of the termination and long-distance circuit segments. As far as the price of termination on the networks of other operators is concerned, the NRA has fixed a maximum price equal to 1.54 eurocents/min., which will remain valid until June 30, 2007, with an annual reduction which will bring the price to 0.55 eurocents/min. by 2011.

Mobile markets

The NRA has not imposed any obligations on the mobile telephone market or international roaming services. On the other hand, it has established a ceiling for termination on the networks of TIM, Vodafone and Wind, with a target price of 8.90 eurocents/min. for TIM and Vodafone, and of 9.50 eurocents/min. for Wind for 2008. With regard to H3G, the NRA procedure for establishing the ceiling for termination on the fourth Italian mobile operator is still in progress (start of the procedure was July 17, 2006).

The NRA has also conducted market analyses, which are in the process of completion, on three new significant markets: mobile collection markets directing calls towards non-geographical numbers (market 15 bis); the market of wholesale termination for international routing (market 19) and the market of retail dial-up Internet traffic (market 20).

* * *

Finally, the NRA has deliberated on the following matters.

Resolution 694/06/CONS: procedure for setting up the Wholesale Line Rental (WLR) offering in compliance with Resolution no.33/06/CONS

The WLR offering consists in the wholesale sale of the basic and ISDN telephone service associated with the subscription charge paid by residential and non-residential customers who adhere to the Telecom Italia public telephone network. The marketing of this service and of the mandatory associated services must be made available by Telecom Italia within 12 months of the date on which Telecom Italia was informed of Resolution 694/06/CONS (published in *Gazzetta Ufficiale 297* on December 22, 2006). For more details about the calculation of the prices of the WLR service, please refer to Resolution 33/06/CONS with regard to significant markets 1 and 2.

Resolution 504/06/CONS: Urgent measures fixing the prices of calls to directory information services from mobile networks towards non-geographical numbers.

The measure identifies, on a provisional and urgent basis, the mobile networks of Telecom Italia, Vodafone, Wind and H3G as those with significant market power.
A ceiling was established for the prices charged for voice calls on the networks of the mobile operators Telecom Italia (ex-TIM), Vodafone, Wind and H3G, which must not be higher than the current value of the corresponding termination rate, increased by a maximum of 100% for services which are different from and accessory to the simple origination service.

Interconnection

In Resolution 19/06/CIR, the NRA approved with amendments, the interconnection economic conditions of the Telecom Italia offering for the year 2006.

In October 2006, Telecom Italia informed the NRA of its interconnection offering for 2007, which is currently being assessed.

Universal Service

The Universal Service is a minimum set of services of a certain quality, which are available to all customers, regardless of their geographical location and, bearing in mind specific national conditions, offered at a reasonable price. Telecom Italia is the operator charged with the obligation of providing the Universal Service throughout Italy. The NRA considers that Telecom Italia may take advantage of every available means to fulfill its obligation efficiently with regard to cost.

The net cost of the obligation to provide the Universal Service consists in the difference between the company's net cost when it is subject to the obligations of providing the Universal Service and the net cost of the same operation if the obligation did not exist. It is the NRA's responsibility to verify the net cost.

A fund set up by the Ministry of Communications is used to finance the net cost. Companies in the sector contribute to it, including Telecom Italia.

Every time the NRA verifies that the net cost of the Universal Service constitutes an unfair burden for Telecom Italia, it sets off a mechanism to share the costs, which involves payments to the fund by the above-mentioned companies in the sector.

Inquiry proceedings are currently being conducted by the NRA to establish the net cost sustained by Telecom Italia to provide the Universal Service during the years 2003, 2004 and 2005.

Accounting separation and costs accounting

The last accounting separation report of Telecom Italia audited by the NRA and published (both on the NRA website and on the Telecom Italia Group's website) is the one relating to the year 2001.
However, Telecom Italia has already sent the accounting separation reports relating to the years 2002, 2003 and 2004 to the NRA.

The NRA has entrusted Mazars & Guerard with the task of verifying the accounting separation reports for those years.

The accounting separation report for 2005 is currently being prepared. The activities of that year developed both outside the company (relations with the NRA) with the aim of supervising the specific context with regard to the regulation and the law, and inside the company, with the aim of consolidating the revisions of the methods of the new accounting separation system ("Nuovo Sistema di Contabilità Regolatoria", NSAR) and then responding to the new obligations of Accounting Separation for the Markets defined by the new regulatory framework for Italy and the EU as a whole.

In Europe, the "rules" of Accounting Separation were updated in EC Recommendation 2005/698/CE concerning "Cost Accounting and Accounting Separation" which takes into account the regulation of the various sectors divided according to "significant markets".
On a national scale, the NRA issued Resolutions about significant markets, by amending the previous Resolution 152/02/CONS on the subject and establishing new rules for accounting separation and cost accounting, which, however, have not yet been grouped into a single framework.
With this in mind, during 2006, Telecom Italia presented the NRA with a draft proposal for an accounting separation of the fixed network for 2005 divided "by market", followed by another project with a more detailed and analytical format which has the aim of: a) providing a single contribution for the concrete realization of accounting separation reports; b) identifying consistent, feasible rules to be applied, with effect from 2005; and c) guaranteeing consistency with Recommendation 2005/698/CE.

"12" Directory Information Service

Since the coming into force of the ECC, the "12" directory information service no longer features among the services offered by the Universal Service. This market has been deregulated since October 2005 (now there is a range of directory information services based on 12xy numbers).
In Resolution 12/05/CIR of May 19, 2005, due to the delays in the process of assigning numbers and receiving requests from operators, the NRA established October 1, 2005 as the first day of the new 12xy number service and the end, on the same day, of the Telecom Italia "12" service and on December 1, 2005 the directory information service with numbers beginning with "4".
This last date was postponed twice by Resolutions 83/05/CIR and 18/06/CIR, and was eventually moved to September 30, 2006.

Rights of way

The matter of rights of way to permit the building of electronic communications network infrastructures underground and above ground is defined in detail by the ECC.
The ECC describes the powers of local authorities with regard to procedures for granting rights of way, and the powers of the NRA to provide incentives so that operators are encouraged to share the location and use of such infrastructures.

General authorizations

Telecom Italia owns: a) the individual license to install and supply public telecommunications networks and to provide a public voice telephone service; b) the individual license to install and operate a network of coastal stations with the aim of providing the mobile maritime service and land-based stations to provide a mobile service through the Inmarsat satellite.
The licenses described above were issued to Telecom Italia by the NRA on January 19, 2001 with resolutions 820/00/CONS and 738/00/CONS. In March 2001, the licenses for offering

mobile communications services based on GSM technology were also transformed into individual licenses.
The ECC has authorized the conversion of all pre-existing rights into general authorizations, and, at the same time, decreed that they will continue to be valid until they expire spontaneously.
At the end of 2006, there were about 160 operators with a special license allowing them to operate electronic communications services.

NRA fee for 2006

In Resolution 110/06/CONS, the NRA established how operators should pay their fee for the year 2006 and the amounts to be paid.
In particular, for the year 2006, the fee fixed by article 1, paragraph 66 of Italian Law 266 of December 23, 2005, in a measure equal to 1.5 per thousand, owed to the NRA by companies operating in the communications sector which were identified in the Ministerial Decree of May 17, 2002, is calculated based on the revenues recorded in the last financial statements approved prior to the coming into force of the above-described Law 266 of December 23, 2005.
The Telecom Italia Group paid an overall amount of approximately euro 23.9 million for the year 2006 (the sum of the share of the amounts due by Telecom Italia and the former TIM).

Legislation on competition

Telecom Italia is obliged to observe Italian laws concerning the protection of competition.
Italian Law 287 of October 10, 1990 ("Laws for protecting competition and the market") created the "Autorità Garante della Concorrenza e del Mercato", or Antitrust Authority, which is an independent body.
The Antitrust Authority is responsible for:

- applying Law 287 of 1990 and supervising the following matters: a) restrictive agreements by the competition; b) abuses of a dominant position; c) concentration of enterprises;
- applying the standards of Legislative Decree 206 of 2005 with regard to deceitful advertising and comparative advertising;
- looking out for conflicts of interest in the case of people holding government posts.

Regulatory framework in BRAZIL

The activities of the Telecom Italia Group in Brazil are subject to the General Law on Telecommunications (Ley General de Telecomunicações – LGT) of 1997 and the regulatory framework for the supply of telecommunications services promulgated by the Brazilian regulatory authority, Agência Nacional de Telecomunicações ("ANATEL").
ANATEL is an independent, financially autonomous body which reports to the Brazilian Ministry of Communications.
Authorizations for supplying telecommunications services are granted either in the public sphere (by granting a concession or permit) or in the private sphere (through an authorization).
At the moment, only a few fixed-network operators operate in the public sphere. All the other telecommunications services operate in the private sphere, including operators of mobile networks.
In 2005, ANATEL published a special set of regulations with regard to operators with Significant Market Power, to which ANATEL intends to apply stricter standards with the aim of guaranteeing competition.

Authorizations

When the Telebras system was privatized, concessions for the analog mobile telephone system were granted according to the "SMC" (Serviço Movel Celular – Brazilian Law 9295 of July 19, 1996), which involved the granting of concessions, accompanied by a list of obligations, for geographical areas.
Later, ANATEL introduced the standards which allowed SMC concessions to be converted into authorizations, as laid down in the new "PCS" (Personal Communications Services) regulations.
The companies of the Telecom Italia Group operating in Brazil acquired SMC concessions between 1997 and 1998 (later converted into PCS authorizations in 2002) and PCS authorizations in 2001 as a result of bids.

Rules concerning interconnection

Telecommunications operators must publish a public offering of interconnection economic conditions and are subject to the "General Interconnection Regulatory Framework" promulgated by ANATEL in 2005.
The amounts charged for interconnection are freely negotiated among the operators concerned. However, to avoid any detriment to the competition, ANATEL may fix the amounts if the operators do not succeed in coming to an agreement.
Interconnection agreements must be approved by ANATEL before they can be applied.

Major changes in regulations in 2006

In Resolution 438 of July 2006 (Resolução 438), the partial bill & keep rule was eliminated. This bill had required an obligation to pay the termination charge only if traffic exceeded 55% of the total in the calls between two mobile operators in the same (local) area.
This decision has had positive results on interconnection revenues and a corresponding negative effect on the costs of interconnection, since each operator must pay (and receive) the termination charge for all the traffic exchanged at the interconnection instead of for a certain share.

Regulatory frameworks in FRANCE and GERMANY

Telecom Italia is represented in France and Germany by two companies, Telecom Italia S.A.S. and HanseNet Telekommunikation GmbH, which market broadband products under the "Alice" brand.
The regulatory framework in these two countries is a national transposition of the European Framework defined by the European Directives contained in the "99 Review" mentioned earlier.
The regulatory context of both countries is therefore comparable to the Italian one, with responsibility being shared between the relevant Ministry and an independent Authority (Arcep in France, BNetzA in Germany). Here, too, individual markets with Significant Market Power (with their relative obligations) have been identified as a result of an analysis of the significant markets in those countries.

COMPETITION

Our domestic fixed and mobile telecommunications operations, as well as our BroadBand services businesses, are subject to extensive regulatory requirements in Italy and our international operations and investments are subject to regulation in their host countries. In particular, as a member of the European Union ("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.

Fixed-line Domestic Telecommunications Services Market

As a result of the full liberalization of the Italian domestic market for telecommunications services, we have faced increasingly significant competition since 1998, including competition from foreign telecommunications operators.

In 2006, competition in the Italian domestic market was characterized by offering innovation through the introduction of bundled voice/BroadBand (double play) and bundled voice/BroadBand/IPTV (triple play) offers. Market development was also characterized by a migration from a primarily reseller approach (Carrier Selection/Carrier Pre Selection for voice and Wholesale for ADSL) to an infrastructure-based approach (Shared Access or Local Loop Unbundling – "LLU").

In particular, in 2006 competition in the Italian domestic market was driven by five players (other than Telecom Italia) with differentiated business models and focus on different market segments:

- Fastweb (a national player focused on BroadBand and 3Play offers);
- Albacom (focused on business customers and ICT offers: voice, data and IT solutions);
- Wind-Infostrada (an integrated fixed/mobile/Internet operator focused on retail customers);
- Tiscali (a Narrow Band and Broad Band Internet Operator, developing 2Play/VoIP low cost offers);
- Tele2 (voice, Internet dial up and BroadBand, developing discounted 2Play/VoIP offers focused on retail Customers).

Telecom Italia market share in the Italian retail traffic volumes (retail voice and on-line traffic only) on December 31, 2006, stood at 71.9% compared to 72.3% on December 31, 2005 and 71.7% on December 31, 2004. Our most significant competitors in this segment are Tele2 and Wind; Albacom and Fastweb target specific markets (business customers for Albacom; high spending consumers for Fastweb).

The Italian fixed voice market has been, on one side, influenced by the development of mobile operators that attract voice traffic through the advantage of mobility, a wide range of Value Added Services and high performance terminals, while, on the other side, has been subject to cannibalization by the increasing penetration of alternative communication solutions (messaging, e-mailing, chat).

The BroadBand market continued to grow but at a slowing rate and subject to an increasing competition.

In 2006, competition intensified also in the top client/Data market, with pressure on average prices.

In this increasingly challenging market Wireline Business Unit revenues decreased only slightly, while maintaining a level of profitability at the top of peers' range.

We believe that our combination of service, performance, quality, reliability and price is an important factor in maintaining our strong competitive position. Telecom Italia will also actively seek additional business in high growth business areas (e.g. ICT, PayTV) enabled by innovative technologies and platforms.

Domestic Mobile Telecommunications Services Market

In 2006 the mobile telecommunications market continued to grow in Italy but at a slowing rate. As of December 31, 2006, the number of cellular phone lines reached 80.4 million, corresponding to a penetration rate of around 137% of the population.

There are three key competitors to Telecom Italia in the Italian mobile market: Vodafone, Wind and H3G (called "3"). At December 31, 2006, Telecom Italia held the market leadership with a market share of 40.4%, with Vodafone, Wind and H3G having market shares of approximately 32.5%, 18.4% and 8.8%, respectively.

In 2006, we had a 43% market share of net additional GSM and UMTS lines, corresponding to 3.9 million net lines, compared to 2.4 million for Vodafone, 1.0 million for Wind and the remaining 1.6 million attributable to H3G.

Competition for mobile telecommunications services remained strong in 2006, and Telecom Italia responded with:

- a strong commercial push to defend market leadership;
- innovative and segmented offers;
- a volume and value strategy:
  - pushing on gross adds to stop challengers growth (Wind, H3G);
  - securing the competitive gap on valuable customers (TIM vs. Vodafone), also through value oriented Mobile Number Portability with a focus on high end customers;
- leveraging the benefits from fixed and mobile integration:
  - strengthening the distribution channels;
  - price defense (no price war in fixed / mobile substitution);
- focus on handsets leadership (7.4 million handsets sold in 2006):
  - TIM 3G successful strategy: 300 thousand HSDPA handsets sold in 2006;
- solid positioning in the small and medium enterprise segment;
- focus on customer care and quality of service.

We believe that the continuous improvement of the quality of our services and the strengthening of our leadership in network and marketing activities are important factors in maintaining our strong competitive position.

The European BroadBand Market

<u>German BroadBand Market</u>

Germany is the first BroadBand market in Europe in terms of size: 15 million BroadBand accesses, approximately €8 billion in value and it continues to grow rapidly. It is characterized by:

- five main competitors and room for further merger and acquisition activity following the recent consolidation process;

- an increase of alternative operators LLU coverage and early stage VDSL/Fiber Network projects;
- the increasing penetration of dual and triple play offers;
- an Average Revenue Per User (“ARPU”) of 40-50 €/month for bundle Voice + DSL, higher than the European average. And without dramatic reductions expected in the short term;
- the appearance of Fixed – Mobile convergent offers (mobile operators O2 and Vodafone announced the entry in the DSL market).

HanseNet strong performance in 2006 was based on:

- a robust increase in the ADSL customer base (approximately 929,000 Broadband access lines at the end of 2006);
- strong focus on network coverage, reaching 40% of German households in the fourth quarter of 2006;
- continuous improvement in profitability driven by operational efficiency.

In September 2006 Telecom Italia acquired AOL Germany’s Internet business from Time Warner. Transaction closed on February 28, 2007. The combined entity HanseNet plus AOL has become the third BroadBand player in Germany with approximately 15% market share. The other main BroadBand operators are: T-Online with 41% market share, United Internet with 16% market share, Arcor with 13% market share and Freenet + Tiscali with 8% market share.

French BroadBand Market

The French BroadBand market reached approximately 13 million BroadBand accesses in 2006, corresponding to a penetration of 40% on total fixed lines, and it continues to grow at a rapid pace. It is characterized by:

- a strong competition, focused on portfolio innovation (launch of ADSL 2+, first market for VoIP and IPTV penetration in Europe);
- a stabilization of triple play average prices (approximately 30€/month for all players);
- the room for further merger and acquisition activity despite recent consolidation events (i.e. merger Neuf/Cegetel and following acquisition of AOL France, Tele 2 acquisition by SFR).

Telecom Italia France performance in 2006 was characterized by:

- the consolidation of its market position through an increase in the ADSL customer base, reaching 775,000 BroadBand accesses in December 2006 (+43% vs. 2005);
- the increase of market share (from around 6% at the end of 2005 to approximately 7% at the end of 2006). The other main competitors are: France Telecom with 49% of market share, Iliad with 19% market share, Neuf/Cegetel with 18% market share and Club Internet with 5% market share;
- a strong focus on LLU network coverage, reaching 36% of fixed lines in the fourth quarter of 2006 (approximately 11 million households);
- the continuous recovering of EBITDA margin.

The Brazilian Mobile Market

In 2006, the Brazilian telecommunications market growth was driven by mobile and BroadBand services development.

The fixed line market still accounted for 60% of the total telecommunications business and approximately reais 46 billion in revenues, representing an opportunity for challengers of fixed-line operators.

The mobile services market continued to grow, but at a slowing rate compared to 2005. As of December 31, 2006, the number of cellular phone lines reached 99.9 million, corresponding to a penetration rate of around 53.2% on the Brazilian population (86.2 million lines in 2005; penetration rate of 47.2%).

There is significant competition in the Brazilian mobile business, with both local and international mobile operators, the most significant of which are Vivo with 29.1% market share, TIM Brasil with 25.4%, Claro with 23.9% and OI with 13.1%. TIM Brasil, the only mobile operator with national GSM coverage, was the best performing operator in net customer additions (+5.2 million lines, +2 p.p. in total market share), reaching, at December 31, 2006, 25.4 million lines, compared to 23.4 million lines at December 31, 2005.

In the fourth quarter of 2006, TIM Brasil outperformance versus the main competitors continued becoming the first operator in service revenue share, improving ARPU gap and reaching the highest EBITDA margin within its peers in Brazil.

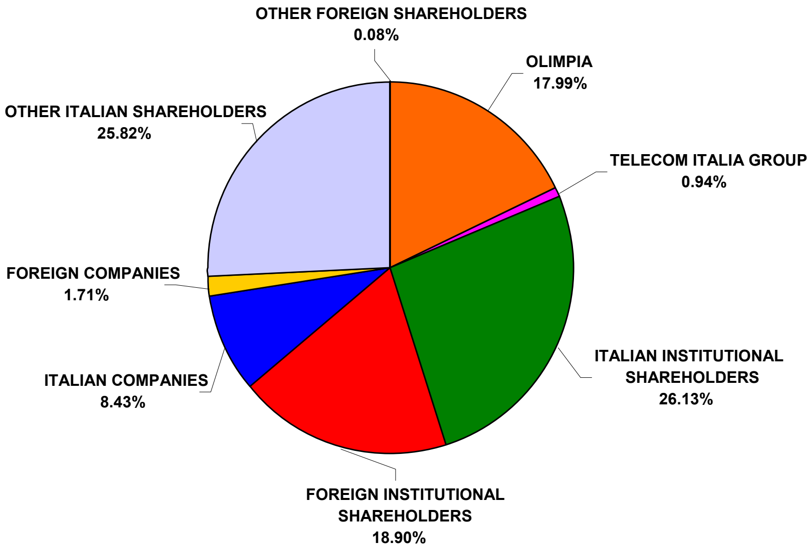
SHAREHOLDER INFORMATION

TELECOM ITALIA S.p.A. SHARE CAPITAL AT DECEMBER 31, 2006

Share capital (issued)	euro 10,673,764,056.45
Number of ordinary shares (par value of euro 0.55 each)	13,380,723,078
Number of savings shares (par value of euro 0.55 each)	6,026,120,661
Number of Telecom Italia ordinary treasury stock	1,272,014
Number of Telecom Italia ordinary shares held by Telecom Italia Finance	124,544,373
Percentage of treasury stock to share capital held by the Group	0.65%
Market capitalization (based on December 2006 average prices)	euro 42,219 million

SHAREHOLDERS

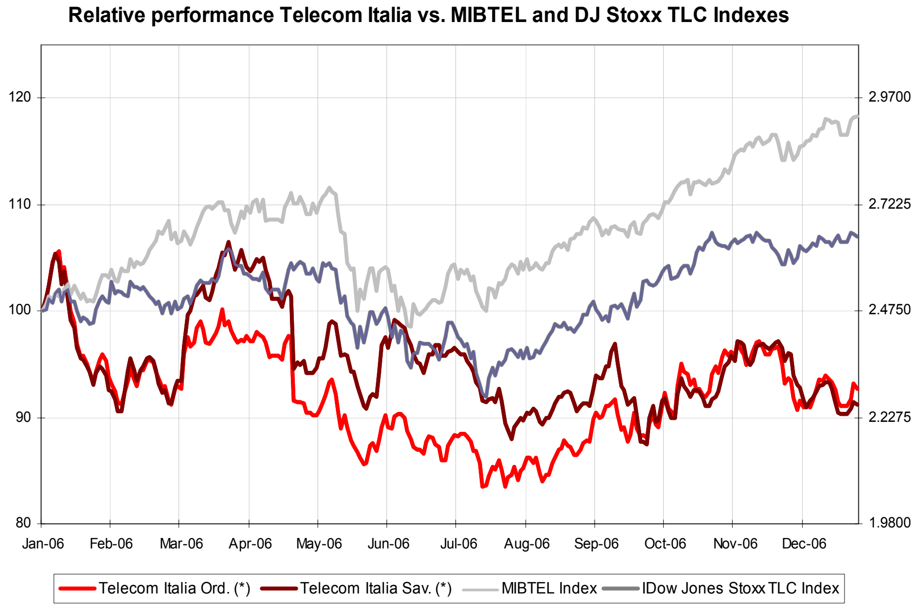
Composition of Telecom Italia S.p.A. shareholders
according to the Shareholders Book at December 31, 2006,
supplemented by communications received and other sources of information
(ordinary shares)



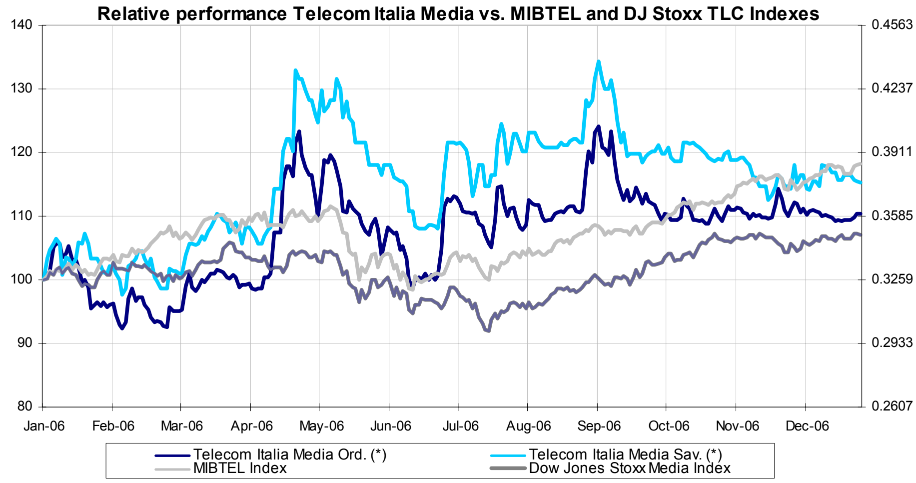
On October 18, 2006, Olimpia, Pirelli, Edizione Holding, Edizione Finance International, (now respectively Sintonia S.p.A. and Sintonia S.A.) Mediobanca and Generali signed a shareholders' agreement in which Olimpia, Mediobanca and Generali contributed a total of 23.2% of Telecom Italia ordinary capital to the pact. With the signing of this agreement (covering a period of three years), the parties to the agreement intend to ensure the continuity and stability of the shareholder base and the governance of the Telecom Italia Group with the aim of sustaining its industrial development in a context of economic and financial equilibrium for the creation of value for all the shareholders.

■ PERFORMANCE OF THE STOCKS OF THE MAJOR COMPANIES IN THE TELECOM ITALIA GROUP (*)

Relative performance
TELECOM ITALIA S.p.A.
1.1.2006 – 12.31.2006
vs. MIBTEL and
DJ Stoxx TLC Indexes
(Source: Reuters)



Relative performance TELECOM ITALIA MEDIA S.p.A.
1.1.2006 – 12.31.2006
vs. MIBTEL and
DJ Stoxx MEDIA Indexes
(ordinary shares)



(*) Telecom Italia ordinary and savings shares are listed on the NYSE (New York Stock Exchange) through ordinary and savings ADS (American Depositary Shares) representing, respectively, 10 ordinary shares and 10 savings shares of Telecom Italia.

RATINGS AT DECEMBER 31, 2006

	Rating	Outlook
STANDARD&POOR'S	BBB+	Negative
MOODY'S	Baa2	Stable
FITCH RATINGS	BBB+	Stable

On March 30, 2006, Standard & Poor's revised its expectations on Telecom Italia changing the outlook from "Stable" to "Negative" and confirming the "BBB+" rating on the company's long-term debt. On September 11, 2006, S&P's placed its BBB+ negative outlook rating on Telecom Italia on creditwatch negative following the first announcements of a Group reorganization plan. On September 14, 2006, S&P's justified its decision by indicating some of its assessments about a possible increase in the risk that could be associated with the decisions taken by the board of directors on September 11, 2006 and stated that it would resolve its creditwatch status. Following a greater in-depth analysis, on December 4, 2006, S&P's confirmed its "BBB+ *negative outlook*" rating and removed the creditwatch.

On April 11, 2006, Fitch Ratings downgraded its rating of Telecom Italia from "A-" to "BBB+" deeming that the financial flexibility of the company had been reduced as a consequence of the announcement of an increase in dividends. After the rating change, the outlook was raised from "Negative" to "Stable".

As for Moody's, the last ratings update was made on December 7, 2004.

FINANCIAL RATIOS

(euro)	2006	2005	2004
Telecom Italia S.p.A.			
Stock prices (December average)			
- Ordinary	2.28	2.44	2.98
- Savings	1.94	2.08	2.29
Dividends per share			
- Ordinary	0.1400	0.1400	0.1093
- Savings	0.1510	0.1510	0.1203
Payout Ratio (*)	69%	72%	93%
Market to Book Value	1.72	2.06	2.62
Dividend Yield (based on December average)			
- Ordinary	6.14%	5.74%	3.67%
- Savings	7.78%	7.26%	5.25%
Telecom Italia Group			
Basic earnings per share – ordinary shares	0.15	0.17	0.11
Basic earnings per share – savings shares	0.16	0.18	0.12

(*) In 2006 the ratio is calculated on the basis of the resolutions for the distribution of net income proposed in the shareholders' meeting on April 16, 2007.

SELECTED OPERATING AND FINANCIAL DATA – TELECOM ITALIA GROUP

The operating and financial results of the Telecom Italia Group for the year 2006 and the previous periods presented for comparison purposes, have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board ("IFRS") and endorsed by the European Union.

In 2006, the scope of consolidation shows the following changes compared to the annual financial statements at December 31, 2005:

- inclusions: Liberty Surf Group (consolidated from June 1, 2005);
- exclusions: the Entel Chile group (sold in March 2005), Tim Hellas (sold at the beginning of June 2005), the Finsiel group (sold at the end of June 2005), Tim Perù (sold in August 2005), Gruppo Buffetti (sold in January 2006) and Digitel Venezuela (sold in May 2006), already classified in discontinued operations/assets held for sale, as well as the exclusion of Wirelab (sold in February 2006), Ruf Gestion (sold in March 2006), Eustema (sold in April 2006), Telecom Italia Learning Services (sold in July 2006) and other minor companies.

In the balance sheet at December 31, 2006, assets held for sale also include the investments held in Solpart Participaçoes and Brasil Telecom Participaçoes following the decision to proceed with the disposal of these holdings.

Segment information

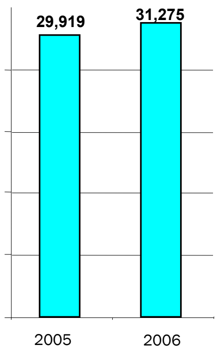
The disclosure of segment information has been modified to present the Brazil Mobile segment separately from the Domestic Mobile segment in light of the increasing importance of the Brazilian mobile business and the organizational changes that took place during 2006.

In order to facilitate the comparability of the data, the segment information presented for prior periods has been restated for purposes of comparison.

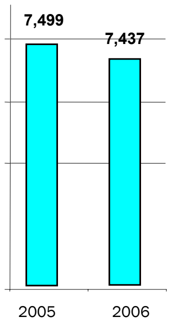
The accounting representation by business segment is as follows:

- Wireline
- Domestic Mobile
- Brazil Mobile
- Media
- Olivetti
- Other activities

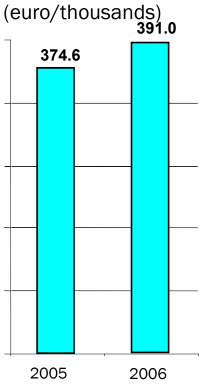
Revenues
(euro/mln)



EBIT
(euro/mln)



Revenues/Employees
(euro/thousands)



	2006	2005	2004
Consolidated Operating and Financial Data (millions of euro)			
Revenues	31,275	29,919	28,292
EBITDA(1)	12,850	12,517	12,864
EBIT(1)	7,437	7,499	7,603
Income from continuing operations before taxes	5,515	5,535	5,606
Net income from continuing operations	2,996	3,140	2,952
Net income from discontinued operations/assets held for sale	7	550	(118)
Net income for the year	3,003	3,690	2,834
Net income attributable to the equity holders of the Parent	3,014	3,216	1,815
Capital expenditures:			
Industrial	5,114	5,173	5,002
Financial	206	14,934	868
Consolidated Profit Ratios			
EBITDA(1) / Revenues	41.1	41.8	45.5
EBIT(1) / Revenues (ROS)	23.8	25.1	26.9
Revenues/Employees (average number in the Group, thousands of euro)	391.0	374.6	355.4

	12/31/2006	12/31/2005	12/31/2004 restated (2)
Consolidated Balance Sheet Data (millions of euro)			
Total assets	89,457	96,010	81,997
Total equity	27,098	26,985	20,798
- attributable to the equity holders of the Parent	26,018	25,662	16,248
- attributable to the Minority interests	1,080	1,323	4,550
Total liabilities	62,359	69,025	61,199
Total equity and liabilities	89,457	96,010	81,997
Share capital	10,605	10,599	8,809
Net financial debt	37,301	39,858	32,862
Debt ratio (Net financial debt/Net invested capital (3))	57.9	59.6	61.2
Employees, number in the Group at year-end (4)			
Employees (excluding employees relating to discontinued operations/assets held for sale)	83,209	85,484	82,620
Employees relating to discontinued operations/assets held for sale	-	1,047	11,402

	2006	2005	2004
Employees, average number in the Group (4)			
Employees (excluding employees relating to discontinued operations/assets held for sale)	79,993	79,869	79,602
Employees relating to discontinued operations/assets held for sale	279	4,478	11,248

(1) For details, please refer to the section "Alternative performance measures".
(2) The data at 12/31/2004, for purposes of comparison with 12/31/2005 and 12/31/2006 figures, has been prepared considering the following companies as discontinued operations: Finsiel group, Digitel Venezuela, Entel Chile group, Tim Hellas, Tim Perù and Gruppo Buffetti.
(3) Net invested capital = Total equity + Net financial debt.
(4) The number includes persons with temp work contracts.

ALTERNATIVE PERFORMANCE MEASURES

In this Report on Operations, in addition to the conventional financial performance measures established by IFRS, certain non-IFRS measures are presented for purposes of a better understanding of the trend of operations and the financial condition of the Group and the Parent, Telecom Italia, for the years ended December 31, 2006 and 2005; however, such measures should not be construed as a substitute for the operating and financial information required by IFRS.

Specifically, the non-IFRS alternative performance measures used are described below:

- **EBITDA.** This financial measure is used by Telecom Italia as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group (as a whole and at the level of the Business Units) and of the Parent, in addition to **EBIT.** These measures are calculated as follows:

Income from continuing operations before taxes	
+	Financial expenses
-	Financial income
+/-	Share of losses (profits) of associates and joint ventures accounted for using the equity method (*)
EBIT (Operating Income)	
+/-	Impairment losses (reversals) on non-current assets
+/-	Losses (gains) realized on disposals of non-current assets
+	Depreciation and amortization
EBITDA (Operating income before depreciation and amortization, Capital gains (losses) realized and Impairment reversals (losses) on non-current assets)	

(*) caption in Group consolidated financial statements only

- **Organic growth of Revenues, EBITDA and EBIT.** This measure expresses changes (amount and/or percentage) in Revenues, EBITDA and EBIT, excluding, where applicable, the effects of the change in the scope of consolidation, exchange differences and non-organic components constituted by non-recurring items and other non-organic income/expenses.
  Telecom Italia deems that the presentation of such additional information allows the operating performance of the Group (as a whole and of the Business Units) and the Parent to be interpreted in a more effective manner.
  The organic change in Revenues, EBITDA and EBIT is also used in presentations to analysts and investors. This report provides details and a graphic representation of the economic amounts used to arrive at the organic change as well as an analysis of the major non-organic components for the years 2006 and 2005.

- **Net financial debt.** Telecom Italia maintains that the Net Financial Debt represents an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets (financial receivables and securities other than equity investments). A table is presented in this report that shows the amounts taken from the balance sheet and used to calculate the Net Financial Debt.

COMMENTS ON OPERATING AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP

CONSOLIDATED STATEMENTS OF INCOME

(millions of euro)	Year 2006 (a)	Year 2005 (b)	Change (a-b)	%
Revenues	31,275	29,919	1,356	4.5
Other income	606	678	(72)	(10.6)
Total operating revenues and other income	**31,881**	**30,597**	**1,284**	**4.2**
Purchases of materials and external services	(14,191)	(12,937)	(1,254)	9.7
Personnel costs	(3,801)	(4,142)	341	(8.2)
Other operating expenses	(1,543)	(1,468)	(75)	5.1
Changes in inventories	8	(4)	12	°
Capitalized internal construction costs	496	471	25	5.3
OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) OF NON-CURRENT ASSETS (EBITDA)	**12,850**	**12,517**	**333**	**2.7**
Depreciation and amortization	(5,487)	(5,232)	(255)	4.9
Gains (losses) on disposals of non-current assets (1)	95	242	(147)	(60.7)
Impairment reversals (losses) on non-current assets	(21)	(28)	7	(25.0)
OPERATING INCOME (EBIT)	**7,437**	**7,499**	**(62)**	**(0.8)**
Share of profits (losses) of associates and joint ventures accounted for using the equity method	51	23	28	121.7
Financial income	3,041	3,144	(103)	(3.3)
Financial expenses	(5,014)	(5,131)	117	(2.3)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	**5,515**	**5,535**	**(20)**	**(0.4)**
Income taxes	(2,519)	(2,395)	(124)	5.2
NET INCOME FROM CONTINUING OPERATIONS	**2,996**	**3,140**	**(144)**	**(4.6)**
Net income from discontinued operations/assets held for sale	7	550	(543)	(98.7)
NET INCOME FOR THE YEAR	**3,003**	**3,690**	**(687)**	**(18.6)**
of which:				
· **Net income attributable to equity holders of the Parent**	**3,014**	**3,216**	**(202)**	**(6.3)**
· Net income (loss) attributable to Minority interests	(11)	474	(485)	°

(1) Excludes capital gains/losses realized on disposals of investments classified as discontinued operations/assets held for sale and investments other than in subsidiaries.

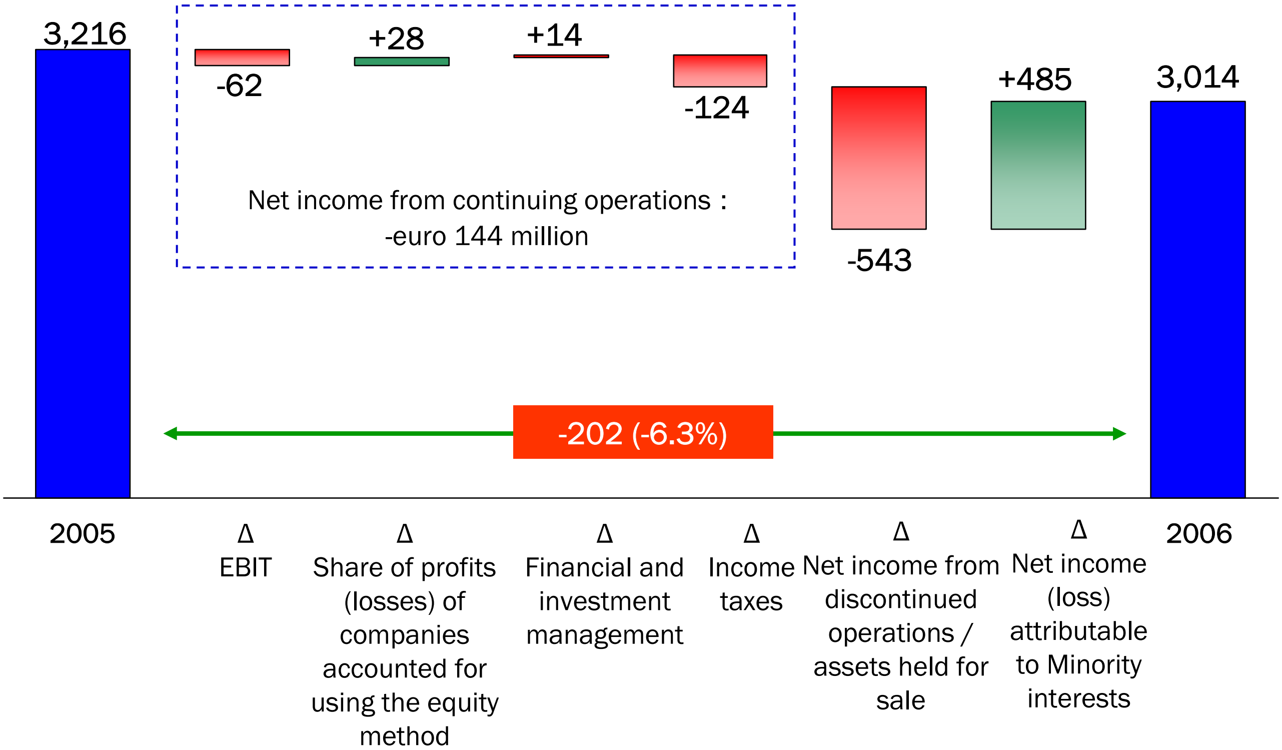
Consolidated net income attributable to the equity holders of the Parent is euro 3,014 million (euro 3,003 million before Minority interests). In 2005, the consolidated net income of the Group was euro 3,216 million (euro 3,690 million before Minority interests).
The change in the consolidated net income of the Group (-euro 202 million) is due to the following:

- *operating income,* -euro 62 million;
- *share of profits (losses) of associates and joint ventures accounted for using the equity method,* +euro 28 million;
- lower *financial expenses*, net of financial income, euro 14 million: the improvement in the financial management balance (euro 173 million) is offset by a lower result from investment management and the release of provisions relating to Avea I.H.A.S.;
- higher *income taxes,* euro 124 million, following the increase in the taxable base and the accruals to the provision for taxes set aside by the Parent;
- lower *net income from discontinued operations/assets held for sale,* euro 543 million. In 2005, this caption included net gains from discontinued operations for euro 506 million.
- lower *net income attributable to Minority interests* (+euro 485 million), mainly in connection with the transaction for the integration of TIM (tender offer and merger). During 2005, in

January with the tender offer and in June with the merger, total control was acquired over the mobile business.

The following chart summarizes the major items which had an impact on the consolidated net income of the Group in 2006:

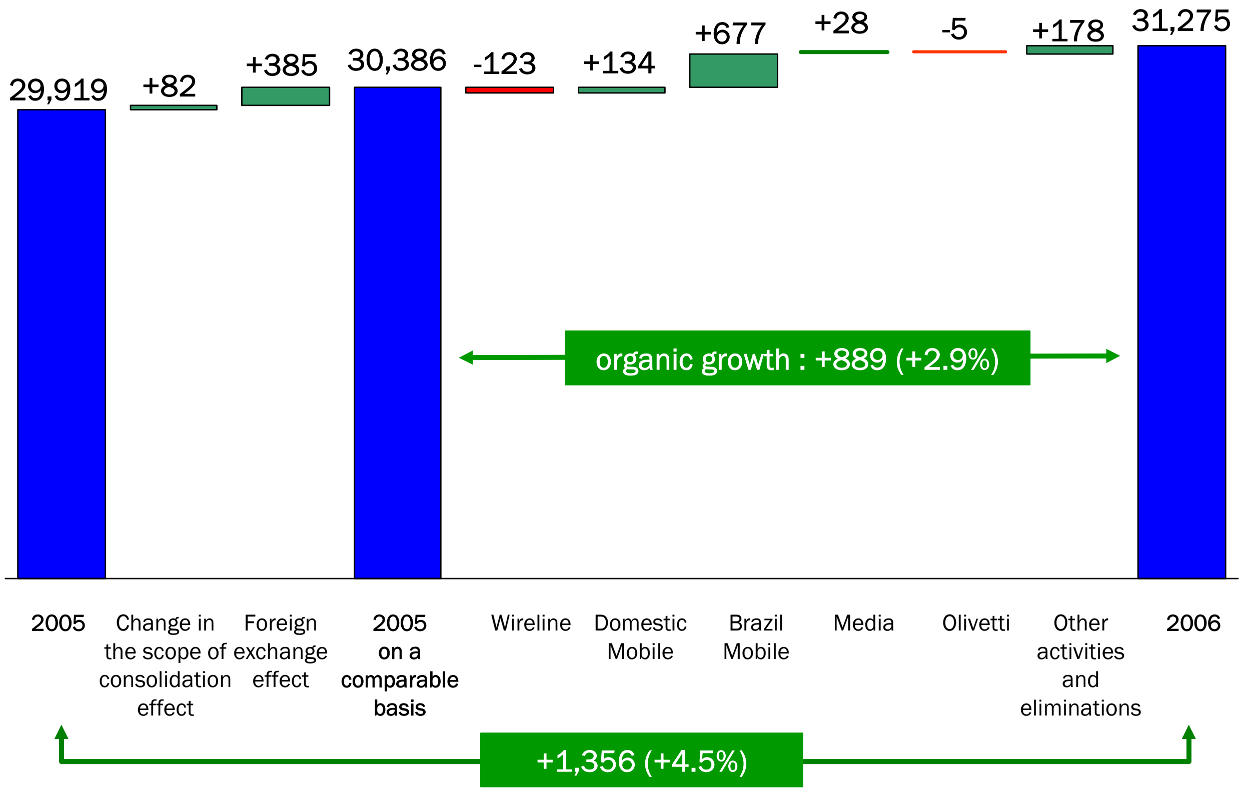
(millions of euro)



Revenues amount to euro 31,275 million, with an increase of 4.5% compared to euro 29,919 million in 2005. Excluding the positive foreign exchange effect (+euro 385 million, mainly due to the Brazil Mobile Business Unit) and the change in the scope of consolidation (+euro 82 million chiefly in reference to the Liberty Surf group), the organic growth is equal to 2.9% (euro 889 million). Revenues in 2006 compared to 2005 are impacted by the cut in termination rates starting from the second half of 2005.

The following chart summarizes the changes in revenues during the periods under comparison:

(millions of euro)



The organic growth of revenues particularly reflects:

- a reduction in the revenues of the Wireline Business Unit (-euro 123 million): the constant growth of the national and European broadband market and wholesale services was countered by a decline in the traditional telephony market which was also hurt by the impact of the reduction in termination rates and the migration of voice traffic from the fixed to the mobile network;
- a positive contribution by the Domestic Mobile Business Unit (+euro 134 million), with an increase of 1.3% compared to 2005. This growth is particularly due to the expansion of value-added services, the positive trend of revenues from outgoing voice traffic and the growth of revenues from handset sales, countered by the negative impact of the new fixed-mobile and mobile-mobile termination rates that came into effect;
- a significant contribution by the Brazil Mobile Business Unit (+euro 677 million), driven by the expansion of the customer base and a positive input by value-added services. In July 2006, regulatory changes were introduced (abolition of the “Bill and Keep” rule) which generated a positive impact on revenues equal to euro 262 million and a similar increase in interconnection costs;
- an increase in the revenues of the Media Business Unit (+euro 28 million), which showed a positive trend compared to 2005 thanks to national advertising which grew at a faster pace than the market and the contribution made by Digital Terrestrial Pay-per-View revenues;
- a reduction in the invoicing of the Olivetti Business Unit (-euro 5 million), due to the decline in traditional Ink-jet and Gaming sales, which was partly compensated by the growth in specialized printers, new Ink-jet products and professional Office products;
- an increase in Other activities and eliminations (+euro 178 million) in connection with

both lower eliminations on transactions between the Wireline and Domestic Mobile Business Units, mainly as a result of the reduction in termination rates and the migration of voice traffic from the fixed to the mobile network, and also the increase in revenues from Other activities.

Revenues from telecommunications services are presented gross of the amount of revenues due to third-party operators of euro 5,721 million (euro 4,829 million in 2005, +18.5%).

Foreign revenues amount to euro 7,969 million (euro 6,165 million in 2005); 49.3% of the total is localized in Brazil (46.6% in 2005).

Other income amounts to euro 606 million (euro 678 million in 2005) and includes:

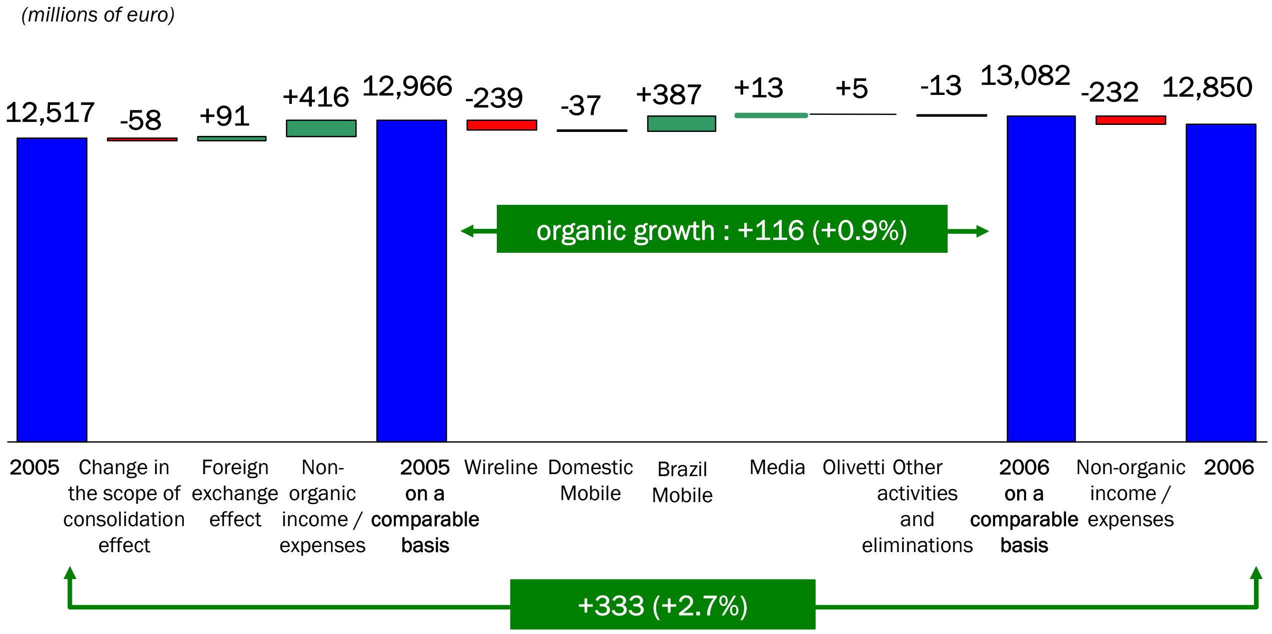
(millions of euro)	2006 (a)	2005 (b)	Change (a - b)
Late payment fees charged for regulated telephone services	91	105	(14)
Release of provisions and liability items	179	228	(49)
Recovery of costs of personnel and services rendered	60	56	4
Capital and operating grants	42	47	(5)
Damage and penalty compensation	52	35	17
Sundry income	182	207	(25)
Total	606	678	(72)

EBITDA amounts to euro 12,850 million and grew by euro 333 million (+2.7%) from 2005. The organic change in EBITDA is a positive 0.9% (+euro 116 million) and is calculated as follows:

(millions of euro)	2006 (a)	2005 (b)	Change (a-b)	%
HISTORICAL EBITDA	12,850	12,517	333	2.7
Effect of change in scope of consolidation	-	(58)		
Effect of change in exchange rates	-	91		
Non-organic (income) expenses	232	416		
Non-recurring (income) expenses:	28	290		
Release of provision for risks relating to Antitrust fine	*-*	*(37)*		
Expenses for mobility agreements under Law 223/91 and extraordinary manager termination plan	*-*	*273*		
Settlement with Opportunity	*-*	*50*		
Corporate restructuring costs	*13*	*4*		
Industrial reconversion expenses	*13*	*-*		
Supplementary Antitrust fine	*2*	*-*		
Other non-organic (income) expenses:	204	126		
Restructuring costs	*107*	*32*		
Settlements with customers and other operators	*61*	*38*		
Other (income) expenses, net	*36*	*56*		
COMPARABLE EBITDA	13,082	12,966	116	0.9

The percentage of EBITDA to revenues went from 41.8% in 2005 to 41.1% in 2006; at the organic level, the percentage of EBITDA to revenues is equal to 41.8% in 2006 (42.7% in 2005).

The following chart summarizes the major changes in EBITDA:



In greater detail, in addition to the above variations in revenues, EBITDA in 2006 is impacted by the following:

- **purchases of materials and external services,** euro 14,191 million, with an increase of 9.7% compared to 2005 (euro 12,937 million). This increase is mainly due to the expansion of Broadband, higher interconnection costs as a result of the growth of traffic managed as well as the increase in costs for the purchase of products and content. The percentage of purchases to revenues is 45.4% (43.2% in 2005);
- **personnel costs,** euro 3,801 million, with a reduction of euro 341 million (-8.2%) compared to 2005 (euro 4,142 million). The decrease is largely due to the reduction in accruals and expenses for employee termination plans charged in 2005 and, only to a lesser degree, to the reduction in ordinary personnel costs, which recorded a decrease of euro 28 million (-0.8%).
  The foreign component of personnel costs recorded an increase of euro 83 million (+27.3%) mainly in connection with the increase in the average salaried work force (+2,094 persons); personnel costs of the Italian companies decreased by euro 424 million (-11.0%), owing to the foregoing contraction due to the termination plans and the reduction in the average number of the salaried work force (-1,970 persons).

Employees at December 31, 2006 number 83,209. Additional details are as follows:

(number)	12/31/2006 (a)	12/31/2005 (b)	Change (a – b)
Italy	68,823	71,987	(3,164)
Outside Italy	14,386	13,497	889
Total (excluding discontinued operations/assets held for sale)	83,209	85,484	(2,275)
Discontinued operations/assets held for sale :			
Italy	-	*184*	*(184)*
Outside Italy	-	*863*	*(863)*
Total discontinued operations/assets held for sale	-	*1,047*	*(1,047)*
Total employees (1)	83,209	86,531	(3,322)

(1) Includes persons with temp work contracts: 2,654 at 12/31/2006 and 3,382 at 12/31/2005.

The reduction of 3,322 employees from December 31, 2005 is due to:

- the termination of 1,553 people following the sale of Digitel Venezuela (915), Gruppo Buffetti (183), Telecom Italia Learning Services (195), Eustema (134), Wirelab (54) and the "Radiomaritime Activities" business by the Parent, Telecom Italia (72);
- the termination of 7,127 people (67 of whom were employed in companies classified as discontinued operations), offset in part by hirings of 6,086 people, mainly outside Italy (119 of whom are employed in companies classified as discontinued operations);
- the reduction of 728 people with temp work contracts;

- **other operating expenses**, equal to euro 1,543 million (euro 1,468 million in 2005), include:

(millions of euro)	2006 (a)	2005 (b)	Change (a – b)
Impairments and expenses connected with non-financial receivables management	564	521	43
Accruals to provisions for risks and charges	107	71	36
Telecommunications fees and charges	236	181	55
Taxes on revenues of South American companies	222	178	44
Indirect duties and taxes	156	141	15
Association dues	16	19	(3)
Other expenses	242	357	(115)
Total	1,543	1,468	75

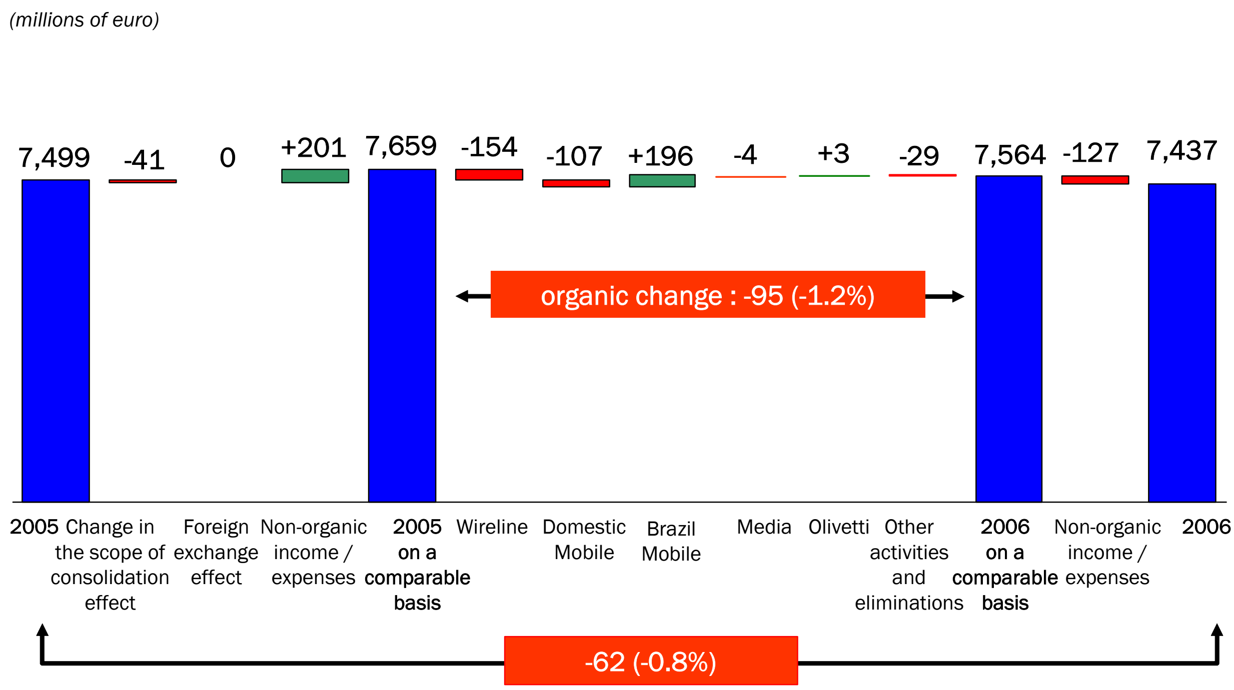
The "Accruals to provisions for risks and charges" includes in 2006 euro 61 million set aside for the arbitration proceedings initiated by Fastweb with regard to the execution of the contract for "local loop unbundling".

EBIT amounts to euro 7,437 million, with a decrease of euro 62 million compared to 2005 (-0.8%). The organic change in EBIT is a negative 1.2% (-euro 95 million) and was calculated as follows:

(millions of euro)	2006 (a)	2005 (b)	Change (a-b)	%
HISTORICAL EBIT	7,437	7,499	(62)	(0.8)
Effect of change in scope of consolidation		(41)		
Effect of change in exchange rates		-		
Non-organic (income) expenses	127	201		
Non-organic (income) expenses already described under EBITDA	232	416		
Additional non-recurring (income) expenses	(120)	(264)		
Gains on sale of properties to funds	*(135)*	*(264)*		
Gain on sale of Ruf Gestion	*(27)*	-		
Loss on sale of Telecom Italia Learning Services	*33*	-		
Loss on sale of "Radiomaritime Activities"	*9*	-		
Additional non-organic (income) expenses:	15	49		
Other (gains) losses	*(3)*	-		
Other (income) expenses	*18*	*49*		
COMPARABLE EBIT	7,564	7,659	(95)	(1.2)

The percentage of EBIT to revenues went from 25.1% in 2005 to 23.8% in 2006. At the organic level, the percentage of EBIT to revenues is equal to 24.2% in 2006 (25.2% in 2005).

The following chart summarizes the major changes in EBIT in 2006:



In greater detail, EBIT is impacted by:

- **depreciation and amortization** of euro 5,487 million (euro 5,232 million in 2005), with an increase of euro 255 million.

The amortization of intangible assets shows an increase of euro 496 million partly due to higher capital expenditures for the development of systems and new services as well as the effect of the change in the exchange rates of the Brazilian companies in the Mobile Business Unit.
Moreover, starting from the 2003 financial statements, even though software is still amortized over 36 months, the starting date was changed to the date the asset effectively comes into use instead of at the start of the year. The effects of this change (euro 266 million) therefore fall in the year 2006 as opposed to 2005.
The depreciation of tangible assets shows a decrease of euro 241 million. The increase due to higher capital expenditures for the development of infrastructures for the network and to support the business and the foreign exchange effect of the Brazilian companies in the Mobile Business Unit is countered by a reduction due to the integral revision, in 2006, of the depreciation plan for the fixed and mobile networks. This revision led to a reduction in the depreciation charge for 2006 of euro 319 million.

- **gains (losses) on disposals of non-current assets** equal to euro 95 million. Details are as follows:
  - gains of euro 135 million net of incidental expenses, relating to additional real estate property sales made by the Group in 2006 to the closed-end real estate investment funds Raissa and Spazio Industriale as part of the property sales program approved by the board of directors' meeting on December 21, 2005. In 2005, the gain realized on the first part of the disposal program was euro 264 million;
  - gain of euro 27 million on the sale of the entire investment in Ruf Gestion;
  - loss of euro 33 million on the sale of the entire investment in Telecom Italia Learning Services;
  - loss of euro 9 million on the sale of the "Radiomaritime Activities" business and a net loss of euro 25 million between the gains and losses on the sale of other non-current assets;

- **impairment reversals (losses) on non-current assets** equal to euro 21 million, mainly referring to impairment losses for writedowns of non-current assets by the Latin American Nautilus group. In 2005, impairment losses amounted to euro 28 million.

The **share of profits (losses) of associates and joint ventures accounted for using the equity method** shows profits of euro 51 million (profits of euro 23 million in 2005). Details are as follows:

(millions of euro)	2006 (a)	2005 (b)	Change (a – b)
ETECSA	47	45	2
Sofora Telecomunicaciones S.A.	3	16	(13)
Solpart Partecipaçoes S.A.	1	94	(93)
Avea I.H.A.S.	-	(122)	122
Other investments	-	(10)	10
Total	**51**	**23**	**28**

Financial income and expenses shows a net expense balance of euro 1,973 million. Details are as follows:

(millions of euro)	2006 (a)	2005 (b)	Change (a – b)
Financial management balance	(2,332)	(2,505)	173
Investment management and Avea provisions released to income	359	518	(159)
Total	**(1,973)**	**(1,987)**	**14**

The main changes in financial income and expenses are due to:

- the improvement in the financial management balance of euro 173 million mainly as a result of the reduction in net average debt exposure in 2006 compared to the prior year, which more than compensated the rise in interest rates on the floating rate portion of debt;
- the reduction of euro 159 million in investment management and Avea I.H.A.S. provisions released to income.
  In greater detail, this item in 2006, equal to euro 359 million, includes the following:
  - the gain on the sale of Avea I.H.A.S. (euro 72 million) in the third quarter of 2006 and, at the same time, the release to income of the remaining provisions for sureties provided to banks (euro 121 million);
  - the gain on the sale of the entire 4.99% stake held in Neuf Télécom (euro 148 million);
  - sundry income connected with investment management for euro 18 million.

  In greater detail, this item in 2005, equal to euro 518 million, included:
  - the release to income of a portion of the provisions set aside for sureties provided to banks which had financed Avea I.H.A.S. since there was no longer a risk owing to the cancellation of a part of the guarantees (euro 423 million);
  - gains connected with the sales of CMobil (euro 61 million), the investment in Intelsat (euro 2 million) and Golden Lines (euro 5 million).

Income taxes amount to euro 2,519 million, with an increase of euro 124 million compared to 2005 owing to a higher taxable base and the accruals to the provision for taxes made by the Parent, Telecom Italia.

Net income from discontinued operations/assets held for sale amounts to euro 7 million (euro 550 million in 2005) and includes:

- the gain, net of incidental expenses, of euro 31 million, on the sale of Digitel Venezuela in May 2006 as well as the accrual to the provision for risks related to the same sales transaction for euro 9 million
- the positive contribution to net income of euro 15 million by the same Digitel Venezuela for the first four months of 2006:
- an accrual of euro 30 million on the transaction for the sale of Tim Hellas during 2005.

The year 2005 included the gain, net of the relative incidental expenses, on the sale of Tim Hellas (euro 410 million) and Tim Perù (euro 120 million), losses and incidental charges on the sales of the Finsiel group, the Entel Chile group and Gruppo Buffetti (for a total of euro 24 million) and the net income from discontinued operations/assets held for sale for euro 44 million.

CONSOLIDATED BALANCE SHEETS

(millions of euro)	12/31/2006 (a)	12/31/2005 (b)	Change (a-b)
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Goodwill	43,739	43,980	(241)
Intangible assets with a finite life	6,740	6,810	(70)
	50,479	50,790	(311)
Tangible assets			
Property, plant and equipment owned	15,690	16,443	(753)
Assets held under finance leases	1,525	1,598	(73)
	17,215	18,041	(826)
Other non-current assets			
Investments in associates and joint ventures accounted for using the equity method	488	781	(293)
Other investments	776	561	215
Securities, financial receivables and other non-current financial assets	691	996	(305)
Miscellaneous receivables and other non-current assets	871	825	46
Deferred tax assets	912	2,793	(1,881)
	3,738	5,956	(2,218)
TOTAL NON-CURRENT ASSETS (A)	71,432	74,787	(3,355)
CURRENT ASSETS			
Inventories	291	294	(3)
Trade and miscellaneous receivables and other current assets	8,748	8,856	(108)
Current income tax receivables	287	335	(48)
Securities	812	378	434
Financial receivables and other current financial assets	433	509	(76)
Cash and cash equivalents	7,219	10,323	(3,104)
Current assets sub-total	17,790	20,695	(2,905)
Discontinued operations/assets held for sale			
of a financial nature	-	37	(37)
of a non-financial nature	235	491	(256)
	235	528	(293)
TOTAL CURRENT ASSETS (B)	18,025	21,223	(3,198)
TOTAL ASSETS (A+B)	89,457	96,010	(6,553)
EQUITY AND LIABILITIES			
EQUITY			
Equity attributable to equity holders of the Parent	26,018	25,662	356
Equity attributable to Minority interests	1,080	1,323	(243)
TOTAL EQUITY (C)	27,098	26,985	113
NON-CURRENT LIABILITIES			
Non-current financial liabilities	40,803	42,146	(1,343)
Employee severance indemnities and other employee-related provisions	1,262	1,351	(89)
Deferred tax liabilities	194	137	57
Provisions for risks and charges	775	797	(22)
Miscellaneous payables and other non-current liabilities	1,857	2,113	(256)
TOTAL NON-CURRENT LIABILITIES (D)	44,891	46,544	(1,653)
CURRENT LIABILITIES			
Current financial liabilities	5,653	9,812	(4,159)
Trade and miscellaneous payables and other current liabilities	11,596	12,157	(561)
Current income tax payables	219	227	(8)
Current liabilities sub-total	17,468	22,196	(4,728)
Liabilities relating to discontinued operations/assets held for sale			
of a financial nature	-	143	(143)
of a non-financial nature	-	142	(142)
	-	285	(285)
TOTAL CURRENT LIABILITIES (E)	17,468	22,481	(5,013)
TOTAL LIABILITIES (F=D+E)	62,359	69,025	(6,666)
TOTAL EQUITY AND LIABILITIES (C+F)	89,457	96,010	(6,553)

Assets total euro 89,457 million and are composed of non-current assets for euro 71,432 million, current assets for euro 17,790 million and discontinued operations/assets held for sale for euro 235 million. The latter, at December 31, 2006, include the investments in Solpart Participaçoes (the controlling holding company of Brasil Telecom Participaçoes) and Brasil Telecom Participaçoes following the decision to proceed with the sale of these same investments and charge JP Morgan with their disposal.
At December 31, 2005, discontinued operations/assets held for sale included the assets of Gruppo Buffetti, sold in January 2006, and the assets and the goodwill of Digitel Venezuela, sold in May 2006.

Equity amounts to euro 27,098 million (euro 26,985 million at the end of 2005), of which euro 26,018 million is attributable to the equity holders of the Parent (euro 25,662 million at December 31, 2005) and euro 1,080 million to Minority interests (euro 1,323 million at December 31, 2005).

In greater detail, the changes in equity are the following:

(millions of euro)	2006	2005
At the beginning of the year	**26,985**	**20,798**
Contribution by shareholders, bond conversions and stock options	24	1,842
Net income attributable to the equity holders of the Parent and the Minority interests	3,003	3,690
Dividends approved by:	(3,002)	(2,342)
- Telecom Italia S.p.A.	*(2,766)*	*(1,912)*
- TIM S.p.A.	*-*	*(376)*
- Other Group companies	*(236)*	*(54)*
Tender offer for TIM shares and additional purchases of TIM shares	-	(2,124)
Telecom Italia/TIM merger	-	4,911
Tender offer for Telecom Italia Media shares	-	(134)
Translation differences, changes in the scope of consolidation and other changes	88	344
At the end of the year	**27,098**	**26,985**

"Translation differences, changes in the scope of consolidation and other changes", in particular, in 2006, include the positive effect of the change in "Other income (charges) recognized directly in equity" of euro 227 million and also other positive changes of euro 24 million offset in part by negative translation differences of euro 163 million.

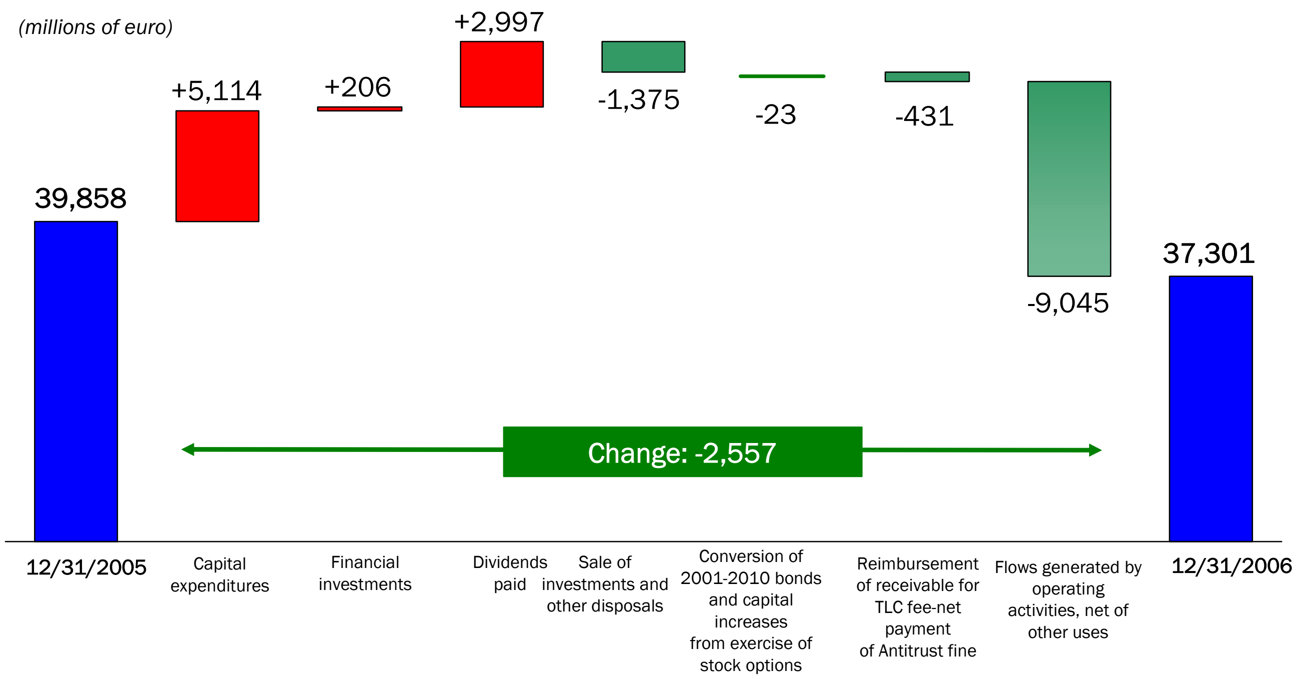
Net financial debt amounts to euro 37,301 million at December 31, 2006, with a decrease of euro 2,557 million compared to euro 39,858 million at the end of 2005.

The composition of net financial debt is analyzed in the following table:

(millions of euro)		12/31/2006 (a)	12/31/2005 (b)	Change (a-b)
Non-current financial liabilities (*)				
Financial payables		37,391	39,522	(2,131)
Finance lease liabilities		1,847	1,894	(47)
Non-current liabilities for hedging derivatives		1,451	730	721
Other financial liabilities		114	-	114
	(1)	40,803	42,146	(1,343)
Less:				
Non-current financial receivables for lessors' net investments		*(229)*	*(212)*	(17)
Non-current assets for hedging derivatives		*(243)*	*(276)*	*33*
		(472)	(488)	*16*
TOTAL NON-CURRENT FINANCIAL LIABILITIES (*)	(A)	40,331	41,658	(1,327)
Current financial liabilities (*)				
Financial payables		5,143	9,323	(4,180)
Finance lease liabilities		269	234	35
Current liabilities for hedging and non-hedging derivatives		231	249	(18)
Other financial liabilities		10	6	4
	(2)	5,653	9,812	(4,159)
Less:				
Current financial receivables for lessors' net investments		*(148)*	*(122)*	(26)
Current assets for hedging derivatives		*(207)*	*(195)*	*(12)*
		(355)	(317)	(38)
TOTAL CURRENT FINANCIAL LIABILITIES (*)	(B)	5,298	9,495	(4,197)
Financial liabilities relating to discontinued operations/assets held for sale	(C) (3)	-	143	(143)
TOTAL GROSS FINANCIAL DEBT (*)	(D=A+B+C)	45,629	51,296	(5,667)
Current financial assets (*)				
Securities		(812)	(378)	(434)
Financial receivables and other current financial assets		(433)	(509)	76
Cash and cash equivalents		(7,219)	(10,323)	3,104
	(4)	(8,464)	(11,210)	2,746
Less:				
Current financial receivables for lessors' net investments		*148*	*122*	26
Current assets for hedging derivatives		*207*	*195*	*12*
		355	317	38
	(E)	(8,109)	(10,893)	2,784
Financial assets relating to discontinued operations/assets held for sale	(F) (5)	-	(37)	37
TOTAL CURRENT FINANCIAL ASSETS (*)	(G=E+F)	(8,109)	(10,930)	2,821
NET FINANCIAL DEBT AS OF CONSOB COMMUNICATION N. DEM/6064293/2006	(H=D+G)	37,520	40,366	(2,846)
Non-current financial assets (*)				
Securities other than investments		(12)	(8)	(4)
Financial receivables and other non-current financial assets		(679)	(988)	309
	(6)	(691)	(996)	305
Less:				
Non-current financial receivables for lessors' net investments		*229*	*212*	17
Non-current assets for hedging derivatives		*243*	*276*	*(33)*
		472	488	(16)
TOTAL NON-CURRENT FINANCIAL ASSETS (*)	(I)	(219)	(508)	289
NET FINANCIAL DEBT	(L=H+I)	37,301	39,858	(2,557)
COMPOSITION OF THE NET FINANCIAL DEBT:				
Total gross financial debt				
Non-current financial liabilities	(1)	40,803	42,146	(1,343)
Current financial liabilities	(2) + (3)	5,653	9,955	(4,302)
		46,456	52,101	(5,645)
Total gross financial assets				-
Non-current financial assets	(6)	(691)	(996)	305
Current financial assets	(4) + (5)	(8,464)	(11,247)	2,783
		(9,155)	(12,243)	3,088
		37,301	39,858	(2,557)

(*) Net of assets for hedging derivatives and financial receivables for lessors' net investments.

The following chart summarizes the major items which had an impact on the change in net financial debt during 2006:



In particular:

- **capital expenditures** in 2006 total euro 5,114 million and decreased by euro 59 million from 2005. Details are as follows:

(millions of euro)	2006 (a)	2005 (b)	Change (a – b)
Wireline	3,002	2,823	179
Domestic Mobile	1,146	1,276	(130)
Brazil Mobile	699	842	(143)
Media, Olivetti and Other activities	295	240	55
Adjustments and eliminations	*(28)*	*(8)*	*(20)*
Total	5,114	5,173	(59)

About 59% of capital expenditures is intended for fixed telephony activities (Wireline Business Unit) and 36% for Mobile activities (Domestic Mobile and Brazil Mobile Business Units). The remaining part is for the support of the activities of the Olivetti, Telecom Italia Media and the Central Functions of Telecom Italia.
Moreover, starting from the year 2006, following the introduction of new types of contracts which bind the customer to the Telecom Italia Group for periods of 12 or 24 months, otherwise a penalty is applied, the Group capitalizes subscriber acquisition costs in intangible assets and recognizes them in the statement of income over the period of the underlying contract. Capital expenditures in 2006 include euro 260 million of capitalized subscriber acquisition costs. Of that amount, euro 14 million refers to the Wireline Business Unit, euro 130 million to the Mobile Domestic Business Unit and euro 116 million to the Brazil Mobile Business Unit.

Additional details are provided as follows:

- with regard to fixed telephony activities, a large part of the capital expenditures (about 36%) is intended for Broadband development (which mainly includes investments for ADSL) and New Services (Alice services development, IP-TV, videotelephony, etc.) About 16% of capital expenditures is for the support of the development of Broadband offerings outside Italy (in France and Germany) and the remaining expenditures are for the development of network and support systems (Business Support Systems such as billing, revenue assurance, customer care and Operational Support Systems).

Capital expenditures for fixed telephony refer to the following:

(millions of euro)	2006 (a)	% of total	2005 (b)	Change (a – b)
Broadband development in Italy	622	*20.7%*	678	(56)
New services development	463	*15.4%*	528	(65)
European projects (Broadband)	467	*15.6%*	304	163
Other	1,450	*48.3%*	1,313	137
Total	3,002	*100.0%*	2,823	179

- with regard to domestic mobile telephony, 50% of capital expenditures is intended for the development of UMTS and Systems Development (in particular, software development for the launch of new plans and services). The rest of capital expenditures refers to revamping the network, supporting sales policies and costs for the acquisition of subscribers.

Capital expenditures for domestic mobile telephony refer to the following:

(millions of euro)	2006 (a)	% of total	2005 (b)	Change (a – b)
UMTS	265	*23.1%*	282	(17)
Systems development	308	*26.9%*	278	30
Other	573	*50.0%*	716	(143)
Total	1,146	*100.0%*	1,276	(130)

- with regard to mobile telephony in Brazil, the reduction in capital expenditures by the Business Unit is connected with the gradual completion of mobile coverage of the territory;

· sale of investments and other disposals led to a reduction in debt of euro 1,375 million and refers to the following transactions:
  - sale of the investment in Gruppo Buffetti equal to euro 66 million (including the deconsolidation of the net financial debt of the subsidiary sold);
  - disposal of the investment in Ruf Gestion equal to euro 51 million (including the deconsolidation of the net financial debt of the subsidiary sold);
  - sale of Corporación Digitel C.A. (Digitel Venezuela) equal to euro 318 million (including the deconsolidation of the net financial debt of the subsidiary sold);
  - sale of Neuf Télécom equal to euro 199 million;
  - sale of AVEA I.H.A.S. to Türk Telekomünikasyon A.S. equal to euro 279 million.
    This amount is the net balance between the proceeds on the sale (euro 393 million) and the recognition of non-current financial liabilities for euro 114 million, corresponding to the gain temporarily deferred on the sale of Avea I.H.A.S., against

the commitments undertaken for a subordinated loan to be made to Avea I.H.A.S. for an amount of USD 150 million.
The total net impact of the transaction for the sale of Avea I.H.A.S. amounts to euro 82 million in that, at the time of the sale of the investment, the Telecom Italia Group invested euro 197 million in Oger Telecom (the parent of Türk Telekomünikasyon A.S.);
- disposals of real estate property by the Group to the closed-end real estate investment funds Raissa and Spazio Industriale which reduced debt by euro 296 million. Such disposals are part of the property sales program approved by the board of directors' meeting on December 21, 2005 and completed in 2006;
- reimbursements of share capital and the distribution of dividends by Tiglio I, Tiglio II and Telegono (euro 43 million);
- collection of the remaining receivable on the sale, in 2005, of the Finsiel group (euro 27 million);
- sale of other non-current assets, reimbursements of capital and distribution of dividends by associates (euro 96 million);

the **reimbursement of the receivable for the TLC operating fee – payment of the Antitrust Authority fine** reduced debt by a net amount of euro 431 million. Of that amount, euro 546 million refers to the refund from the financial administration following the ruling handed down by the Regional Administrative Court of Lazio on July 10, 2006, for the principal portion of the TLC operating fee that Telecom Italia and TIM had paid for the year 1999 pursuant to ex art. 20, Law 448 dated December 23, 1998 and euro 115 million refers to the payment of the fine levied by the Antitrust Authority for the alleged abuse of a dominant position (Antitrust Authority's decision on case A-351).

During the last quarter of 2006, net financial debt decreased by euro 2,203 million, from euro 39,504 million at September 30, 2006 to euro 37,301 million at December 31, 2006. This reduction is due not only to operations but also to the reimbursement of the receivable for the TLC operating fee.

***

With reference to financial risk management, reference should be made to the note "Financial risk management" in the consolidated financial statements.

Moreover, the positive effect on net financial debt of securitization transactions and the sale of receivables to factoring companies during the year, is the following:

(millions of euro)	12/31/2006	12/31/2005
Securitization	-	648
Factoring	1,499	615
	1,499	1,263

The securitization program came to its natural end in the month of July 2006. In the second half of 2006, contracts were signed for the sale of both the same type of receivables in the securitization transactions and other contracts for the sale of receivables with leading financial counterparties.

With reference to the financial debt of the Telecom Italia Group, the following is mentioned:

Bonds at December 31, 2006 are carried for an amount of euro 33,906 million (euro 35,462 million at December 31, 2005). Instead, in terms of the nominal repayment amount, bonds total euro 33,119 million, with a decrease of euro 1,458 million compared to December 31, 2005 (euro 34,577 million), with the following breakdown: Telecom Italia S.p.A. euro 10,936 million, Telecom Italia Finance S.A. euro 12,616 million and Telecom Italia Capital S.A. euro 9,567 million.

Convertible bonds at December 31, 2006 are carried for an amount of euro 489 million (euro 2,519 million at December 31, 2005) and refer entirely to convertible bonds issued by Telecom Italia S.p.A.. Instead, in terms of the nominal repayment amount, convertible bonds total euro 574 million, with a decrease of euro 2,068 million compared to December 31, 2005 (euro 2,642 million). This decrease is mainly due to the repayment of the "Telecom Italia Finance S.A. Exchangeable Notes 1% due 2006" for euro 2,012 million.

Bonds issued by companies of the Group to third parties do not contain either financial covenants or clauses which can cause the early repayment of the bonds except in the event of the insolvency of the Telecom Italia Group. Furthermore, the repayment of the bonds and the payment of interest are not covered by specific guarantees nor are there commitments provided relative to the assumption of future guarantees, except for the full and unconditional guarantees provided by Telecom Italia S.p.A. for the bonds issued by Telecom Italia Finance S.A. and Telecom Italia Capital S.A..

On December 21, 2005, the board of directors of Telecom Italia S.p.A. set a new maximum ceiling for the Euro Medium Term Note Programme (EMTN), which regulates the placement, also for more than one transaction, for more than one tranche and for more than one currency, of bonds by Telecom Italia S.p.A. and/or its wholly-owned subsidiary Telecom Italia Finance S.A. under a guarantee by Telecom Italia S.p.A.. The new maximum ceiling was raised to euro 15 billion against the previous euro 10 billion (of which slightly less than euro 8 billion had already been used at December 31, 2005). At the same time, the board of directors authorized the issue of non-convertible bonds in 2006 up to a maximum of euro 4.5 billion. The following table highlights the utilization of the EMTN Programme at the end of 2006 compared to the prior year.

(millions of euro)	12/31/2006	12/31/2005
Total amount of EMTN Programme	15,000.00	10,000.00
Securities issued [(1)]	10,435.40	7,839.70
Of which: Telecom Italia S.p.A.	9,186.00	7,090.00
Telecom Italia Finance S.A.	1,249.40	749.70
Securities repaid [(1)]	(1,000.05)	
Of which: Telecom Italia S.p.A.	(1,000.00)	-
Telecom Italia Finance S.A.	(0.05)	-
Net utilization of EMTN Programme	9,435.35	7,839.70
Remaining available amount	5,564.65	2,160.30

(1) Cumulative amount since the start of the EMTN Program.

With reference to **bonds**, the transactions described below took place during 2006.

1) NEW ISSUES

- Telecom Italia S.p.A. issued three new bond issues under the Euro Medium Term Note Programme: (a) on May 19, 2006, a dual-tranche issue for euro 750 million and GBP 400 million, respectively, and (b) on June 9, 2006 for euro 750 million.

- On July 18, 2006, Telecom Italia Capital S.A. issued multi-tranche bonds on the American market for a total of USD 2,600 million. The issue is in three tranches for USD 850 million, 750 million and 1,000 million, respectively.

- On September 14, 2006, Telecom Italia Finance S.A. extended the maturity date of the "Euro 499,717,000 Guaranteed Floating Rate Extendable Notes due 2006" to September 14, 2008. At December 31, 2006, the residual nominal debt is equal to euro 499,669,000.

- The Telecom Italia S.p.A. 2002-2022 bonds, set aside for subscription by employees of the Group, at December 31, 2006 are equal to euro 250 million (nominal amount) and increased during 2006 by euro 2 million (euro 248 million at December 31, 2005).

2) REPURCHASES AND CANCELLATIONS OF BONDS

- Telecom Italia Finance S.A. repurchased its bonds for a total nominal amount of euro 128.4 million during 2006.

3) REPAYMENTS AND CONVERSIONS

- repayment of "Telecom Italia Finance S.A. euro 1,100,000,000 Floating Rates Notes due 2006;
- early repayment of "Telecom Italia S.p.A. euro 1,000,000,000 Floating Rates Notes due 2007;
- repayment of "Telecom Italia Finance S.A. Exchangeable Notes 1% due 2006";
- repayment of "Telecom Italia Finance S.A. 6.125% bonds due 2006";
- early repayment of "Telecom Italia Finance S.A. 5.625% bonds due 2046;
- conversion of "Telecom Italia S.p.A. 1.5% 2001-2010 convertible bonds with a repayment premium;
- partial repayment of "Telecom Italia Finance S.A. Extendable Floating Rate Notes due 2006".

As for loans other than bonds, it should be stressed that all of the contracts for loans granted directly by the European Investment Bank (EIB), which are recorded in the financial statements at December 31, 2006 for euro 1,740 million (euro 1,736 million at nominal amounts), are covered by bank guarantees for the full and exact amount of the company's economic obligations (with the exception of a single loan for euro 350 million). These guarantees have been issued by banks that have credit ratings of not less than "A-" assigned by Standard & Poor's or an equivalent level assigned by other agencies. The loan contracts contain negative pledge clauses, that is, limitations regarding activities of the company which could influence its ability to produce profits and therefore meet the commitments undertaken, yet leaving ample operating possibilities in line with international contract best practice.
Moreover, the major bank loans carried by the subsidiaries in Brazil provide for personal and real guarantees, financial covenants (i.e. obligations of the company to respect certain financial ratios), negative pledge clauses and other covenants.

Committed credit lines outstanding at the end of 2006, consisting of the revolving credit facilities, amount to euro 8 billion, divided as follows:

- euro 2 billion credit line expiring in March 2007, completely unused;
- euro 6 billion credit line expiring in August 2012 drawn down for euro 1.5 billion.

This composition of the credit lines was arrived at by the repayment of the credit line expiring in 2012 and the partial cancellation of the credit line expiring in 2007, during the course of the year. A summary follows:

Period	Revolving Credit Facility expiring 2007		Revolving Credit Facility expiring 2012		TOTAL	
(billions of euro)	Agreed	Drawn down	Agreed	Drawn down	Agreed	Drawn down
12/31/2005	5.0	-	6.0	4.5	11.0	4.5
Situation at 6/13/2006 following repayment	3.5	-	6.0	3.0	9.5	3.0
Situation at 12/20/2006 following repayment	2.0	-	6.0	1.5	8.0	1.5
12/31/2006	2.0	-	6.0	1.5	8.0	1.5

Moreover, on January 15, 2007, euro 2 billion of the remaining available syndicated credit line expiring in March 2007 was cancelled and at the same time the revolving credit facility expiring in 2012 was increased by the same amount. The new revolving credit facility is therefore equal to euro 8 billion.

Lastly, at December 31, 2006, the total unused and available committed credit lines are equal to euro 6.6 billion.

It should be stressed that Telecom Italia's syndicated bank lines do not contain financial covenants that if not complied with would require the repayment of the existing loan. They do provide for the normal negative pledge clauses (within the limits of requirements for operations). These credit lines are subject, only with regard to the interest margin, to variations in the ratings which would pertain to the credit risk of the company, on the basis of a pre-set grid.

The following table shows the maturities of non-current financial liabilities according to both the expected nominal repayment amount, as contractually defined, and the carrying amount (comprising fair value adjustments and amortized cost including accrued expenses).

The average maturity of non-current financial liabilities is equal to 7.99 years.

Maturities of financial liabilities – carrying amount (1) (2)

	Maturing 12/31/						
(millions of euro)	2007	2008	2009	2010	2011	Beyond 2011	TOTAL
Bonds	4,057	3,646	3,862	1,907	4,277	16,646	34,395
Loans and other financial liabilities	914	633	264	3,303	223	4,195	9,532
Finance lease liabilities	269	187	154	142	118	1,246	2,116
Total	**5,240**	**4,466**	**4,280**	**5,352**	**4,618**	**22,087**	**46,043**
Current financial liabilities	413						413
Total	**5,653**	**4,466**	**4,280**	**5,352**	**4,618**	**22,087**	**46,456**

(1) Carrying amounts take into account fair value adjustments and amortized cost.
(2) Financial commitments include accrued expenses and deferred income, which increase the amount of non-current financial liabilities by euro 114 million, non-current financial liabilities due within 12 months by euro 1,405 million and current financial liabilities by euro 56 million.

Maturities of financial liabilities – nominal repayment amount

	Maturing 12/31/						
(millions of euro)	2007	2008	2009	2010	2011	Beyond 2011	TOTAL
Bonds	2,970	3,668	3,820	2,055	4,268	16,912	33,693
Loans and other financial liabilities	623	603	265	3,265	222	3,599	8,577
Finance lease liabilities	250	187	154	142	118	1,246	2,097
Total	3,843	4,458	4,239	5,462	4,608	21,757	44,367
Current financial liabilities	472						472
Total	4,315	4,458	4,239	5,462	4,608	21,757	44,839

To meet these short-term commitments, there are current financial assets amounting to euro 8,464 million (euro 8,277 million at nominal amounts) to cover the maturities arising in 2008, without taking into account the unused committed credit lines mentioned above for euro 6.6 billion.

COMMENTS ON OPERATING AND FINANCIAL PERFORMANCE - TELECOM ITALIA S.P.A.

Starting from January 1, 2006, Telecom Italia S.p.A. adopts the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board. For purposes of comparison, the 2005 figures have been restated according to IFRS.

The operating, equity and financial performance of Telecom Italia S.p.A. for the year 2006 reflects the results arising after the mergers of Tim Italia S.p.A. and Nuova Tin.it S.r.l. in Telecom Italia S.p.A. which were finalized on March 1, 2006 and October 1, 2006, respectively.

INCOME STATEMENTS

(millions of euro)	Year 2006 (a)	Year 2005 (b)	Change (a-b)	%
Revenues	22,721	15,913	6,808	42.8
Other income	405	422	(17)	(4.0)
Total operating revenues and other income	**23,126**	**16,335**	6,791	41.6
Purchases of materials and external services	(9,180)	(6,482)	(2,698)	41.6
Personnel costs	(3,004)	(2,907)	(97)	3.3
Other operating expenses	(751)	(715)	(36)	5.0
Changes in inventories	5	(31)	36	°
Capitalized internal construction costs	414	277	137	49.5
OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) OF NON-CURRENT ASSETS (EBITDA)	**10,610**	**6,477**	4,133	63.8
Depreciation and amortization	(3,934)	(2,940)	(994)	33.8
Gains (losses) on disposals of non-current assets (1)	110	262	(152)	(58.0)
Impairment reversals (losses) on non-current assets	(4)	(8)	4	(50.0)
OPERATING INCOME (EBIT)	**6,782**	**3,791**	2,991	78.9
Financial income	2,883	2,242	641	28.6
Financial expenses	(3,415)	(3,276)	(139)	4.2
INCOME BEFORE TAXES	**6,250**	**2,757**	3,493	°
Income taxes	(2,106)	(923)	(1,183)	°
NET INCOME FOR THE YEAR	**4,144**	**1,834**	2,310	°

The Parent, **Telecom Italia S.p.A.**, reports a net income of euro 4,144 million in 2006, with an increase of euro 2,310 million compared to the year 2005 principally as a result of the merger with Tim Italia.

The increase is the result mainly of the following:

- improvement in *operating income* (+euro 2,991 million) due to higher revenues (+euro 6,808 million) partially offset by the increase in the costs of purchases of materials and external services (+euro 2,698 million) and higher depreciation and amortization (+euro 994 million);
- improvement in *net financial income* (+euro 502 million) principally attributable to higher dividends paid out in 2006 by Tim Italia as a result of the tender offer and merger compared

to the amount paid out in 2005 by TIM;

- increase in *income taxes* (+euro 1,183 million) following the increase in the taxable base due to the effects of the merger with Tim Italia and the accruals made to the provision for taxes.

In order to ensure a homogeneous comparison, the following table shows the results for the year 2006, compared with the restated figures for 2005 which assume the effective date of the merger of Tim Italia in Telecom Italia as from March 1, 2005.

(millions of euro)	Year 2006 (a)	Year 2005 Restated (b)	Change (a-b)	%
Revenues	22,721	23,135	(414)	(1.8)
Other income	405	555	(150)	(27.0)
Total operating revenues and other income	**23,126**	**23,690**	(564)	(2.4)
Purchases of materials and external services	(9,180)	(9,010)	(170)	1.9
Personnel costs	(3,004)	(3,399)	395	(11.6)
Other operating expenses	(751)	(831)	80	(9.6)
Changes in inventories	5	(50)	55	°
Capitalized internal construction costs	414	405	9	2.2
OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) OF NON-CURRENT ASSETS (EBITDA)	**10,610**	**10,805**	(195)	(1.8)
Depreciation and amortization	(3,934)	(4,057)	123	(3.0)
Gains (losses) on disposals of non-current assets (1)	110	262	(152)	(58.0)
Impairment reversals (losses) on non-current assets	(4)	(14)	10	(71.4)
OPERATING INCOME (EBIT)	**6,782**	**6,996**	(214)	(3.1)

Revenues*,* gross of the amount of revenues due to other telecommunications operators, total euro 22,721 million and increased by euro 6,808 million (+42.8%) compared to 2005 mainly as a result of the merger with Tim Italia.

On a comparable basis, revenues in 2006 decreased by euro 414 million (-1.8%) compared to 2005 (euro 23,135 million).

The above change of euro 414 million is attributable to the following:

- decrease in revenues from the retail telephony area (-euro 778 million) due mainly to the fall in traffic revenues and the reduction in sales volumes;
- decrease in revenues from the data area (-euro 128 million) mainly on account of the reduction revenues from data transmission services and products (-euro 176 million) compensated in part by the growth of ICT services (+euro 52 million);
- increase in Internet revenues (+euro 105 million) due to the growth of ADSL plans;
- increase in revenues from the national Wholesale area (+euro 83 million);
- increase in other retail revenues (+euro 43 million);
- increase in revenues from the mobile area (+euro 296 million) due mainly to higher revenues from VAS services (+euro 231 million), higher revenues from sales (+euro 84 million) and higher revenues from subscription charges and fees (+euro 64 million) offset in part by the decrease in traffic revenues (-euro 131 million).

EBITDA amounts to euro 10,610 million and grew by euro 4,133 million (+63.8%) from 2005 mainly on account of the merger with Tim Italia. The percentage of EBITDA to revenues is 46.7% (40.7% in 2005).

On a comparable basis, EBITDA in 2006 is euro 195 million (-1.8%) lower than in 2005 (euro 10,805 million). The percentage of EBITDA to revenues is 46.7% , the same as in 2005.

The organic change in EBITDA is a negative 3.8% (-euro 427 million), calculated as follows:

(millions of euro)	2006	2005 Restated	Change amount	Change %
HISTORICAL EBITDA	10,610	10,805	(195)	(1.8)
Non - organic (income) expenses	183	415		
Non - recurring expenses:	2	309		
Mobility agreements under ex lege 223/91 and extraordinary manager termination program	-	*296*		
Settlement with Opportunity	-	*50*		
Release of provision for risks relating to Antitrust fine	-	*(37)*		
Supplentary Antitrust fine	*2*	-		
Other non - organic (income) expenses	181	106		
Restructuring costs	*90*	-		
Settlement with customers	*61*	*38*		
Other (income) expenses, net	*30*	*68*		
COMPARABLE EBITDA	10,793	11,220	(427)	(3.8)

At the organic level, the percentage of EBITDA to revenues is 47.5% in 2006 (48.5% in 2005).

With regard to the components of EBITDA, on a comparable basis, the following should be noted in particular:

- **purchases of materials and external services** increased by euro 170 million compared to the 2005 restated figures principally due to the increase in the costs for the purchase of products destined for sale of the merged company Tim Italia;
- the decrease in **personnel costs** (-euro 395 million) is largely attributable to the fact that the 2005 restated figures include expenses and accruals charged for termination benefit incentives (euro 377 million) as a result of termination and extraordinary mobility plans commenced by the Company at the end of that year. In 2006, such expenses total euro 90 million:
- the **positive change in inventories** is mainly due to the previously mentioned higher inventory purchases in 2006 compared to 2005 of the merged company Tim Italia;
- the decrease in **other operating expenses** (-euro 80 million) is mainly due to expenses that were charged in 2005 for the settlement of the dispute with Opportunity (euro 50 million) and higher prior period items (+euro 48 million). In 2006, this caption includes the accrual (euro 61 million) set aside for the arbitration proceedings initiated by Fastweb with regard to the execution of the contract for “local loop unbundling” and lower expenses connected with receivables management for euro 30 million.

EBIT amounts to euro 6,782 million and grew by euro 2,991 million (+78.9%) from 2005, mainly as a result of the merger with Tim Italia. The percentage of EBIT to revenues is 29.8% (23.8% in 2005).

On a comparable basis, EBIT in 2006 decreased by euro 214 million (-3.1%) from 2005 (euro 6,996 million). The percentage of EBIT to revenues is 29.8% (30.2% in 2005).

The organic change in EBIT is a negative 4.5% (-euro 324 million), calculated as follows:

(millions of euro)	2006	2005 Restated	Change amount	Change %
HISTORICAL EBIT	6,782	6,996	(214)	(3.1)
Non - organic (income) expenses	54	164		
Non - organic (income) expenses already described under EBITDA	183	415		
Additional non-recurring (income) expenses:	(132)	(279)		
Gains on sale of properties to funds	*(141)*	*(279)*		
Loss on sale of business segments	*9*	-		
Additional non-organic (income) expenses:	3	28		
COMPARABLE EBIT	6,836	7,160	(324)	(4.5)

At the organic level, the percentage of EBIT to revenues is 30.1% in 2006 (30.9% in 2005).

With regard to the components of EBIT, on a comparable basis, the following should be noted in particular:

- depreciation and amortization decreased from the 2005 restated figures by euro 123 million, being the increase between the amortization charge for intangible assets (+euro 249 million) and the decrease in the depreciation charge for tangible assets (-euro 372 million). The higher amortization charge is mainly due to software which, starting from the 2003 financial statements, is still amortized over 36 months but the starting date was changed to the date the asset effectively comes into use instead of at the start of the year. The effects of this change (euro 243 million) therefore fall in the year 2006 as apposed to 2005.
  The lower depreciation charge is mainly due to the integral revision of the depreciation rates, in 2006, which replaced the previous Telecom Italia depreciation plans for the fixed network and the merged company Tim Italia. This revision led to a reduction in the depreciation charge for 2006 of euro 319 million;
- gains (losses) on disposals of non-current assets decreased by euro 152 million compared to the 2005 restated figures mainly due to lower gains net of incidental expenses (-euro 144 million) on the sale of properties to Olivetti Multiservices as part of the reorganization of the physical spaces used for network installations. In 2006, the caption also includes losses for 9 million on the sale of the “Radiomaritime Activities” business.

Financial income and expenses is a negative euro 532 million, with an improvement of euro 502 million compared to 2005. The balance is made up of financial income (euro 2,883 million) and financial expenses (euro 3,415 million).

The improvement is mainly due to the receipt of higher dividends (+euro 631 million) in 2006. In particular, Tim S.p.A. dividends relating to the year 2004 (euro 1,337 million) were recorded in 2005, in the basis of a 55.08% stake. In 2006, dividends were collected from Tim Italia for euro 2,051 million and recorded in the statement of income for euro 1,923 million.
The difference of euro 128 million between the amount collected and the amount recorded in the statement of income was considered in the goodwill generated on the merger of Telecom Italia/TIM S.p.A. in 2005. In fact, the income realized by Tim Italia during the period March 1,

2005 – June 30, 2005 was partly attributable to the minority interests of TIM (15.58%). This stake was acquired in the aforementioned transaction for the integration of Telecom Italia/TIM S.p.A., effective as from June 30, 2005.
The positive effect of the higher dividends was partly offset by the fact that in 2005 income was recorded (euro 72 million) for the reversal of financial payables to Group companies after withholding taxes at source were eliminated on the interest accrued on the loan contracts with the Group companies residing in Europe and the negative effect of the rise in interest rates on the net average debt exposure on the floating rate portion of debt.

Income taxes total euro 2,106 million and increased by euro 1,183 million from 2005 owing to a higher taxable base due partly to the merger with Tim Italia and the accruals to the provision for taxes.

BALANCE SHEETS

(millions of euro)	12/31/2006 (a)	12/31/2005 (b)	Change (a-b)
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Goodwill and other intangible assets with an indefinite life	40,013	39,184	829
Intangible assets with a finite life	4,897	1,679	3,218
	44,910	40,863	4,047
Tangible assets			
Property, plant and equipment owned	12,476	10,665	1,811
Assets held under finance leases	1,512	1,558	(46)
	13,988	12,223	1,765
Other non-current assets			
Investments	10,913	16,110	(5,197)
Securities, financial receivables and other non-current financial assets	670	647	23
Miscellaneous receivables and other non-current assets	542	1,090	(548)
Deferred tax assets	714	2,399	(1,685)
	12,839	20,246	(7,407)
TOTAL NON-CURRENT ASSETS (A)	71,737	73,332	(1,595)
CURRENT ASSETS			
Inventories	125	76	49
Trade and miscellaneous receivables and other current assets	6,853	6,450	403
Current tax receivables	258	300	(42)
Financial receivables and other current financial assets	266	196	70
Cash and cash equivalents	5,208	6,601	(1,393)
TOTAL CURRENT ASSETS (B)	12,710	13,623	(913)
TOTAL ASSETS (A+B)	84,447	86,955	(2,508)
EQUITY AND LIABILITIES			
EQUITY			
- Share capital issued	10,674	10,668	6
. less: treasury shares	(1)	(1)	-
- Share capital	10,673	10,667	6
- Reserves	7,935	10,760	(2,825)
- Retained earnings, including net income for the year	5,916	1,101	4,815
			-
TOTAL EQUITY (C)	24,524	22,528	1,996
NON-CURRENT LIABILITIES			
Non-current financial liabilities	40,069	41,140	(1,071)
Employee severance indemnities and other employee-related provisions	1,143	1,104	39
Deferred tax liabilities	134	-	134
Provisions for risks and future charges	646	393	253
Miscellaneous payables and other non-current liabilities	1,680	1,880	(200)
TOTAL NON-CURRENT LIABILITIES (D)	43,672	44,517	(845)
CURRENT LIABILITIES			
Current financial liabilities	6,690	12,869	(6,179)
Trade and miscellaneous payables and other current liabilities	9,436	7,032	2,404
Current tax payables	125	9	116
TOTAL CURRENT LIABILITIES (E)	16,251	19,910	(3,659)
TOTAL LIABILITIES (F=D+E)	59,923	64,427	(4,504)
TOTAL EQUITY AND LIABILITIES (C+F)	84,447	86,955	(2,508)

Assets total euro 84,447 million and decreased from December 31, 2005 by euros 2,508 million and are composed of non-current assets for euro 71,737 million and current assets for euro 12,710 million. Specifically, non-current assets decreased by euro 1,595 million mainly due to the following:

- decrease in the carrying amount of investments (-euro 5,197 million) due to both the elimination of the investments in Tim Italia (euro 3,770 million) and Nuova Tin.it (euro 880 million) – after the mergers with Telecom Italia – and to the dividends paid out by Telecom Italia Media (euro 362 million) that were used to reduce the carrying amount of the investment in that same company;
- decrease in deferred tax assets (-euro 1,685 million);
- increase in tangible and intangible assets (+euro 5,812 million) due mainly to the merger with Tim Italia (euro 5,431 million). In particular, it should be noted that intangible assets include the remaining cost of the UMTS and Wireless Local Loop licenses of the merged company Tim Italia, equal to euro 2,025 million, and the goodwill, equal to euro 829 million, arising from the Telecom Italia/Nuova Tin.it merger which took place on October 1, 2006.

Equity amounts to euro 24,524 million and increased by euro 1,996 million compared to December 31, 2005 (euro 22,528 million). The changes in equity during 2006 are presented as follows:

(millions of euro)	2006	2005
At the beginning of the year	**22,528**	**14,702**
Distribution of dividends	(2,783)	(1,923)
Share capital increase to service Telecom Italia/TIM merger	-	1,310
Share capital increase following conversion of “Telecom Italia 1.5% 2001 – 2010 convertible bonds with a repayment premium”	6	494
Share premium reserve increase following “Telecom Italia 1.5% 2001 – 2010 convertible bonds with a repayment premium” and exercise of stock options	20	1,663
Share premium reserve increase for Telecom Italia / TIM merger	-	4,736
Telecom Italia/Tim Italia merger surplus reserve	379	-
Appropriation of net income to legal reserve	181	-
Appropriation of net income to reserve ex lege 488/1992	100	103
Income (decrease) in reserve for fair value adjustments of hedging instruments	172	(29)
Increase in reserve for fair value adjustments of available-for-sale financial assets	63	53
Other changes	(286)	(415)
Net income for the year	4,144	1,834
At the end of the year	**24,524**	**22,528**

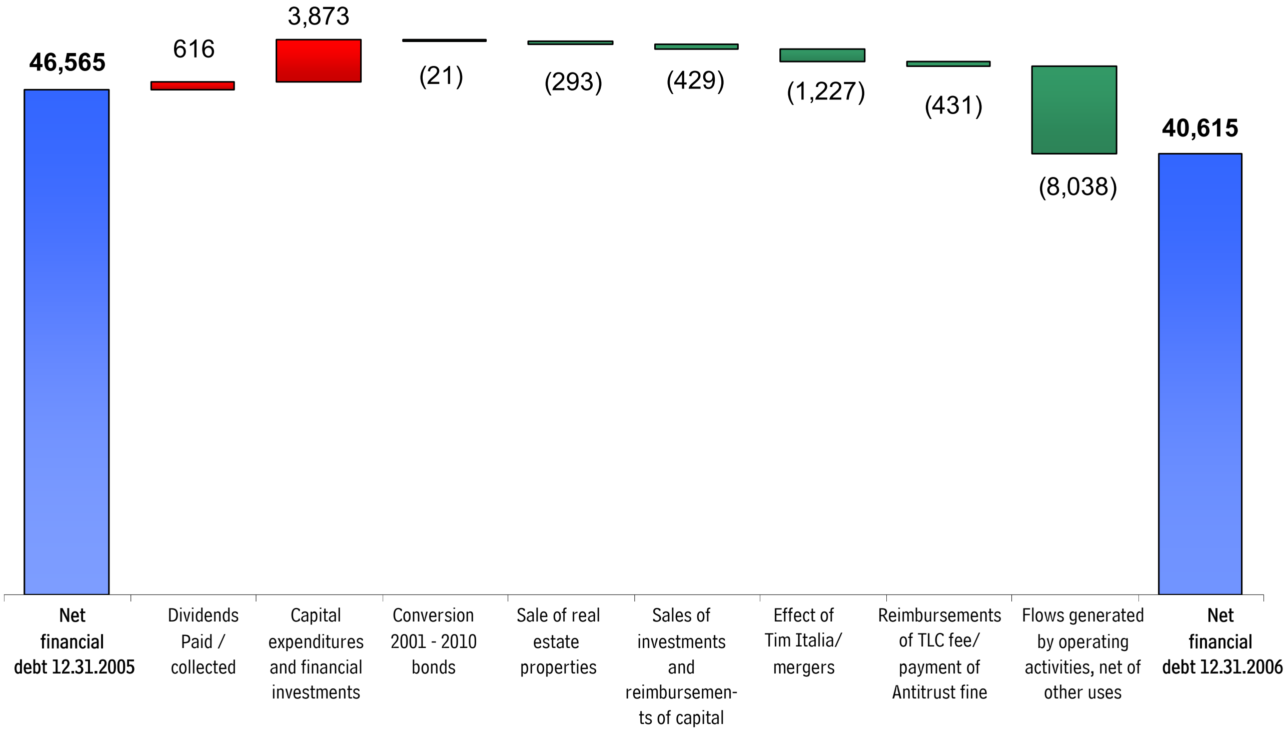
Net financial debt (euro 40,615 million) decreased by euro 5,950 million compared to December 31, 2005 (euro 46,565 million). The composition of net financial debt is analyzed in the following table:

(millions of euro)		12/31/2006	12/31/2005	Change
		(a)	(b)	(a-b)
Non-current financial liabilities (*)				
Financial payables		37,466	38,760	(1,294)
Finance lease liabilities		1,823	1,855	(32)
Non-current liabilities for hedging derivatives		780	525	255
	(1)	40,069	41,140	(1,071)
Less:				
Non-current financial receivables for lessors' net investments		*(222)*	(203)	(19)
Non-current assets for hedging derivatives		*(156)*	*(31)*	*(125)*
		(378)	(234)	*(144)*
TOTAL NON-CURRENT FINANCIAL LIABILITIES (*)	(A)	39,691	40,906	(1,215)
Current financial liabilities (*)				
Financial payables		6,305	12,536	(6,231)
Finance lease liabilities		258	215	43
Current liabilities for hedging and non-hedging derivatives		118	114	4
Other financial liabilities		9	4	5
	(2)	6,690	12,869	(6,179)
Less:				
Current financial receivables for lessors' net investments		*(141)*	*(113)*	(28)
Current assets for hedging derivatives		*(91)*	*(66)*	*(25)*
		(232)	(179)	(53)
TOTAL CURRENT FINANCIAL LIABILITIES (*)	(B)	6,458	12,690	(6,232)
TOTAL GROSS FINANCIAL DEBT (*)	(C=A+B)	46,149	53,596	(7,447)
Current financial assets (*)				
Financial receivables and other current financial assets		(266)	(196)	(70)
Cash and cash equivalents		(5,208)	(6,601)	1,393
	(3)	(5,474)	(6,797)	1,323
Less:				
Current financial receivables for lessors' net investments		*141*	*113*	28
Current assets for hedging derivatives		*91*	*66*	25
		232	179	53
TOTAL CURRENT FINANCIAL ASSETS (*)	(D)	(5,242)	(6,618)	1,376
NET FINANCIAL DEBT AS OF CONSOB COMMUNICATION N. DEM/6064293/2006	(E=C+D)	40,907	46,978	(6,071)
Non-Current financial assets (*)				
Financial receivables and other non-current financial assets	(4)	(670)	(647)	(23)
Less:				
Non-current financial receivables for lessors' net investments		*222*	*203*	19
Non-current assets for hedging derivatives		*156*	*31*	125
		378	234	144
TOTAL NON-CURRENT FINANCIAL ASSETS (*)	(F)	(292)	(413)	121
NET FINANCIAL DEBT	(G=E+F)	40,615	46,565	(5,950)
COMPOSITION OF THE NET FINANCIAL DEBT:				
Total gross financial debt				
Non-current financial liabilities	(1)	40,069	41,140	(1,071)
Current financial liabilities	(2)	6,690	12,869	(6,179)
		46,759	54,009	(7,250)
				-
Total gross financial assets				-
Non-current financial assets	(4)	(670)	(647)	(23)
Current financial assets	(3)	(5,474)	(6,797)	1,323
		(6,144)	(7,444)	1,300
		40,615	46,565	(5,950)

(*) Net of assets for hedging derivatives and financial receivables for lessors' net investments.

The following chart summarizes the major items which had an impact on the change in net financial debt during 2006:

(millions of euro)



In particular:

- dividends paid amount to euro 2,783 million. Dividends collected from Group companies total euro 2,167 million and particularly include dividends collected from Tim Italia amounting to euro 2,051 million;
- capital expenditures and financial investments mainly refer to intangible assets (euro 1,537 million), tangible assets (euro 2,187 million), absorption of the remaining losses at December 31, 2005 and simultaneous recapitalization of Olivetti (for a total of euro 50 million), and also payments made against investments in the same Olivetti (euro 50 million) and in Telecom Italia Learning Services (euro 36 million), later sold;
- the amount relating to the sale of real estate properties refers to the effect on net financial debt of the sale of the properties to Olivetti Multiservice. These disposals are part of the activities for the reorganization of the physical spaces occupied by network installations to gradually free part of the properties used for these installations;
- the sale of investments and reimbursements of capital principally refer to dividends paid out by Telecom Italia Media (euro 362 million) – deducted from the carrying amount of the investment – the sale of Finsiel (euro 27 million) and reimbursements of capital and dividend payouts by Tiglio I, Tiglio II and Telegono (euro 37 million);
- the effects of the mergers with Tim Italia and Nuova Tin.it refer to the acquisition of the cash and cash equivalents of the two merged companies;
- “reimbursement of TLC fee/payment of Antitrust fine” (euro 431 million) refers to the reimbursement of euro 546 million from the financial administration following the ruling handed down by the Regional Administrative Court of Lazio on July 10, 2006 for the principal portion of the TLC operating fee ex art 20 Law 12.23.98 n. 448, that Telecom Italia and TIM had paid for the year 1999 and the payment of euro 115 million for the fine levied by the Antitrust Authority for alleged abuse of a dominant position.

Net financial debt at December 31, 2006 benefits from the effects of securitization transactions and sales of receivables to factoring companies held in the year for a total of euro 1,471 million (euro 762 million at December 31, 2005).

(millions of euro)	12/31/2006	12/31/2005
Securitization	-	648
Factoring	1,471	114
	1,471	762

The securitization program came to its natural end in the month of July 2006. Starting from June 2006, however, contracts were signed for the sale on a continuous basis of the same kind of receivables that were in the securitization transactions and in substitution thereof.

***

At December 31, 2006, current financial liabilities include the current portion of non-current financial debt due within 12 months, equal to euro 5,713 million (euro 7,913 million at December 31, 2005), of which euro 3,139 million relates to the portion of loans payable to Group companies.
The debt position with Group companies amounts to euro 24,954 million (euro 21,202 million due beyond 12 months); the debt position with third parties totals euro 21,804 million (euro 18,867 million due beyond 12 months).

The following table shows the maturities of non-current financial liabilities (including the current portion maturing within 12 months) by type of transaction according to both the expected nominal repayment amount, as contractually defined, and the carrying amount (comprising fair value adjustments and amortized cost).
In particular:

- bonds include those subscribed to by third parties (carried in the financial statements for euro 11,711 million and at nominal amounts for euro 11,510 million) and those subscribed to by the subsidiary Telecom Italia Finance S.A. (carried in the financial statements for euro 5,759 million and at nominal amounts for euro 5,550 million);
- loans and other financial liabilities are carried in the financial statements for euro 26,231 million (euro 25,430 million at nominal amounts) and include simple intercompany loans to Telecom Italia Capital S.A. and Telecom Italia Finance S.A.;
- liabilities for finance leases due to third parties are carried in the financial statements for euro 2,081 million (euro 2,062 million at nominal amounts).

The average maturity of non-current financial liabilities is equal to 7.56 years.

Maturities of financial liabilities – carrying amount (1)(2):

(millions of euro)	Maturing 12/31/ 2007	2008	2009	2010	2011	Beyond 2011	TOTAL
Bonds	1,828	750	110	482	2,397	11,903	17,470
Loans and other financial liabilities	3,627	1,910	911	3,318	440	16,025	26,231
Finance lease liabilities	258	181	150	138	109	1,245	2,081
Total	**5,713**	**2,841**	**1,171**	**3,938**	**2,946**	**29,173**	**45,782**
Current financial liabilities	977						977
Total	**6,690**	**2,841**	**1,171**	**3,938**	**2,946**	**29,173**	**46,759**

(1) Carrying amounts take into account fair value adjustments and amortized cost.
(2) Financial commitments include accrued expenses and deferred income, which increase the amount of non-current financial liabilities due within 12 months by euro 1,113 million and current financial liabilities by euro 9 million.

Maturities of financial liabilities – nominal repayment amount

(millions of euro)	Maturing 12/31/ 2007	2008	2009	2010	2011	Beyond 2011	TOTAL
Bonds	1,250	750	110	574	2,400	11,976	17,060
Loans and other financial liabilities	3,116	1,902	909	3,329	440	15,734	25,430
Finance lease liabilities	239	181	150	138	109	1,245	2,062
Total	**4,605**	**2,833**	**1,169**	**4,041**	**2,949**	**28,955**	**44,552**
Current financial liabilities	977						977
Total	**5,582**	**2,833**	**1,169**	**4,041**	**2,949**	**28,955**	**45,529**

Furthermore:

On December 21, 2005, the board of directors of Telecom Italia S.p.A. set a new maximum ceiling for the Euro Medium Term Note Programme (EMTN), which regulates the placement, also for more than one transaction, for more than one tranche and for more than one currency, of bonds by Telecom Italia S.p.A. and/or its wholly-owned subsidiary Telecom Italia Finance S.A. under a guarantee by Telecom Italia S.p.A.. The new maximum ceiling was raised to euro 15 billion against the previous euro 10 billion (of which slightly less than euro 8 billion had already been used at December 31, 2005). At the same time, the board of directors authorized the issue of non-convertible bonds in 2006 up to a maximum of euro 4.5 billion. The following table highlights the utilization of the EMTN Programme at the end of 2006 compared to the prior year.

Telecom Italia EMTN Programme: utilization status

(millions of euro)	12/31/2006	12/31/2005
Total amount of EMTN Programme	**15,000.0**	**10,000.0**
Securities issued (1)	**10,435.4**	**7,839.7**
Of which: Telecom Italia S.p.A.	9,186.0	7,090.0
Telecom Italia Finance S.A.	1,249.4	749.7
Securities repaid (1)	**(1,000.0)**	
Of which: Telecom Italia S.p.A.	(1,000.0)	-
Telecom Italia Finance S.A.	(0.05)	-
Net utilization of EMTN Programme	**9,435.3**	**7,839.7**
Remaining available amount	**5,564.7**	**2,160.3**

(1) Cumulative amount since the start of the EMTN Program.

With reference to **bonds**, the transactions described below took place during 2006:

1) NEW ISSUES

- Telecom Italia S.p.A. issued three new bond issues under the euro 15 billion Euro Medium Term Note Programme: (a) on May 19, 2006, a dual-tranche issue for euro 750 million and GBP 400 million, respectively, and (b) on June 9, 2006 for euro 750 million;
- The Telecom Italia S.p.A. 2002-2022 bonds, set aside for subscription by employees of the Group, at December 31, 2006 are equal to euro 250 million (nominal amount) and increased during 2006 by euro 2 million (euro 248 million at December 31, 2005).

2) REPAYMENTS AND CONVERSIONS

- Early repayment of “Telecom Italia S.p.A. euro 1,000,000,000 Floating Rates Notes due 2007”;
- Conversion of “Telecom Italia S.p.A. 1.5% 2001-2010 convertible bonds with a repayment premium”.

Additional details are disclosed in the note “Financial liabilities”.

Committed credit lines outstanding at the end of 2006, consisting of the revolving credit facilities, amount to euro 7.5 billion, divided as follows:

- euro 1.5 billion credit line expiring in March 2007, completely unused;
- euro 6 billion credit line expiring in August 2012 drawn down for euro 1.5 billion.

This composition of the credit lines was arrived at by the repayment of the credit line expiring in 2012 and the partial cancellation of the credit line expiring in 2007, during the course of the year. A summary follows:

Period	Revolving Credit Facility expiring 2007		Revolving Credit Facility expiring 2012		TOTAL	
(billions of euro)	Agreed	Drawn down	Agreed	Drawn down	Agreed	Drawn down
12/31/2005	3.8	-	6.0	4.5	9.8	4.5
Situation at 6/13/2006 following repayment	2.7	-	6.0	3.0	8.7	3.0
Situation at 12/20/2006 following repayment	1.5	-	6.0	1.5	7.5	1.5
12/31/2006	1.5	-	6.0	1.5	7.5	1.5

Moreover, on January 15, 2007, euro 1.5 billion of the remaining available syndicated credit line expiring in March 2007 was cancelled (and 0.5 billion of the same credit line previously carried by Telecom Italia Finance S.A.) and at the same time the revolving credit facility expiring in 2012 was increased by euro 2 billion. The new revolving credit facility is therefore equal to euro 8 billion.

RECONCILIATION OF CONSOLIDATED EQUITY

Reconciliation between the consolidated equity attributable to the equity holders of the Parent and the equity of the Parent, Telecom Italia

	Net result		Equity at 12/31	
(millions of euro)	2006	2005	2006	2005
Equity and Net Result of Telecom Italia S.p.A.	**4,144**	**1,834**	**24,524**	**22,528**
Equity and net result for the year of consolidated companies net of the share attributable of Minority interests	825	3,142	18,113	24,321
Carrying amounts of consolidated investments			(29,911)	(37,245)
Consolidation adjustments:				
- elimination of goodwill recognized in Parent financial statements			(40,013)	(39,184)
- recognition of positive differences arising from purchase of investments			43,662	44,088
- effect of elimination of carrying amount of shares of Parent held by Telecom Italia Finance			(468)	(468)
- valuation of investments using the equity method	39	(3)	95	(39)
- infragroup dividends	(2,134)	(1,457)	-	(13)
- losses of consolidated companies included in the results of parent companies and impairment losses	405	534	10,390	11,915
- gains on sales of investments	(230)	(531)	(142)	(37)
- elimination of internal profits included in tangible and intangible assets	38	24	(59)	(96)
- elimination of infragroup transactions on investments			(236)	(266)
- change in the percentage ownership, during the year, of consolidated companies	(52)	(353)	9	(3)
- other adjustments	(21)	26	54	161
Equity and Net Result attributable to the equity holders of the Parent	**3,014**	**3,216**	**26,018**	**25,662**
Equity and Net Result attributable to the Minority interests	(11)	474	1,080	1,323
Equity and Net Result in the consolidated financial statements	**3,003**	**3,690**	**27,098**	**26,985**

RELATED PARTY TRANSACTIONS

Related party transactions, including infragroup transactions, are neither unusual nor exceptional but fall under the normal business operations of the companies of the Group. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm's length. The information on related party transactions required by Consob Communication DEM/6064293 dated July 28, 2006 is presented, respectively, in the Notes on Related Party Transactions in the consolidated financial statements of the Telecom Italia Group and in the separate financial statements of Telecom Italia S.p.A..

BUSINESS OUTLOOK

With regard to the current year operating performance, the forecast is for an organic growth in Group revenues of between 1% and 2% over the prior year. The ratio of EBITDA to revenues is expected to decline by 2 to 2.5 percentage points, while the ratio of operating income (EBIT) to revenues is forecast to fall between 2.5 and 3 percentage points.
Net financial debt is also expected to decrease at year-end and will be less than three times EBITDA.

THE BUSINESS UNITS OF THE TELECOM ITALIA GROUP

Disclosure of segment information

The disclosure of segment information has been modified to present the Brazil Mobile segment separately from the Domestic Mobile segment in light of the increasing importance of the Brazilian mobile business and the organizational changes that took place during 2006.

In order to facilitate the comparability of the data, the segment information presented for prior periods has been restated for purposes of comparison.

The accounting representation by business segment is as follows:

- Wireline
- Domestic Mobile
- Brazil Mobile
- Media
- Olivetti
- Other activities

(millions of euro)		Wireline (1)	Domestic Mobile	Brazil Mobile	Media	Olivetti	Other activities (1)	*Adjustments and eliminations*	**Total**
Revenues	2006	17,795	10,210	3,964	207	440	1,563	(2,904)	**31,275**
	2005	17,834	10,076	2,900	180	452	1,321	(2,844)	**29,919**
EBITDA	2006	7,474	5,042	950	(83)	(33)	(489)	(11)	**12,850**
	2005	7,650	5,086	466	(91)	(15)	(566)	(13)	**12,517**
EBIT	2006	4,396	3,742	21	(137)	(50)	(582)	47	**7,437**
	2005	4,488	3,856	(190)	(130)	(38)	(547)	60	**7,499**
Capital expenditures	2006	3,002	1,146	699	85	10	200	(28)	**5,114**
	2005	2,823	1,276	842	65	19	156	(8)	**5,173**
Employees at year-end (number) (2)	12/31/2006	55,705	11,218	9,531	919	1,428	4,408	-	**83,209**
	12/31/2005	56,987	11,720	9,043	886	1,750	5,098	-	**85,484**

(1) As a result of the new organizational structure of the Group approved on October 5, 2005, the activities of the Innovation & Engineering Services business segment of Telecom Italia, ex-TILAB of Telecom Italia, previously included in Other activities, were transferred to the Wireline Business Unit. Comparative periods have been restated for purposes of comparison.

(2) The number of employees of the Group at the end of the period does not take into account the employees relating to discontinued operations.

Key operating and financial data referring to discontinued operations

(millions of euro)		Discontinued Operations: Mobile (1)	Discontinued Operations: Media (2)	Discontinued Operations: Entel Chile group	Discontinued Operations: IT Market	**Subtotal**	*Other, adjustments and eliminations (3)*	**Total**
Revenues	2006	121				121	(1)	120
	2005	734	126	238	289	1,387	(53)	1,334
EBITDA	2006	31				31	-	31
	2005	185	9	77	7	278	(34)	244
EBIT (3)	2006	15				15	(8)	7
	2005	60	4	36	(3)	97	506	603
Net income (loss) from discontinued operations / assets held for sale	2006	15				15	(8)	7
	2005	28	1	26	(11)	44	506	550
Capital expenditures	2006	10				10	-	10
	2005	87	3	27	5	122	-	122
Net financial debt	12/31/2006	-	-	-	-	-	-	-
	12/31/2005	90	16	-	-	106	-	106
Employees at year-end (number)	12/31/2006	-	-	-	-	-	-	-
	12/31/2005	863	184	-	-	1,047	-	1,047

(1) Includes: Tim Hellas (sold at the beginning of June 2005), Tim Perù (sold in August 2005) and Digitel Venezuela (sold in May 2006).
(2) Gruppo Buffetti (sold in January 2006).
(3) The EBIT adjustments and eliminations include:
- in 2006, the gain, net of the relative transaction costs and accruals to the provisions for risks, on the sale of Digitel Venezuela, (euro 22 million), an accrual relating to Tim Hellas, sold in 2005, (euro 30 million);
- in 2005, the gain on the sale of Tim Hellas (euro 410 million, net of the relative transaction costs) and Tim Perù (euro 120 million), as well as losses and incidental charges on the sale of the Finsiel group and the Entel Chile group (euro 24 million).

Operating highlights of the Business Units of the Telecom Italia Group

	12/31/2006	12/31/2005
WIRELINE		
Fixed network connections in Italy (thousands)	23,698	25,049
Physical accesses (Consumer + Business)	20,540	21,725
Voice pricing plans (thousands)	6,468	6,321
Broadband accesses (thousands)	8,660	7,020
- domestic (thousands)	*6,770*	*5,707*
- European (thousands)	*1,890*	*1,313*
Alice (ex-Virgilio) page views (millions)	13,283	9,842
Alice (ex-Virgilio) average monthly single visitors – (millions)	19.1	15.7
Network infrastructure in Italy:		
- access network in copper (millions of km - pair)	105.7	105.2
- access network and transport in optical fibers (millions of km of fiber optics)	3.7	3.7
Network infrastructure abroad:		
- European backbone (km of optical fibers)	51,000	51,000
DOMESTIC MOBILE		
Mobile telephone lines in Italy (at year-end, thousands)	32,450	28,576
BRAZIL MOBILE		
Mobile telephone lines in Brazil (at year-end, thousands)	25,410	20,171
MEDIA		
La 7 audience share Free to Air (analog mode) (period average, in %)	3.0	2.7
La 7 audience share Free to Air (analog mode) (December, in %)	3.1	3.1

OPERATIONS

On October 5, 2005, the board of directors of Telecom Italia adopted the "One Company Model" organizational structure by converging the two previous Wireline and Mobile Business Units into one single unit (Operations).
For purposes of accounting representation, starting from the first half of 2006, Mobile activities have been divided into Domestic Mobile and Brazil Mobile.

■ STRUCTURE

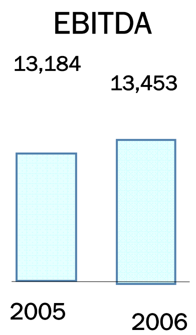
Operations is organized as follows:

OPERATIONS

Wireline
Domestic Mobile
Brazil Mobile

■ OPERATING AND FINANCIAL DATA

In order to have an overall picture of Operations, the following table shows the key results in 2006, compared to 2005, restated for purposes of comparison.



(millions of euro)	2006	2005	Change	
			amount	%
Revenues	30,388	29,096	1,292	4.4
EBITDA	13,453	13,184	269	2.0
% of Revenues	*44.3*	*45.3*		
EBIT	8,148	8,144	4	
% of Revenues	*26.8*	*28.0*		
Capital expenditures	4,847	4,933	(86)	(1.7)
Employees at year-end (number)	76,457	77,754	(1,297)	(1.7)

Revenues, totaling euro 30,388 million, record an increase of 4.4% (+euro 1,292 million) compared to 2005; organic growth, on a comparable consolidation basis and excluding the foreign exchange effect, is 2.8% (+euro 821 million).

EBITDA, amounting to euro 13,453 million, shows an increase of 2.0% (+euro 269 million) compared to 2005, with the percentage of EBITDA to revenues equal to 44.3% (45.3% in 2005). The organic growth of EBITDA compared to 2005 is equal to +0.9% (+euro 119 million), with the percentage of EBITDA to revenues at 44.9% (45.7% in 2005).

	Year 2006	Year 2005	Change	
(millions of euro)			amount	%
HISTORICAL EBITDA	13,453	13,184	269	2.0
Effect of change in exchange rates		93		
Non-organic (income) expenses:	178	235		
Release of provision for risks relating to Antitrust fine		(37)		
Settlement with customers and other operators	*61*	*24*		
Restructuring costs	*72*	*246*		
Corporate restructuring costs	*4*	*3*		
Other	*41*	*(1)*		
COMPARABLE EBITDA	13,631	13,512	119	0.9

EBIT, amounting to euro 8,148 million, is basically stable compared to 2005 (+euro 4 million), and as a percentage of revenues is equal to 26.8% (28.0% in 2005). At the organic level, EBIT decreased by 0.8% compared to 2005, with EBIT as a percentage of revenues at 27.5% (28.5% in 2005).

	Year 2006	Year 2005	Change	
(millions of euro)			amount	%
HISTORICAL EBIT	8,148	8,144	4	
Effect of change in scope of consolidation		(8)		
Effect of change in exchange rates		2		
Non-organic (income) expenses:	203	277		
Non-organic (income) expenses already described under EBITDA	178	235		
Additional non-organic (income) expenses	25	42		
Loss on sale of non current assets	-	18		
Other (income) expenses	*25*	*24*		
COMPARABLE EBIT	8,351	8,415	(64)	(0.8)

***

There follows a commentary on the operating and financial performance and the principal activities carried out during 2006 by Operations: Wireline, Domestic Mobile and Brazil Mobile.

WIRELINE

THE BUSINESS UNIT

On a national level, the Wireline Business Unit operates as the consolidated market leader of wireline telephone and data services for final customers (retail) and other operators (wholesale). On an international level, Wireline develops fiber optic networks for wholesale customers (in Europe, in the Mediterranean area and in South America) and also offers innovative broadband services in France, Germany and The Netherlands.

THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:

Telecom Italia –Wireline	National subsidiaries	International subsidiaries
Wireline TLC services: . Retail telephone . Internet . Data Business . National Wholesale	Loquendo S.p.A. Matrix S.p.A. Path.Net S.p.A. Telecontact Center S.p.A.	BBNED Group Liberty Surf Group HanseNet Telekommunikation GmbH Telecom Italia Sparkle Group: - Telecom Italia Sparkle S.p.A. - Latin American Nautilus Group - Med-1 Group - Mediterranean Nautilus Group - TMI Group - Pan European Backbone - Telecom Italia Sparkle Singapore - Telecom Italia San Marino S.p.A. - Telecom Italia Sparkle of North America Inc. - Telefonia Mobile Sammarinese S.p.A. - Thinx S.r.l. - TIS France S.A.S.

MAJOR CORPORATE EVENTS AND SCOPE OF CONSOLIDATION

Note should be taken of the following:

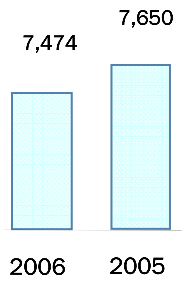
- Following the adoption of the new organizational structure of the Group at the end of 2005, the TILAB business segment of Telecom Italia was transferred to the Wireline Business Unit;
- On September 17, 2006, the preliminary agreement was signed between Telecom Italia and Time Warner for the purchase of the AOL Internet activities in Germany by Telecom Italia Deutschland Holding. The transaction was finalized on February 28, 2007 and was settled in cash for an amount of euro 665 million. As a result of this acquisition, Telecom Italia becomes the second-largest ISP in Germany with more than 3 million customers, of which approximately 2.1 million broadband accesses. The agreement also provides that AOL, in addition to providing co-branded services and content on a joint portal for all residential Internet customers of Telecom Italia in Germany, will also be in charge of online advertising. This 5-year partnership also envisages that the same AOL will design, host and manage services for all retail customers of the Telecom Italia Group in Germany;
- in September 2006, the sale of the "Radiomaritime Activities" business to the company ITS Servizi Marittimi e Satellitari S.p.A. was finalized. Consideration on the sale amounted to euro 200 thousand;

- on September 26, 2006, the act for the merger by incorporation of the company Nuova Tin.it S.r.l. in the Parent, Telecom Italia S.p.A., was signed. The merger took effect on October 1, 2006;
- on December 19, 2006, the board of directors of the parents, Mediterranean Nautilus S.A. and Latin American Nautilus S.A., approved the plan for the merger and restructuring of the two groups. The project calls for the merger (finalized on February 27, 2007) of Mediterranean Nautilus S.A. in Latin American Nautilus S.A. after the transfer (which took place on December 29, 2006) of all the directly controlled companies by Latin American Nautilus S.A. to Latin American Nautilus S.A. Ltd.
  The new post-merger group will therefore have a sole parent in Luxembourg and two operating groups in Ireland.

OPERATING AND FINANCIAL DATA

The following table shows the key results in 2006, compared to 2005, restated for purposes of comparison.
The data takes into account, as from January 1, 2005, the acquisition of the Internet business, the merger of IT Telecom activities and the inclusion of the ex-TILAB (R&D) business of Telecom Italia in the scope of consolidation.

EBITDA



(millions of euro)	2006	2005	Change amount	Change %
Revenues	17,795	17,834	(39)	(0,2)
EBITDA	7,474	7,650	(176)	(2,3)
% of Revenues	*42,0*	*42,9*		
EBIT	4,396	4,488	(92)	(2,0)
% of Revenues	*24,7*	*25,2*		
Capital expenditures	3,002	2,823	179	6,3
Employees at year-end (number)	55,705	56,987	(1,282)	(2,2)

Revenues, totaling euro 17,795 million, show a decrease of 0.2% (-euro 39 million) compared to 2005. In organic terms, that is, on a comparable consolidation basis and excluding the foreign exchange effect, the decrease is equal to euro 123 million (-0.7%). This result is significantly influenced by the impact of the cut in fixed-mobile termination rates (euro 152 million) which commenced in the second half of 2005, the acceleration of the migration of voice traffic from the fixed to the mobile network, as well as the adjustments for amounts referring mainly to Premium services which in 2006 were not recognized by customers (euro 43 million) owing to unacknowledged traffic indicated by the customers themselves as a result of the fraudulent conduct of others.
However, this negative change is compensated to a good extent by the strong growth of the European and domestic broadband market. Excluding the negative effect of the reduction in termination rates, the organic growth would be 29 million (+0.2,%).

A description of the trend in revenues by strategic area of business follows:

<u>Retail telephone</u>
Retail telephone services consist mainly in the supply of services using traditional technologies (PSTN and ISDN) and innovative technologies (VoIP). Retail telephone services include: network

access, traffic (in terms of minutes and rate plans), hire of telephone equipment and value added telephone services.
Revenues are generated mainly by traffic, basic subscription charges and sales. Revenues from traffic are generated by volumes of traffic transported on the network and by subscription charges and plans and also rate packages. Subscription charges include basic monthly subscription charges, and charges for additional services and for the hire of telephone equipment. Revenues from sales are generated by the sale of telecommunications products and equipment and related telephone accessories.
Revenues from the Retail Telephone segment are equal to euro 9,308 million and show a reduction of 7.8% compared to 2005, due to a contraction of traffic as a result of the erosion by mobile traffic, discontinuity owing to changes in the regulatory framework (fixed-mobile termination and the 12XY subscriber information services) and pressure from competitors over prices in the Top Customer segment.

Internet
Retail Internet services consist mainly of ADSL services (connections, traffic, services, equipment and portals) and traditional Internet traffic (dial-up access).
Revenues generated by the Internet segment, equal to euro 1,511 million, increased by 5.2% (+euro 75 million) compared to 2005, thanks to the continuous strong growth of broadband revenues (+euro 127 million; +11.5% compared to 2005).
At December 31, 2006, the overall portfolio of Wireline's retail broadband customers in Italy totaled more than 5.6 million (+17.1% compared to the December 2005).

Data Business
Data Business services include Data Transmission and Network Services for business customers, Leased Lines (lines for the direct connection of two places which are geographically distant), equipment for data services and value added services.
Overall, revenues from the Data Business segment, equal to euro 1,743 million, show a contraction of euro 124 million compared to 2005 (-6.6%). This decline, due to ever-fiercer competition on the market of Corporate customers and the contract price revision with the Public Administration, is particularly evident in leased line services (-euro 58 million) and traditional Data Transmission services (-euro 58 million). Conversely, there was a positive trend in ICT services, which showed a continuous trend of growth (+euro 52 million, +9.5% compared to 2005).

Wholesale
The Wholesale offering includes national and international services for other operators, both for fixed and mobile operators and Internet service providers. The services offered to other domestic operators consist mainly in interconnecting them to the Telecom Italia network, both in terms of access and traffic (collection, termination and transit), broadband access (ADSL and XDSL) and leased lines. Services offered to international OLOs consist mainly in carrying traffic and data accesses.
Overall, revenues from Wholesale, equal to euro 3,989 million, show an increase of euro 463 million (+13.1%) compared to 2005.
Revenues from national wholesale services amount to euro 2,131 million and show an increase of euro 180 million compared to 2005 (+9.2%); international wholesale services reported revenues of euro 1,858 million, an increase of euro 283 million compared to 2005 (+18.0%).

European Broadband Project
Activities associated with the European Broadband Project (which involves France, Germany and Holland) reported strong continuous growth. Revenues amount to euro 915 million (+euro

350 million compared to 2005). On a comparable consolidation basis, considering the inclusion of the Liberty Surf Group in the first half of 2005 (May 31, 2005 acquisition date), organic growth was equal to euro 262 million (+40.1%). At December 31, 2006 the portfolio of Broadband customers reached 1,890,000 (+577,000, +43.9% compared to 2005), whereas the total number of customers in the three countries exceeded 2.15 million.

The following tables shows the key results of the European Broadband Project in 2006, compared to 2005.

(millions of euro)	2006	2005	Change	
			amount	%
Revenues	915	565	350	61.9
EBITDA	81	(2)	83	
% of Revenues	*8.9*	*(0.4)*		
EBIT	(125)	(117)	(8)	(6.8)
% of Revenues	*(13.7)*	*(20.7)*		
Capital expenditures	467	304	163	53.6
Employees at year-end (number)	3,066	2,494	572	22.9

***

EBITDA, equal to euro 7,474 million, shows a decrease of 2.3% (-euro 176 million) compared to 2005, with the percentage of EBITDA to revenues at 42.0% (42.9% in 2005). EBITDA, compared to 2005, was highly influenced by the different mix of revenues and ever greater competitive pressure in Italy, impacting both prices and sales costs.
The organic change in EBITDA is a negative 3.0% (-euro 239 million) compared to 2005, with EBITDA as a percentage of revenues at 42.8% (43.9% at December 2005).

	Year 2006	Year 2005	Change	
(millions of euro)			amount	%
HISTORICAL EBITDA	7,474	7,650	(176)	(2.3)
Non-organic (income) expenses:	146	209		
Release of provision for risks relating to Antitrust fine		*(37)*		
Settlement with customers and other operators	*61*	*24*		
Restructuring costs	*53*	*213*		
Other	*32*	*9*		
COMPARABLE EBITDA	7,620	7,859	(239)	(3.0)

As for the domestic scope of consolidation, excluding the European Broadband Project, the organic EBITDA margin is 44.7% compared to 45.5% in 2005.

With regard to changes in costs, the following is noted:

- purchases of materials and external services total euro 7,692 million, with an increase of 3.6% compared to 2005. The growth, +euro 266 million, is mainly attributable to the greater effort placed on the development of the European Broadband Project (+euro 246 million);

- personnel costs amount to euro 2,635 million, with a decrease of euro 192 million compared to 2005 (-6.8%). The decrease is not only due to the reduction in the work force but also to lower restructuring costs (-euro 160 million);
- other operating expenses amount to euro 639 million (+euro 79 million compared to 2005). The change mainly refers to the accrual in respect of the arbitration proceedings begun by Fastweb concerning the execution of the contract relating to "Local Loop Unbundling".

EBIT is euro 4,396 million, down by 2.0% (-euro 92 million) compared to 2005. As a percentage of revenues, EBIT is 24.7% (25.2% in 2005).
The organic change in EBIT is a decrease of 3.3% (-euro 154 million) compared to 2005, with EBIT as a percentage of revenues at 25.7% (26.3% in 2005).

(millions of euro)	Year 2006	Year 2005	Change amount	Change %
HISTORICAL EBIT	4,396	4,488	(92)	(2.0)
Effect of change in scope of consolidation		(8)		
Effect of change in exchange rates		-		
Non-organic (income) expenses:	171	241		
Non-organic (income) expenses already described under EBITDA	146	209		
Additional non-organic (income) expenses	25	32		
Loss on sale of non current assets	*-*	*18*		
Other (income) expenses	*25*	*14*		
COMPARABLE EBIT	4,567	4,721	(154)	(3.3)

- It should also be pointed out that in 2006 Telecom Italia performed a review of the estimated useful life of its tangible assets in order to bring them into line with the technological and market developments of the last few years and also with the convergence of fixed – mobile telecommunications. The impact of this review on EBIT for the "fixed" area can be quantified in euro 219 million of lower depreciation charges. This positive effect is largely offset by the increase in the amortization charge for intangible assets, mainly referring to software, which is still amortized over 36 months but beginning with the 2003 financial statements the starting date for amortization has been changed from the start of the year to the effective date the asset comes into use. The effects of this change (euro 165 million) therefore fall in the year 2006 as apposed to 2005.

Capital expenditures amount to euro 3,002 million and increased by euro 179 million (+6.3%) compared to 2005; the increase is mainly due to the expansion of the European Broadband Project.

Employees number 55,705 and show a reduction of 1,282 compared to December 31, 2005. The change is due to the hiring of 2,359 people, of whom 874 are in Italy and 1,485 abroad (mainly in France), and intragroup mobility (+194), countered by the sale of the "Radiomaritime Activities" business (72) and 3,342 terminations of employment (principally at Telecom Italia). The number of employees under temp work contracts is 865 at December 31, 2006 (1,286 at December 31, 2005).

KEY FACTORS IN ITALY

- The Wireline Business Unit focused on encouraging its customers to migrate towards innovative access solutions which provide access to a new generation of IP services and applications. In 2006, the Wireline Business Unit aimed to expand the penetration of ADSL into the Retail Broadband market through its range of “Alice” products to consumers, SOHOs and SMEs.

- In December 2006, this strategy enabled Telecom Italia to have a Broadband Retail + Wholesale portfolio of 6.8 million accesses (compared to approximately 5.7 million accesses in December 2005), of which about 5.6 million for Retail Broadband. Throughout 2006, Telecom Italia’s sales strategy aimed to encourage customers with pay-per-use rate plans to migrate towards Flat rate plans and voice/data bundle packages. These now constitute about half Telecom Italia’s Retail Broadband customers.

- Furthermore, the Wireline Business Unit is continuing to develop new services to offset the erosion taking place in traditional services. On the Consumer market, the IPTV service was launched with a geographical coverage of 250 cities by the end of 2006. In addition, Telecom Italia continued to develop its range of content and services on the Internet and its range of Advanced Telephony such as Video-communication and VAS. In the Telecom Italia Business market, increasing efforts are being made to offer TI customers ICT solutions, as a tool to promote customer retention and increase revenues.

- In traditional Telephone business, the main strategy was to increase the penetration of flat voice packages with the aim of increasing retention of its own customers and luring back others who had switched to other operators.

INFORMATION ON OPERATIONS

The main operating highlights at December 31, 2006 compared to December 31, 2005 are presented below.

	12/31/2006	12/31/2005
Fixed network connections in Italy (thousands)	23,698	25,049
Physical accesses *(Consumer + Business)* (thousands)	20,540	21,725
Voice pricing plans (thousands)	6,468	6,321
Broadband accesses (thousands)	8,660	7,020
- domestic (thousands)	*6,770*	*5,707*
- European (thousands)	*1,890*	*1,313*
Alice page views (millions)	13,283	9,842
Alice (ex-Virgilio) average monthly single visitors (millions)	19.1	15.7
Network infrastructure in Italy:		
- access network in copper (millions of km - pair)	105.7	105.2
- access network and transport in optical fibers (millions of km of fiber optics)	3.7	3.7
Network infrastructure abroad:		
- European backbone (km of optical fibers)	51,000	51,000
Total traffic:		
Minutes of traffic on the fixed network (billions)	173.8	185.1
- domestic traffic	160.1	171.3
- international traffic	13.7	13.7

At December 31, 2006 the Wireline Business Unit has approximately 23.7 million fixed connections. These include about 16.1 million residential lines (including ISDN equivalent channels), about 7.5 million business lines (including ISDN equivalent channels) and 0.18 million Public Telephone connections (including ISDN equivalent channels). Overall, there are about 5.1 million ISDN equivalent channels.
The falling trend in the number of RTG+ISDN connections can clearly be attributed to the gradual increase in ADSL lines, which provide higher Internet surfing speeds, as can be seen from the marked growth in broadband accesses.

STRATEGIC BUSINESS AREAS

- TELEPHONE RETAIL

Telephone Services	Traditional access	Within the sphere of activities to sustain the demand for new telephone lines and with a view to augmenting the penetration of Broadband and the use of services, the new Linea Più package of services was launched. The new package includes an additional VoIP number, a modem for surfing the Internet, the Tutto 4* services package and free consultation of the 1254 automatic subscriber information service. For the Business clientele, especially SOHO customers, there was a move towards VoIP lines, with a flat rate for national calls.
	Pricing (rate plans)	In addition to activities geared to augmenting the number of flat packages, work continued to innovate the portfolio of pricing plans by extending the concept of "parli per 0 eurocents" also to the fixed-mobile segment. In this sphere, the commercial launch of Teleconomy Zero-Zero enables customers to call or make video calls for 0 eurocents a minute, both to fixed and mobile phones with a connection charge when the phone is answered. Rate plans to encourage convergence with mobile were launched, with a special promotion of the *Team Business* and *Teleconomy One Office* rate plans, with the first month free of charge.
	Products	For the Business clientele, the *VoIP* cordless model of the Aladino was launched bundled with Alice Business Voce, the new entry level fax Pegaso MMS, and a new range of PC.

- INTERNET RETAIL

Internet and VoIP	Alice	Promotions on Alice Free to encourage customers to switch to ADSL by reducing the barriers to entry. Launch of the *Unica* rate plan, the first integrated TIM Telecom package, which, using a TIM UNICO cell phone, allows VoIP calls from the Wi-Fi connection of Alice inside the home and GSM TIM calls outside the home. Launch of the Double and Triple Play Alice Tutto Incluso rate plans which, starting at a price of euro 1 a day, offers customers Internet with speeds of up to 20 Mega, unlimited phone calls and video calls from the new Videotelephone and personally selected TV programs. Customers also have the option of buying a "season ticket" for the TIM Serie A Soccer Championship or a portable PC with zero interest, including installation. For the Business clientele, there is a drive to promote VoIP associated with entry level ADSL to increase penetration even to customers who do not use the Internet. *Alice Business Voce autoinstallante* launched, which obviates the need for any technical assistance. In October 2006, a free automatic upgrade effected for Alice Flat accesses from 640Kbps to 2 Mb

	Alice Business	A strong drive made to promote VoIP associated with entry level ADSL to increase penetration to include customers who do not use the Internet. In September 2006, launch of Alice Business 20 mega, the Business rate plan based on ADSL 2+ technology. Promotions were launched associated with *Alice Business Flat* and *5 FAST*, with no subscription charges for the first 2 months, *Alice Business Sicura* with a basic subscription charge of 1 euro/month for the first 6 months, and *HDSL in Liberty* with no basic subscription charge for the first month on 2-Mb Liberty access lines. A new Videosorveglianza (CCTV – Closed Circuit Television) rate plan is being developed.

IPTV	Coverage of the *Alice Home TV* (IPTV) service was extended to more than 250 towns to enlarge the potential customer base. The promotion offering free installation by a Telecom Italia technical expert was also renewed. At the end of 2006, there were 31,000 customers in the portfolio. Thanks to new agreements signed in 2006, the portfolio of “basic” and “premium” content offered to Alice Home TV users was expanded. At the end of 2006, the Alice Home TV programs were being broadcast on 24 channels. The annual Movie catalog includes about 2,500 of the most important Italian and international movies, of which 500 are available each month on demand, with a monthly update of about 200 titles of movies and TV series. The commercial offering was enhanced by the upgrade of the access speed to 20 Mega and the launch of the new triple-play “Alice Tutto Incluso” rate plans. The promotion whereby the customer is supplied with free installation by a Telecom Italia technician was also renewed.

Public Telephone Services	Launch of the “Mi chiami?” service, which enables customers to receive calls from fixed and mobile networks on public phones.
Alice Portal (ex Virgilio)	Activities of the portal were mainly geared to: - strengthening the editorial side of the portal by constant supervision of the content being broadcast and supplying updates in real time on events of topical importance; - implementing services using the web 2.0 logic to encourage customers to participate actively in the life of the portal and the creation of content. In this context, the new sections entitled Segnalo and Oknotizie were published and the new Alice Video channel was released. As a result of these actions in 2006, Alice Portal confirmed its leadership position among the portals in terms of audience (about 2.3 million single visitors on an average weekday*) and Virgilio Advertising consolidated its leadership among advertising concession holders in the field of “Internet Display Advertising” (advertising revenues with third-party customers were equal to euro 23 million, +36% compared to the prior year). * Source: Nielsen//Netratings SiteCensus.

- DATA BUSINESS

Data Business services include Data Transmission and Network Services for business customers, Leased Lines, equipment for data services and VAS (value added services).
The Wireline Business Unit offers a wide range of rate plans for data transmission and web application services, supported by a vast spectrum of technological platforms. These range

from traditional platforms to the highly advanced platforms, based on broadband access (Synchronous Digital Hierarchy - SDH, the European standard for high-speed digital and XDSL data transmission).
The value added services (VAS) relating to data are mainly refer to Web-based, Outsourcing and Security services.

Data Business	Lambda	There was a significant repositioning of the price of the Lambda Wave service with regard to "Long Distance" and "Metro". New POPs were activated to access the service, making it possible to extend the coverage of the new services in cities and over long-distance by more than 30%.
	Hyperway, Datawan and Alice Business	Access technologies were extended for both private MPLS Hyperway networks and for Internet access (Alice Business) by standardizing the fiber access solutions via Lambda with speeds ranging from 622 Mbps to 2.5 Gbps; with the launch of the new ADSL2+ profile speeds up to 20 Mega, with greater speed also upstream and different values of guaranteed bandwidth. Launch of the first integrated service between broadband IP Fixed/Mobile networks. The new service provides secure access to private MPLS Hyperway networks from mobile handsets through TIM's dedicated APN (Access Point Note) service.

Telephone VAS	Services	Launch of the *Alice Basic* rate plan which provides free registration to e-mail, Community and other services offered by the Alice portal. Introduction of the promotion of the *Tutto 4** offer free for 3 months on all new installations and renewal of the promotion in conjunction with *Aladino* and *Videotelefono* products. And for Business clientele, the *Tutto 4** package and the NT1 Plus socket are free for 3 months on the purchase of the *Aladino*.
ICT VAS	Security	Release of a new version of the DAV offer which combines antivirus functions with antispyware, for application with PCs. Repricing of some of the SME Security profiles.
	Network Manage-ment	Release of the standard offer for the systemic management of Windows servers in Data Centers. Release of the standard Storage offer for servers in Data Centers.
	Desk Top Manage-ment	Release of the Alice Business SecureBox service which offers safe storage for users who want to protect files and documents.

- NATIONAL WHOLESALE

In 2006, the national wholesale market clearly reaffirmed the trend for the service model whereby other operators acquire clientele and keep them tied directly to their networks. All the main fixed network OLOs – Other Licensed Operators – expanded their presence at Telecom Italia exchanges and, at the year end, 1,071 exchanges had an average of 3 operators per exchange, and hosted systems which were already operational. The main consequence of these decisions by the OLOs can clearly be seen in the opposing trends of the two services: the increase in unbundling lines, to which there is a partial and corresponding contraction in "Carrier Preselection" lines, and the reduction in traffic collected through interconnection which, compared to 2005, fell by about 17%.
The following figures show the main types of clientele of the OLOs:

Local Loop Unbundling (LLU)	LLU Lines	About 1,705,000 lines are connected directly to the networks of other operators, with an increase of approximately 590,000 lines, equal to 53% of the total at that date, since December 2005. Similarly, Shared Access lines, with which other operators provide ADSL access to Telecom Italia's telephone clientele, now number about 329,000, with an increase of about 190,000 lines compared to the end of 2005.
Broadband Access	XDSL	XDSL wholesale accesses acquired by other operators number about 1,130,000, an increase of about 240,000 compared to December 2005.
Carrier-PreSelection	CPS Lines	At December 31, 2006 the number of accesses configured totaled approximately 3,830,000, a decrease of around 255,000 compared to December 2005, as a result of the "transformation" into unbundling.

- INTERNATIONAL WHOLESALE

Voice
During 2006, actions continued to support the growth and profitability of Voice traffic. In fact, in view of pressure from the competition with regard to incoming and outgoing traffic, international transit traffic reported a growth in volumes equal to 524 million minutes (+8.7% compared to the prior year). This result stems mainly from the acquisition of other wholesale customers (112 new interconnections, of which 60% in Voice Over IP) and the consolidation of privileged commercial relations with traffic aggregators and with customers/suppliers in Africa, the Middle East and Eastern Europe.

In 2006, the amount of outgoing international traffic decreased by 11.0% compared to 2005. Outgoing international traffic is mainly concentrated towards the following traffic areas and represents about 41% of the total number of minutes in 2006: Romania, Germany, Switzerland, France, the United Kingdom, the United States, Ukraine and Albania.

Incoming international traffic may be subdivided into two categories: incoming traffic towards fixed networks and incoming traffic towards mobile networks. In 2006, incoming traffic towards fixed networks increased by about 159 million minutes (+7.8%) compared to 2005, while international traffic towards mobile networks reported a decrease of about 225 million minutes (-15.7%).

Attempts to safeguard profit margins were made by:

- increasing use of VoIP technology (2.5 billion minutes, +67% compared to the prior year) with a consequent reduction in unit costs;
- altering the mix of traffic by favoring destinations with higher unit margins (i.e. 20 new interconnections with mobile operators out of a total of 50 at the end of 2006).

The table below shows incoming and outgoing international traffic for the periods indicated (including traffic dialed directly by the caller, traffic connected by an operator and mobile traffic).

	2006	2005
Outgoing traffic (millions of minutes)	3,717	4,176
Percentage change in outgoing traffic (%)[(1)]	(11,0)	4,7
Incoming traffic (millions of minutes)	3,414	3,480
Percentage change in incoming traffic (%)[(1)]	(1.9)	1.0
Traffic in transit (millions of minutes)	6,575	6,051
Percent growth in traffic in transit (%)[(1)]	8.7	11.0

[(1)] *Percentage of growth in traffic compared to the prior year*

Data/IP

In 2006, the Data/IP market again reported substantial growth of bandwidth sold compared to 2005: +62.4 Gbps of IP bandwidth, +71.4%, and +273.7 Gbps of Managed Bandwidth, +68.4%. This phenomenon offset the trend of lower prices, allowing an increase in revenues generated by innovative wholesale services of approximately 18% compared to 2005.

■ TRAFFIC AND PRICES

Rate plans and prices for domestic services. With effect from November 1, 1999, telephone charges have been based on the time tariff (TUT), with an initial call set-up which varies depending on the type of call made (local, national, fixed-mobile, international) and a charge per second which, in addition to the type of call made, also varies according to the time of day and day of the week when the call is made. Since December 1997, rate plans have been introduced, aimed at the residential and business clientele, which allow discounts on national and international traffic against payment of an extra subscription charge.
Generally, rate plans are offers such as Teleconomy or Hello for the Mass Market and SOHO clientele, whereas customized offers are directed at the business clientele.
For business customers, special offers have been introduced for companies with a high volume of telephone traffic, so that they can choose from a wide range of rate plans.

Changes in rate plans. The changes in Telecom Italia's rate plans began in 1991 and led to many alterations until 1997. On July 28, 1999 the National Regulatory Authority (NRA) introduced the Price Cap mechanism which was designed with the aim of promoting the productivity and efficiency of the Telecom Italia Group as the incumbent operator in markets with a low level of competition. The Price Cap is a formula which prevents the incumbent from raising prices above the fiscal ceiling established for prices.

Until December 31, 2002, the Price Cap was applied to an overall basket of voice telephone services consisting of basic subscription charges, activation charges and charges for local, national and international calls.

On July 23, 2003, the NRA introduced a new Price Cap mechanism, also known as the "safeguard cap" with the aim of controlling the maximum prices applied to voice services during the period 2003-2006.

With reference to the Price Cap mechanism, during 2006, the following rate plan changes were introduced:

- an increase of euro 153.2 million for the access component of business customers which represents an increase of 8.5% for this segment of the clientele, even though this increase is only equivalent to 3.4% when viewed from the standpoint of the access segment as a whole (residential + business);

- a reduction in fixed-mobile rates with the consequent reduction of retention of approximately euro 20.7 million (equal to a reduction of 4.1%).

INTERCONNECTION WITH OTHER OPERATORS

On March 22, 2003, the NRA approved the introduction of the Network Cap mechanism to regulate interconnection charges until 2006. The mechanism regulates the amounts which operators must pay Telecom Italia if they use the TI network to offer their telecommunications services. Beginning with the 2003 RO (Basic Offering), the market achieved a higher level of transparency with regard to interconnection services, allowing other operators to base their business plans on stable, pre-established economic values.

With regard to Local Loop Unbundling and with reference to Resolution No. 4/06/CONS concerning market 11, on March 3, 2006 Telecom Italia published its new RO on local loop unbundling (including shared access). In particular, the price of LLU, defined through the network cap mechanism as being equal to euro 8.05/a month, is the lowest in Europe and much lower than the retail price of access. With reference to implementation, the Italian LLU market reported the fastest growth in Europe, with about 1,705,000 unbundled lines activated at December 31, 2006 (Italy is in second place after Germany where LLU was started about two years earlier) and with an increase of about 590,000 lines compared to December 31, 2005.
Furthermore, Telecom Italia has the most detailed and complete LLU offering in Europe (physical LLU, sub loop unbundling, shared access and different ways of collocation) and has complied with all the NRA's requirements in terms of making available sites requested by other OLOs. During 2006, the OLOs increased their use of the shared access service with 329,000 lines activated by the end of the year.
Since January 2005, a series of extraordinary, temporary measures were adopted for the two-year period 2005-2006 for broadband access, dedicated to transport and wholesale network infrastructure services with the aim of promoting competition.

On July 3, 2006, the NRA approved the 2006 RO published by Telecom Italia on October 28, 2005. With reference to LLU services, the approval was valid until March 2, 2006 since, in the meantime, (March 3, 2006) the company had published its new RO for 2006 as previously mentioned.
At December 31, 2006, the NRA has not yet approved this RO.
The 2006 RO includes the economic conditions for the FRIACO (Flat-Rate Internet Access Call Origination) service, partial lines, shared access and subloop unbundling, fostering competitive growth of Internet access and broadband services:

- FRIACO: the service has been offered since 2001;
- Partial lines: these are the partial lines between the equipment of the customer and the POP (Point of Presence) of the OLO, like a segment of an end-to-end line.
- Invoicing and risk of insolvency: Telecom Italia must offer an invoicing service to the OLOs which decide not to invoice their customers who access their non-geographical numbers directly (for example, customers who are connected to the network through the indirect access service). Telecom Italia, as requested by the NRA, has fixed the price level of the invoicing service at a percentage equal to 2.9%, calculated on the basis of the total receipts for non-geographical services of each OLO. With reference to the risk of insolvency, the level of risk and insolvency is subject to negotiation between Telecom Italia and the OLOs. In Resolution No. 1/05/CIR, the Authority specified the need to create a special procedure for calculating the value of invoicing for non-geographical services. Since the NRA has not created such a procedure, despite numerous demands on the part of Telecom Italia, following the

expiry of the administrative terms for the creation of the above-mentioned procedure, Telecom Italia announced that, for the year 2006, the value of the invoicing service will be fixed at 9.1%, a figure taken from the results of the regulatory accounts for fiscal year 2004.

In 2006, Telecom Italia presented its separate accounts and regulatory accounts for fiscal year 2005.

In compliance with European Commission Recommendation No. 2003/497 and the Electronic Communications Code (Legislative Decree 259 dated August 1, 2003), on May 19, 2004, the NRA started public consultations with regard to the 18 significant markets identified in the Recommendation and in articles 18 and 19 of the Code. These market analyses were completed during the course of 2006.

In 2006, the following contracts with operators were signed or renewed:
- 3 interconnection agreements;
- 4 supplementary "reverse" agreements, termination on the network of another operator;
- 17 agreements to supply high speed access through xDSL technology;
- 3 carrier preselection contracts and 5 number portability contracts;
- 4 contracts for the shared access service on the local network and 5 LLU contracts;
- 7 contracts to supply Digital Data Circuits or partial circuits;
- 5 agreements for fiber optic infrastructures.

MARKETING AND DISTRIBUTION

The sales structure of Telecom Italia S.p.A. is organized according to a vertical, multi-channel approach, in which different types of channels specialize in different segments of the market. This approach rewards the focus and customization of the channel-offering-market mapping.
The top 20,000 customers are entrusted for direct supervision with almost 500 accounts, each one of which has a dedicated portfolio to supervise and develop over the whole range of the offering: fixed, mobile, telephone, data, ICT services and products.
All the other customers (both Business and Consumer) are followed by the Indirect Commercial Networks department, for a total of about 300 Partners, about 2,400 Commercial Staff and about 5,000 telephone operators, who handle about 2,000,000 contracts a year. Selling techniques range from sale through physical consultancy to sales by phone through the outbound network.
The main channels are:
- the "Telesales" channel: an "Outbound" network of about 40 partners with more than 4,000 operators who are assisted by about 200 internal resources, which focuses on volumes of acquisition (for example, pricing offers, ADSL);
- the "Agent Sale" channel: a territorial network of about 35 partners and 800 agents (Commercial Staff), which focuses on volumes, and is directed towards the Consumer market supervised according to a list and "door to door" supervision;
- the ET – Export Team channel: a territorial network of 6 partners with about 500 agents and 500 Outbound resources, which focuses on the development of the SOHO segment through offers with regard to pricing, ADSL and products, geared mainly to commercial businesses, small professional firms and micro-businesses;
- the BP – Business Partner channel: a territorial network of about 110 partners and 800 agents, which focuses on supervising SME (Small and Medium-size companies), the development of broadband, and the sale of products;

- the VAR – Value Added Reseller channel: a territorial network with about 65 partners and 180 Commercial Staff, which focuses on the development of VAS, the customized offering and complex networks;
- the "Public Telephone" channel: a network of about 40 partners focusing on National and International Card Services and associated traffic packages.

In addition to these partners, there is the "pull" channel, consisting of the retail network of shops, dealers, and organized and specialized large-scale distribution, amounting to a total of about 5,000 retail points of sale.

FIXED NETWORK

General comments. The domestic fixed network of Telecom Italia consists of 33 area exchanges (each with two interconnection points which enable information to be exchanged between the fixed and mobile networks) and 628 local exchanges (only for fixed OLOs). Each local exchange belongs to only one of the 33 area exchanges. The long-distance network includes 2,300 VC4 (equivalent to 188,000 2-Mbps circuits), 56 2.5-Gbps point-to-point lambdas and 36 10-Gbps point-to-point lambdas for a further 3,200 VC4 equivalents (whose effective transported band is equal to approximately 120 Gbps). The fixed distribution network includes 105.7 million km of copper pairs.
At December 31, 2006 the domestic fixed network in statistics was as follows:

Exchange areas	about 10,400
Switching areas	628 Urban Group Stages (SGU)
Gateway areas	33
Copper access network	105.7 million kilometers-pair
Fiber optic access network	430,000 kilometers-line
Fiber optic carrier network	3.24 million kilometers-line
Long Distance VC4	2,300
Long Distance Lambda	56 2.5 Gbps, 36 at 10 Gbps
Network for direct digital circuits (PARD)	339,000 access points with speed up to 2 Mbit/s
Network for direct analog circuits (PARD)	86,000 access points
Frame Relay Accesses	85,000 gates at 2Mbit/s
PoP main data networks	32

SDH and ATM. SDH transmission technology was introduced to the fixed long-distance network in 1996, whereas it was introduced to the local network in 1997. These transmission systems operate on fiber optic infrastructures with speeds of 155 Mbps to 10 Gbps. Work on the long-distance network continued in 2006, using the latest generation of SDH and DWDM (Dense Wavelength Division Multiplexing) technologies. To limit the number of fibers for the same transmission capacity, DWDM systems were used. This made it possible to multiply the available band on a single fiber by a factor of between 12 and 40, with a corresponding increase in the capacity of the transport network.
In November 2002, a new generation of Optical Digital Cross Connect was introduced to the domestic backbone as a further step in the migration from an SDH transport network based on rings towards a new generation based on an optical backbone of the meshed ASTN (Automatic Switched Transport Network) type which, having begun in 2003, continued in 2006 with the addition of 38 more junctions. Using the ASTN approach, it is possible to create a multi-service platform with a high level of integration with the IP network.
Evolution of the transport network towards a completely optical network makes it possible to increase the operating capacity for all types of traffic, from voice to Internet.
ATM switching technology, introduced in 1996, makes it possible to transfer information including data, video, voice and other services on public and private networks both at a national and international level. Telecom Italia's Frame Relay networks form a complex which operates as a multi-service network using a layer of an SDH transport network as a physical

support. The ATM network makes it possible to supply native ATM services with speeds ranging from 2 Mbps to 155 Mbps. It also supplies the backbone to the Frame Relay access network (with speeds ranging from 64 kbps to 2 Mbps) and to the DSL network (Digital Subscriber Line), used for supplying xDSL (ADSL and HDSL) and SDSL services. The ATM/Frame Relay networks enable customers to access IP and MPLS (Multi Protocol Label Switching) services at speeds of between 64kbps and 155 Mbps.

OPB (Optical Packet Backbone). In 2006 the first phase of the construction of the OPB network was completed. This network will be used for the Internet traffic of the residential clientele and for the VPN (Virtual Private Networks) of the business clientele.

OPM (Optical Packet Metro). An OPM was installed in 2006 in 30 metropolitan areas to collect flows to and from residential customers through DSLAM IP to supply the IPTV service. The OPB network is also used for backhauling UMTS through the GBE (Gigabit Ethernet) concession, a ROF (Radio Over Fiber) *ante literam*.

Gigabit Ethernet Access. Work continued on construction of the network to support the marketing of services based on Gigabit Ethernet technology (the Ethernity, Hyperway and Genius services on GBE optical access). 390 new GBE accesses were installed, bringing the overall number to approximately 2,070 accesses. In 2006, coverage of services with GBE optical access was extended to the towns of Cuneo and Novara. As a result, overall coverage increased from 24 to 26 towns in Italy.

Network quality and Productivity.
In 2006, porting of all the OSS systems on OPEN platforms was completed, thus reducing running costs. In addition, the work of integrating the systems which supervise the fixed and mobile network began. The platforms for creating services are being reviewed and are scheduled for completion in 2007.
In 2006, work began to extend the QoS control systems to embrace end to end monitoring. These systems are already active for the mobile network and are being extended for the fixed network.

Broadband/ADSL network. Telecom Italia's broadband network can offer hi-tech telecommunications services and multimedia applications. This objective is being reached through the gradual installation of fiber optic cables. In 2006, the commercial services offering access to ADSL for residential customers, business customers and Internet Service Providers were extended to 4,650 towns (compared to 3,800 at the end of 2005). Commercial services for the business sector include using ADSL in urban areas to access the IP and ATM services supplied by data networks. Services for ISP include the supply of ATM accesses with ADSL access to the public, leaving the ISP to handle relations with the customer. At the end of 2006, 5,630 local switching areas were covered by ADSL technology, (compared to 4,500 at the end of 2005).

Fiber optic cables. At December 31, 2006 approximately 3.7 million kilometers of fiber optic cables have been installed for access and transport, of which about 1.2 million kilometers were installed in the long-distance network. Fiber optic cables significantly increase network capacity and make it possible to offer hi-tech services based on the simultaneous transmission of various types of signal, such as voice, data and video. To make these services more widely available, introducing fiber optics to the access network is being considered.

VoIP (Voice over IP) Services
The complete digitalization of the network--both the backbone and the metropolitan network--is proceeding towards the distribution network (with ADSL), thus favoring the introduction of VoIP and other associated services. These services are already available to the business clientele and the residential clientele who sign up for ADSL. VoIP is regarded as an additional service, the value of which, for the customer, is expressed in having access to a greater number of lines, numbers and terminals. Furthermore, by exploiting extra functions, such as the “presence” and “communities” typical of always-on connection systems, it is possible to have additional revenues. At the same time, the value added perceived by customers contributes to the expansion of broadband and, consequently, increases the benefits resulting from complete digitalization.

IPTV (Internet Protocol TV). “Quadruple play” is regarded as having significant value since customers find themselves immersed in an environment that can be exploited on several levels and which is able to supply a vast range of services. IPTV is an important part of this evolution. Tests were conducted in 2004-2005 and, in 2006, the first commercial service was launched. At the end of 2006, the commercial service with access to IP TV technology was extended to 258 towns (836 exchange areas). IPTV is seen as one of the pieces in the overall jig-saw which hopes to give each customer the chance to access information in any form, wherever they are, and using fixed or mobile infrastructures according to the situation.

Flexible Data Networks. An important part of the network consists of dedicated data lines which are centrally controlled from a single workstation. At the end of December 2006, there were about 339,000 PARD CDN (Data Network Access Points with Direct Digital Circuits) and approximately 86,000 PARD CDA (Direct Analog Circuits).

INTERNATIONAL NETWORK

Today, the Telecom Italia Sparkle network is a fully integrated cross-border backbone, located mainly in Europe, the Mediterranean, the U.S.A. and Latin America.
Construction of the backbone began in 1997.

Telecom Italia Sparkle manages international wholesale services (Voice, Data and IP) and retail Global Corporate Network services for multinational customers using its cross-border backbone, bilateral connections and NNIA (Network to Network Interconnection Agreements).

The cross-border backbone integrates 3 regional networks in Europe (PEB), Latin America (LAN) and in the Mediterranean basin (MED):

- PEB (Pan European Backbone). Proprietary fiber optic network — 2 pairs of fibers, each with 400 Gbit/s — which extends through into Europe’s leading industrialized countries: Italy, France, the U.K., Holland, Belgium, Germany, Switzerland, Austria and Spain, for an overall distance of 12,000 km. In 2006, the PEB network was integrated with the network acquired from Tiscali International Network S.A.S. so that it now also stretches into the Czech Republic, Poland and Slovakia. The overall length of the entire backbone is 23,500 km. The main services offered to wholesale customers are: Managed Bandwidth, IP Connectivity, International Private Leased Circuits (IPLC), Voice services and GRX (GPRS Roaming eXchange for Mobile Operators). The main services available for MNC (Multi National Corporate) customers are: IP/MPLS (Internet Protocol/Multi Protocol Label Switching), Managed Bandwidth and Voice services.
- LAN (Latin American Nautilus). A high-capacity backbone based on fiber optic ring networks, both land-based and submarine networks, with an overall length of 30,000 km, including the Miami-New York section. The ring, which has automatic optical traffic

protection and a capacity of up to 320 Gbit/s, connects the main cities of South America to Central and North America.
- MED (Mediterranean Nautilus). A submarine ring network, with a highly reliable configuration, and a total length of 7,000 km — 6 pairs of fibers, 64 lambdas (each one of 10 Gbit/s) per pair of fibers — which connects the main markets of the Mediterranean area: Italy, Greece, Cyprus, Turkey and Israel. Currently, the main landing points are Catania, Athens, Chania-Crete, Haifa and Tel Aviv.

The International Network connects more than 400 operators worldwide and extends for about 434,500 km along submarine systems which, from the Mediterranean, split into longitudinal (towards the United States, the Middle East and the Far East) and transversal traffic routers (towards Central Europe and Northern Europe).

The Backbone was created to provide end-to-end services in strategic areas for Telecom Italia Sparkle: it has Points of Presence (POP) in Europe (24 POP), the U.S.A. (6 POP), the Mediterranean (5 POP), South America (9 POP) and Asia (1 POP).
The POP in the U.S.A. belong to Telecom Italia Sparkle of North America ("TISNA"), a company entirely controlled by Telecom Italia Sparkle, which has created POPs in Newark (NJ), New York (NY), Miami (FL), Ashburn (VA), Chicago (IL) and Palo Alto (CAL) to support the offering of IP/Data and Voice services with a network connected to the European Backbone and the Backbone in Latin America, Latin American Nautilus.

The services supplied include telephone, IP and Managed Bandwidth services in Europe and in the U.S.A., and Managed Bandwidth and IP services in the Mediterranean and in South America.
The platform for services to MNC (Multinational Corporate Clients) is integrated with the cross-border network.

In 2006, the following achievements are worthy of note:
- the complete integration of the European network of "Tiscali International Network SAS" (TINet S.a.s.), acquired at the end of 2005, with the Pan European Backbone;
- new IP POPs in Chicago and Palo Alto, of the subsidiary TISNA, with the aim of augmenting direct interconnections with U.S.A. Tier 1 locations and content providers;
- expansion of capacity and development of new functions for the transmission network (creation of meshed architecture).

With the acquisition of TINet's European network, the network, with about 11,500 extra kilometers, extended its coverage to Eastern Europe and has diversified fibers made by different suppliers on all the main sections. Other achievements include the interconnection of the two networks in Milan, Marseilles and Paris, completion of the migration of the running and control functions at the NOC (Network Operation Center) of Telecom Italia Sparkle and the management software for implementing a meshed architecture was updated (at least three separate fiber routes on all the main POP with automatic circuit rerouting).
Telecom Italia Sparkle is one of the first European operators to implement this kind of architecture on the transmission network.

To support the increase in Internet traffic, efforts were made to expand the backbone in Europe, the U.S.A. (new POPs were opened in Chicago and Palo Alto and a proprietary 10-Gb/s backbone was built between the previous junctions and Newark, Miami and Ashburn) and the network's trans-Atlantic capacity. Meanwhile, in Italy, the construction of a second POP was completed in Milan with the aim of augmenting the reliability of the IP backbone.
In 2006, significant extensions were made to the POP of Palermo, the landing points in Italy of the new South East Asia-Middle East-Western Europe 4 ("SEA-ME-WE 4") submarine cable

system, activated at the end of 2005.
The system links 15 countries including Singapore, Malaysia, Thailand, Bangladesh, India, Sri Lanka, Pakistan, the United Arab Emirates, Saudi Arabia, Egypt, Italy, Tunisia, Algeria and France.

Palermo has thus become one of the main interconnection junctions between Western Europe and Asia, allowing Telecom Italia Sparkle to meet the demand for greater capacity and services from areas of the world with the fastest-growing economies.
In 2006, the NGN (Next Generation Network) platform was developed further. This has made it possible to implement the IMS (IP Multimedia Subsystem) architecture. With the NGN platform, which currently manages more than 300,000 circuits with more than 400 operators, Telecom Italia Sparkle has become the first European carrier to use the IP protocol for its whole international telephone network.

International Broadband Project

In 2003, Telecom Italia began its "*International Broadband*" project, and has since created an offering of innovative access and Broadband services in towns in France, Germany and Holland through the subsidiaries Telecom Italia S.a.S., HanseNet GmbH and BBNed N.V..

FRANCE	In 2006, the company Telecom Italia S.a.s., a subsidiary of the holding company Liberty Surf Group S.A., extended its coverage of service to 184 new LLU sites (open to delivery; new RFS sites number 266) bringing the total number of sites ready for delivery to 415 by the year end. To support the increases in coverage of LLU areas and Broadband traffic during 2006, it proved necessary to extend the IP network by introducing 40 new POPs. The main achievements in terms of services in 2006 are the following: • increase of the VoIP platform; • introduction of Business Voice services to the platform; • IP-TV (TPS Free bouquet); • Alice–Pro Micro Business; • B2B.
GERMANY	HanseNet's main achievements during 2006 include activities aimed at extending LLU coverage to 100 more exchange areas and the launch of the wholesale service (Broadband+Voice) with Telefonica and QSC in 948 areas. As a result, at December 31 2006, 594 sites were open to the LLU offering (an annual increase of 100 areas) whereas 948 sites were open to the wholesale offering. During the year, a due diligence was conducted with regard to the acquisition of the Broadband and Narrowband customer portfolio of AOL Germany. Telecom Italia won the bid and also received authorization from the European regulatory authority. The following achievements of 2006 are worthy of note: • Introduction of IPDSLAM and CWDM to support the massive use of IPTV and VOD in the Hamburg area; • Introduction of the VoIP Italtel platform to manage wholesale customers; • Vdsl2+ (ECI) trials at 4 sites in the Hamburg area; • Reorganization of the voice platform according to an architecture which can manage the growth of the clientele in 2006 and years to come in a more flexible way (separation of the level of access from the level of transit / interconnection with other networks).

HOLLAND	The Dutch market has reached the highest level of broadband penetration in the European Union (70%). Within the KPN DSL market, through a series of ISP acquisitions (the most recent being that of Tiscali Netherlands last September), BBNed consolidated its dominant position, reaching a market share of 73%. During 2006, the aggressive strategy on the part of KPN resulted in a contraction of about 10% of BBNed's customer base. In an effort to counter this trend, in 2006, BBNed launched a Fiber offer for business customers (~7,700 customers). The acquisition of the ISP InterNLNet is currently being assessed with the aim of extending the Fiber offering to the residential market.

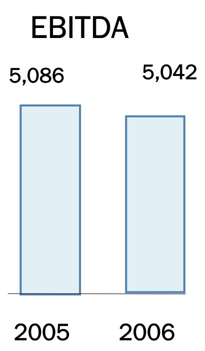
DOMESTIC MOBILE

STRUCTURE

The Domestic Mobile Business Unit operates through the mobile segment of Telecom Italia. On March 1, 2006, the merger of Tim Italia S.p.A. in Telecom Italia S.p.A. became effective in execution of the merger plan signed on February 22, 2006.

OPERATING AND FINANCIAL DATA

The following table shows the key results in 2006 of Tim Italia S.p.A., up to the date of the merger of Tim Italia S.p.A. into Telecom Italia S.p.A. (March 1, 2006), and the Telecom Italia S.p.A. mobile segment for the period March – December 2006. The amounts for 2005 refer to ex-TIM S.p.A. up to the date of the spin-off of the mobile activities to Tim Italia S.p.A. (March 1, 2005) and Tim Italia S.p.A. for the period March – December 2005.



(millions of euro)	2006	2005	Change	
			amount	%
Revenues	10,210	10,076	134	1.3
EBITDA	5,042	5,086	(44)	(0.9)
% of Revenues	*49.4*	*50.5*		
EBIT	3,742	3,856	(114)	(3.0)
% of Revenues	*36.7*	*38.3*		
Capital expenditures	1,146	1,276	(130)	(10.2)
Employees at year-end (number)	11,218	11,720	(502)	(4.3)

Revenues in 2006 amount to euro 10,210 million, with an increase of 1.3% compared to 2005 (+euro 134 million). This performance was affected by the negative impact (euro 372 million) of the new termination price list which came into force; net of this item, the change over 2005 would be +5.0%.

The growth in revenues in 2006 was particularly driven by the strong increase in Value-Added Service (VAS) revenues of euro 1,649 million (+euro 152 million, +10.2% compared to 2005), thanks to the continuous innovation of the offerings portfolio for interactive services (+euro 103 million,+20.2%). The percentage of VAS to total revenues is now 16.2% (14.9% in 2005) and VAS to revenues from services is 17.5% to (16.0% in 2005). “Telephone” revenues, equal to a total of euro 7,292 million, show an increase in outgoing traffic (+2.6%, +euro 141 million) and a decrease in incoming traffic (-14.2%, -euro 288 million) which, however, was affected by the negative impact of the new termination price list (euro 372 million); net of this item, the change from 2005 would also be positive and equal to +euro 83 million (+4.1%).

Revenues from the sale of handsets total euro 812 million, an increase of euro 106 million (+15.0%) compared to 2005. A total of 7.4 million handsets were sold (+1.6 million compared to 2005), more than 2.5 million of which are UMTS.

EBITDA is equal to euro 5,042 million, a decrease of euro 0.9% (-euro 44 million) compared to 2005. EBITDA as a percentage of revenues is 49.4% (50.5% in 2005). The result, compared to 2005, is due to the reduction in termination prices on incoming traffic and the different mix of revenues, higher expenses for sales connected with the strong increase in acquisitions and the launch of new innovative services.
The organic change in EBITDA is a decrease of 0.7% (-euro 37 million) compared to 2005, with EBITDA as a percentage of revenues at 49.6% (50.6% at December 2005).

(millions of euro)	Year 2006	Year 2005	Change amount	Change %
HISTORICAL EBITDA	5,042	5,086	(44)	(0.9)
Non-organic (income) expenses:	22	15		
Restructuring costs	*19*	*33*		
Other	*3*	*(18)*		
COMPARABLE EBITDA	5,064	5,101	(37)	(0.7)

Excluding the effect of the reduction in termination rates, the change in EBITDA would be an increase of 2.9% (+euro 146 million).

With regard to changes in costs, the following is noted:

- purchases of materials and external services of euro 4,837 million increased by 6.8% compared to 2005. This increase, +euro 308 million, is principally due to higher interconnection costs (+euro 129 million, mainly as a result of greater off-net traffic volumes), higher purchase costs for products and content (+euro 189 million) and also electrical power used on industrial installations (+euro 30 million, principally attributable to price increases);
- personnel costs, equal to euro 469 million, decreased by euro 79 million compared to 2005 (-14.4%); this decrease is not only due to the reduction in the work force but also to lower restructuring costs (-euro 14 million);
- other operating expenses amount to euro 147 million (+euro 16 million compared to 2005).

EBIT in 2006 amounts to euro 3,742 million, a decline of euro 3.0% (-euro 114 million) compared to 2005 with EBIT as a percentage of revenues equal to 36.7% (38.3% in 2005).
The organic change is a decrease of 2.8% (-euro 107 million) with the percentage of EBIT to revenues at 36.9% (38.4% in 2005).

(millions of euro)	Year 2006	Year 2005	Change amount	Change %
HISTORICAL EBIT	3,742	3,856	(114)	(3.0)
Non-organic (income) expenses:	22	15		
Non-organic (income) expenses already described under EBITDA	22	15		
COMPARABLE EBIT	3,764	3,871	(107)	(2.8)

The impact of the Mobile area on EBIT due to the previously mentioned review of the estimated useful life of tangible assets can be quantified in euro 100 million of lower depreciation charges for tangible assets. This positive effect is offset by the increase in the amortization charge for intangible assets, mainly referring to software, which is still amortized over 36

months but beginning with the 2003 financial statements the starting date for amortization has been changed from the start of the year to the effective date the asset comes into use. The effects of this change (euro 100 million) therefore fall in the year 2006 as apposed to 2005.
Moreover, starting from the year 2006, following the introduction of new types of contracts which bind the customer to the Telecom Italia Group for 24 months, otherwise a penalty is applied, the Group capitalized subscriber acquisition costs in intangible assets and recognizes them in the statement of income over the period of the underlying contract. Capital expenditures in 2006 include euro 34 million of capitalized subscriber acquisition costs.

Employees number 11,218 at December 31, 2006 and show a reduction of 502 people compared to December 31, 2005. The number includes 1,357 people with temp work contracts at December 31, 2006 (1,344 at December 31, 2005).

Capital expenditures total euro 1,146 million and decreased by euro 130 million compared to 2005 due to less expenditures for the roll out of the network. Capital expenditures in 2006 include euro 130 million of capitalized subscriber acquisition costs.

KEY FACTORS

- In 2006, the Mobile Business Unit concentrated on regaining and stabilizing its market share of customers, which, in recent years, had been eroded by increasing competition on the part of other operators, and on augmenting the penetration of UMTS handsets within its customer base (in 2006, UMTS customers numbered about 4.2 million, almost double the figure reported in December 2005). This strategy enabled the Business Unit to guarantee the growth of revenues, despite strong pressure from the competition and new regulations (in 2006 there was a marked reduction in termination rates).
- In order to strengthen its competitive position on the Italian market, the Mobile Business Unit adopted an ever-more segmented business strategy, approaching specific segments with dedicated offers (for example, Elite, Giovani…) in areas where, in recent years, the BU had assumed a weaker position. New rate plans were introduced to the Business segment to stimulate on-net traffic and new flat packages were offered which included voice, messaging and hi-speed data services.
- From the point of view of technological innovation, the Mobile Business Unit introduced DVB-H technology (which activates TV services on mobile handsets) and HSDPA technology, an evolution of UMTS technology, which allows connection speeds of up to 3.6 Mbps. By the end of 2006, DVBH had reached about 72% of the population, whereas penetration of HSDPA exceeded 32%. This should further stimulate the use of value added services, especially interactive services (for example Browsing), which, in 2006 increased by more than 20%.

GENERAL INFORMATION ON SERVICES

- At December 31, 2006, there were 456 active agreements with 196 countries (with an increase of 10 new agreements and 3 new countries). In particular, there were 186 GPRS agreements in 102 countries (with an increase of 22 agreements and 10 new countries compared to 2005), 47 3G agreements in 32 countries (with an increase of 18 agreements in 8 countries), 120 Camel agreements in 89 countries (with an increase of 16 agreements in 12 countries);
- in 2006, Telecom Italia decided to adhere to the code of self-regulation with regard to International Roaming charges (action to prevent a more incisive regulation at EU level,

expected to be announced in 2007). This code involves the introduction of an average wholesale charge of euro 0.45 for calls made within the EU;

- to compensate the negative effects of the code of self-regulation and support international wholesale revenues, charges were reviewed, leading to an increase in charges for both SMS and calls made outside the EU, based on the principle of bilaterality (the creation of several charge zones based on IOT paid to the Roaming Partner) with the introduction of reciprocal MTC (mobile terminated call) charging;
- 60 IOT discount agreements were signed (valid in 100 countries) to reduce the costs of TIM Roamers abroad.

INFORMATION ON OPERATIONS

The main operating highlights at December 31, 2006 compared to December 31, 2005 are presented below.

	2006	2005
Mobile lines at year end (1)	32,450	28,576
GSM subscribers	4,370	3,186
Prepaid GSM/UMTS lines	28,080	25,296
Growth of clientele (%)	13.6	8.8
Churn rate (2)	16.4	16.9
Average monthly revenues per line (3)	25.6	29.3
Total outgoing traffic per month	2,443	2,314
Total outgoing and incoming traffic per month	3,730	3,550

(1) Including customers with prepaid cards and excluding "inactive" lines.
(2) The figures refer to the total number of lines. The churn rate for a given period represents the number of mobile customers who ceased to be customers during the period (by choice or due to unpaid bills) expressed as a percentage of the average number calculated on the basis of the annual numbers of customers during the period.
(3) Includes revenues from Prepaid cards and revenues from non-domestic traffic; it does not include revenues from the sale of products.

At December 31, 2006 the number of GSM and UMTS mobile lines operated by Telecom Italia amount to about 32.4 million (of which 4.2 million are UMTS lines) with a growth of 13.6% compared to December 31, 2005. This figure includes 4.3 million GSM subscribers and 28.1 million prepaid lines, which thus constitute 86.5% of total lines. The TACS service was closed down at December 31, 2005.
The continuous growth of lines shown in the above table is mainly due to the growth of the offering of UMTS services and the gradual availability of third-generation equipment, which assumed concrete form in the shape of prepaid TIM GSM/UMTS cards. At December 31, 2006 about 86.5% of the lines were prepaid lines.
At December 31, 2006 Telecom Italia's market share settled at 40.4% compared to 40.0% at December 31, 2005. In particular, in 2006, Telecom Italia reached a market share of 43% in terms of the net increase in GSM and UMTS lines, corresponding to about 3.9 million lines.
It should be mentioned that the number of lines declared by TI does not include about 735,000 "inactive" lines.
In 2006, traffic volumes increased by 5.1% in terms of minutes, whereas, in 2006, revenues from voice services, net of the impact of new termination list prices, increased by 3.0% compared to the prior year. Average monthly revenues per line (ARPU) (which include revenues from traffic and VAS) declined from about euro 29.3 in 2005 to about euro 25.6 in 2006 (including revenues from services for non-TIM customers).

RATE PLANS

In 2006, innovative mobile telephone services were developed with the aim of augmenting customer loyalty and increasing opportunities for using cell phones. The most important initiatives were:

Mobile telephony	"TIM Tribù"	Launch of the *TIM Tribù* service dedicated to the young segment of the clientele. The new rate plan aims to attain a competitive positioning by targeting young people, to educate and encourage them to favor the use of VAS services, and expand the TIM community. This rate plan offers advantageous charges for calling and sending SMSs within the TIM tribù community. TIM Tribù is not only a rate plan but also a range of exclusive services for young people. They include the *TIM Tribù* TAM TAM Push to Talk service, through which all *TIM Tribù* customers can send voice messages free within the *TIM Tribù* community. In May 2006, during the Telecom Italia Convention, Ricarica Alice - Ricarica TIM Tribù was launched with a view to integrating the fixed-mobile offering. As a result, for euro 10, a TIM Tribù customer receives euro 20 of traffic, of which euro 8 is for surfing the Internet with Alice ADSL and euro 12 for making calls to friends in the TIM Tribù community. The Convention in October 2006 saw the launch of the new TIM Tribù rate plan which eliminates top-up charges and is the first rate plan which enables customers to be reimbursed for the cost of the top-up, for top-ups of any amount and any channel, by awarding a bonus of voice and SMS credit to spend within the Tribù community.
	TIM Famiglia	The TIM Famiglia package for prepaid users was launched at the end of 2005, and the version for subscribers followed in February 2006. The rate plan for prepaid users involves reduced charges for calls and video calls to 3 numbers (2 TIM numbers and 1 fixed-network number) at 1 eurocent per minute and an automatic top-up for all calls received from all numbers on the fixed network.
	Relax	This is the new portfolio of Relax rate plans for prepaid users and subscribers. The offer involves a UMTS handset at a special price, which can be paid for in installments, phone services, SMS and a VAS component. The aim of the rate plan is to attract customers with a high propensity for consumption by guaranteeing flat rates and advantageous conditions. Telefono Relax, which is directed at the mass market, and emphasizes the appeal of the telephone, will help to augment customer loyalty, and will have a positive effect on the ARPU. To speed up the process of acquiring and "locking-in" quality customers, at the TI Convention in October 2006, two new features were added to the Relax range, "Relax 15" and "Relax 40", and new promotions are being introduced to the already existing rate plans.
	TIM Welcome Home	Launch of the TIM Welcome Home rate plan for the ethnic international segment for prepaid customers. This plan offers lower charges for international calls to some "ethnic" countries, together with a charge of 6 eurocents per minute for domestic calls made within the TIM Welcome Home community. On August 9, 2006, the launch of TIM Welcome Home top-ups for customers who signed up for the new *TIM Welcome Home* profile. Since the Convention in October 2006, the TIM Welcome Home top-up (physical top-up) has been available at all the TIM POS.

	7 su 7 NO TAX	Launch in October 2006 of the "7 su 7 no tax" rate plan, designed for professional people and small companies and a new feature of the "7 su 7" product range. The main feature of this service is the elimination of the Government Tax Concession of euro 12.91 per month (excluding VAT). Against a monthly payment of euro 7 (excluding VAT), "7 su 7 no tax" allows customers to call any numbers on the fixed and mobile networks from Monday to Friday at the cost of 7 eurocents per minute (excluding VAT), plus a connection charge of 15 eurocents. During weekends, all calls are free for the first 5 minutes of each single call (after which the charge is 7 eurocents per minute). For all calls towards numbers belonging to the same contract, only the connection charge of 15 eurocents (excluding VAT) applies, including the first 15 minutes of the call (after which the call is charged at 7 eurocents per minute)
	7 su 7 NO COST	This new rate plan, launched in October 2006, enhances the "7su7 no tax" rate plan. Both have the same charges but, in the case of "7 su 7 no cost", the monthly subscription charge of euro 7 (excluding VAT) is waived for the first 12 months of the subscription. The offer also gives customers the chance of choosing from a vast range of UMTS telephones.
	7 su 7 NIGHT & DAY	This rate plan is also an extension of the "7 su 7" range. By paying a rental charge of euro 19 per month (excluding VAT), customers can call any number on the domestic fixed or mobile network between 9 p.m. and 7 a.m., paying only the connection charge of 15 eurocents (excluding VAT), including the first 5 minutes of the call. After that, there is a charge of 7 eurocents per minute. But all calls made between 7 a.m. and 9 p.m. are free (only the connection charge of 15 eurocents is applied) until the customer has clocked up 6 hours per month of conversation for the first 3 months of subscription. After that, there is a ceiling of 3 hours per month of conversation. If traffic exceeds the established ceiling, the standard charge of 7 eurocents per minute (excluding VAT) is applied.

	Messaging Rate Plans	This summer saw the launch of the promotion "*Carta Vacanze Messaggi Relax*", from May 29 until August 6, 2006. Against payment of euro 5, customers could obtain a special rate for SMS (5 eurocents) and MMS (30 eurocents) up to a maximum of 1,000 messages for 30 days to all mobile and fixed numbers. In September, the "*TIM ScriviScrivi*" service was launched. This year, from September 12 until October 21, 2006, customers could send 500 SMS or MMS messages free to TIM and Telecom Italia numbers and all e-mail addresses, against payment of an activation cost of euro 9. The "1x100 di TIM" rate plan launched on February 5, 2006 offers a bundle of 100 SMS, 100 MMS and 100 video minutes. Each day, after the first text or the first minute of a paid video call, customers receive a bundle of free traffic which they can use to send texts or video call any TIM customer within 30 days. In November 2006, Telecom launched Alice Messenger, the new Instant Messaging service offered to all Alice and TIM customers, which can be accessed either from fixed or mobile systems, and which allows users to communicate in "real time" using PC to PC, PC to mobile, mobile to PC or mobile to mobile. For the time being, the service is available from mobile to 8 legacy terminals and 11 new terminals which have just been launched on the market. After the launch, further developments are planned to extend the number of compatible terminals and make the service available to other devices. From a PC it is possible to send or receive text messages towards fixed and mobile systems, originate and receive audio and video calls (through the username@alice.it) towards other Alice customers from a PC, and create your own list of friends by pulling contacts directly from the centralized address book of the Internet. From a mobile it is possible to exchange text messages with other TIM and Alice customers. Access to the seamless service is based on a mobile telephone number.

Availability services	Since August 2006, all TIM customers have been able to use the automatic recalling service towards Telecom Italia fixed numbers. The "ChiamaOra di TIM" service for fixed Telecom Italia numbers enables TIM customers to book a recall even if the fixed number being called is engaged. Thanks to "ChiamaOra di TIM", a recall is activated if the customer chooses to accept option 5. Otherwise, customers can select the option (option zero) to receive an SMS alert as soon as the fixed number being called becomes free. This service is free and is automatically activated for all TIM customers.
Mobile Number Portability (MNP)	February 2006: launch of a new MNP rate plan with a bonus of euro 250 for free traffic towards TIM and the fixed network. In May 2006, the value of the bonus was increased to euro 1,000. October 2006: launch of "SeiTIM", a special rate reserved for customers who transfer to TIM through MNP. Sei TIM allows a special rate of 6 eurocents per minute for all domestic calls, with a connection charge of 16 eurocents, valid for one year.

Gross acquisitions, Prepaid	January 2006: launch of Parli Gratis, a promotional rate of 0 eurocents per minute with a connection charge of only 3 eurocents, valid for 30 days and renewable based on the expense threshold. In June 2006, the rate plan was enhanced by an automatic bonus based on incoming traffic. September 2006: promotional offer with 500 free messages to other members of the Tribù community; November 2006: launch of "Chiama e Richiama", a new promotional offer with a bonus of two free minutes for every call lasting at least two minutes.
Roaming Rate Plans	In response to the price reductions imposed by the European Commission, in December 2006, Telecom Italia launched the new "TIM Zero Confini" roaming rate plan which provides its customers with a simple, advantageous rate system for use in the 30 countries of the EU. By activating TIM Zero Confini, customers can make phone calls and video calls in Europe for 0 eurocents a minute, and only have to pay the connection charge of euro 1 (including VAT). The charge is also valid for all the calls received while abroad and for the first 5 minutes of every phone call or video call made in one of the 30 countries, up to a maximum of 100 calls. Any calls made over and above the ceiling imposed will be charged at the normal rates applied to calls made or received while abroad. The special rate is valid for 30 days from the date of activation and costs euro 10 (including VAT). In the case of MNP, activation is free. The countries where TIM Zero Confini is applicable are: Austria, Belgium, Bulgaria, Greek Cyprus, the Czech Republic, Denmark, Estonia, Finland, France, Germany, Great Britain, Greece, Hungary, Iceland, Ireland, Latvia, Liechtenstein, Lithuania, Luxembourg, Malta, Holland, Norway, Poland, Portugal, Romania, the Slovak Republic, Slovenia, Spain, Sweden and Switzerland.

Super UMTS Hi Speed	On July 3, 2006, Telecom Italia began to market the new small UMTS Hi Speed/HSDPA (High Speed Downlink Packet Access) handsets which allowed access to broadband at a speed of up to 1.8 Mbps. In November 2006, this speed was raised to 3.6 Mbps, thus further improving surfing potential and ensuring a better quality of service than normal UMTS. "All inclusive" packages were launched to promote data services using HSDPA technology, including mobile Internet surfing and hi-speed PC card products (*Tutto Relax Internet*, *Internet Relax*): • Tutto Relax Internet involves the acquisition (at advantageous terms) of a HI speed PC card (euro 49) and payment by installments for the HW and traffic for 12 months with installments starting at euro 19.95 per month; • Internet Relax involves the acquisition (at advantageous terms) of a HI speed PC card (euro 99) and payment by installments for the HW (euro 12 per month); the installments are cancelled if the customer decides to activate one of the Web rate plans available (WEB time, WEB facile).

DVBH	TIM's DVBH (Digital video broadcasting handheld) service, TIM TV, is currently available in 3,000 towns in Italy, with a coverage of about 69% of the population. The first handsets to be available are the Samsung SGH-P920, the Samsung SGH-P930 and the Brionvega 7100. Today, the basic TIM TV service offers viewing on 8 channels: Canale 5, Italia 1, La7, MTV, Sky TG24, Sky Sport 24, Sport Italia and Sky Meteo. The monthly cost of activating TIM TV is euro 5. The activation of TIM TV includes the chance to watch the TIM "Serie A" soccer matches and the best of European soccer for the whole of the 2006-2007 season. Customers can also choose to purchase a UMTS/DVBH handset through the "TIM TV Telefono Relax" rate plan. With TIM TV Telefono Relax, the customer pays an advance of euro 199 and a fixed monthly payment of euro 10 for 24 months. But if the customer is able to guarantee the monthly activation of TIM TV and a monthly expenditure of at least euro 25 in domestic calls, the euro 10 monthly charge is waived. Another way of acquiring a UMTS/DVBH phone is to select the "TIM TV Tutto Relax" rate plan. TIM TV Tutto Relax offers customers the chance to pay an advance of euro 99 euro and 24 monthly installments of euro 1 each. In addition, against payment of a monthly charge of euro 49, the customer benefits from a bundle of services. The bundle includes: access to the basic TIM TV service, 1,000 free SMS per month, 1,000 minutes of calls and video calls at 0 eurocents a minute with a connection charge of 16 eurocents per call. All prices are inclusive of VAT.

MARKETING AND DISTRIBUTION

At December 31, 2006, the Telecom Italia physical distribution network consisted of 4,838 Points of Sale belonging to 1,685 partners and 35 shops owned by Telecom Italia.
The fact that all the POS are very widespread and of many different types guaranteed the market share in sales of Telecom Italia throughout Italy and in all the market segments.
In fact, the sales network consists of various types of POS, which reflect different approaches to the market. The shops called "Il Telefonino", some of which are direct outlets and others under franchising (5%), represent the corporate image and specialize in the sale of high value services. The "Centri TIM-Alice", which are specialized monobrand shops, guarantee results in terms of volume and quality. Telecom Italia is also present in large multibrand shops.

THE MOBILE NETWORK

At present, the mobile network consists of the 2G (second generation) network, which includes GSM equipment, and the 3G (third generation) network, for UMTS equipment offering hi-tech services (also video).

The main components of the GSM Mobile Network

MSC (Mobile Switching Center): executes functions such as controlling calls, switching traffic, taxation, controlling network interfaces and acts as an interface with other networks.

BSS (Base Station Subsystem): Sub-system composed of numerous BTS controlled by a BSC.

BSC (Base Station Controller): Interface with the MSC switching exchange. Has the task of supervising and controlling radio resources, both during the phase when a call is being set up and during the maintenance phase. In particular, it has to configure each cell by assigning traffic channels, control, set up and release the connection between PCM channels (the ones between MSC and BSC) and phonic control channels (the ones between BSC and BTS) and manage the handover procedures within the competent BSS.

BTS (Base Transceiver Station): radio base station which sends the GSM radio signal via the antenna to cover an area (cell) and coordinates one or more radio transceivers (TRX). It also sees to the supervision of the channels, measures the performance of uplink connections, and sends the measurements on to the BSC. It is also responsible for executing various procedures such as broadcasting cell parameters, activating and releasing radio channels.

TRX: Radio transceivers located in BTS.

Cells: Geographical portion of the territory illuminated by a BTS: 900MHz / 1800MHz.

Channels: The systems which allow customers to access services: 900MHz / 1800MHz.

The main components of the UMTS network

MGW (Media GateWay): junction for the connections which carry user traffic.

RNC (Radio Network Controller – counterpart of BSC in GSM): supervises and controls radio resources, both during the phase of setting up the call, and during the maintenance phase (for example, handover between different cells). Furthermore, it handles connectivity from and towards: Node B, MSC*, and other RNC.

Node B (counterpart of BTS in GSM): this is the Radio Base Station in UMTS technology which, via an antenna, sends the UMTS radio signal which creates the coverage of the cell (typically 3 for Node B). It also performs functions which are strictly associated with managing the radio connection.

UMTS Cells (Geographical portion of the territory illuminated by a Node B).

UMTS Channels: These enable all the customers of the cell to access both the CS (Circuit Switched) services and the PS (Packet Switched) services of UMTS technology.

Statistics and main activities in 2006

The Telecom Italia GSM/EDGE network comprises about 13,865 radio base stations and 720,720 radio channels (an increase of 1% compared to 2005). Planning and implementation of the UMTS network continued, so that coverage was extended to all the regional capitals, in accordance with the obligations laid down in the 3G license, and many other areas of interest.
The Telecom Italia UMTS network comprises approximately 8,027 radio base stations and 778,976 radio channels (an increase of 216% compared to 2005).
Work has begun on the network plan to distribute the HSDPA (High Speed Downlink Packet Access) service, the aim of which is to increase the speed of the data transmission package offered by UMTS.
About 3,500 radio stations of the UMTS access network (the so-called node B), were updated so that they can distribute the above-mentioned service.
The process of modernizing the GSM exchanges with older technologies has begun, so that new technologies can be adopted. These systems will have an architecture which is the same as those used on the UMTS network. These exchanges have “layered” or “splitted” technology, (both terms are used), in which the Monolithic MSC is replaced by an exchange with two junctions: the MSC server which controls the traffic and the MGW (Media GateWay).
Furthermore, this innovation will make it possible to implement an integrated GSM/UMTS network, as far as this is possible, which, with time and the necessary measures in terms of

size and operations, will eventually create a configuration where the switching exchange is shared by the GSM and UMTS access systems.
The aim of all this is to make improvements in the management of the service that will lead to a so-called “seamless” scenario.

BRAZIL MOBILE

STRUCTURE

The Telecom Italia Group operates in the mobile telecommunications sector in Brazil through the Tim Brasil group which offers mobile phone service using GSM and TDMA technology. The Tim Brasil group is composed of the following:

BRAZIL MOBILE

Tim Brasil S.A.

- Tim Participaçoes S.A.
  - Tim Celular S.A .
    - Tim Nordeste S.A.

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following took place:

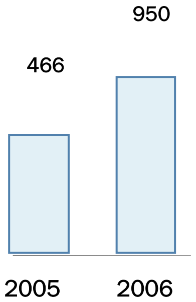
- during March 2006, the companies Blah! - Sociedade Anonima de Serviços e Comercio and CRC–Centro de Relacionamento com Clientes were merged in the parent Tim Celular S.A. which was later contributed by Tim Brasil S.A. to Tim Participaçoes S.A.;
- effective June 2006, the company Tim Sul S.A. was merged in Tim Celular S.A. and the company Tim Nordeste Telecomunicacoes S.A. was merged in Maxitel S.A. and renamed Tim Nordeste S.A..

These transactions are part of the process to optimize the presence of the companies of the Telecom Italia Group which make up the mobile area with the aim of (i) uniting and rationalizing the operations of the mobile business (ii) reducing the costs associated with maintaining distinct and separate companies, (iii) developing synergies and (iv) improving tax and financial efficiency.

OPERATING AND FINANCIAL DATA

The following table shows the key results in 2006, compared to 2005.

EBITDA
(millions of euro)



	(millions of euro)		*(millions of BRL)*		
	2006 (a)	2005 (b)	2006 (c)	2005 (d)	Change % (c-d)/d
Revenues	3,964	2,900	10,836	8,784	23.4
EBITDA	950	466	2,596	1,412	83.9
% of Revenues	*24.0*	*16.1*	*24.0*	*16.1*	
EBIT	21	(190)	58	(574)	
% of Revenues	*0.5*	*(6.5)*	*0.5*	*(6.5)*	
Capital expenditures	699	842	1,910	2,551	(25.1)
Employees at year-end (number)	9,531	9,043	9,531	9,043	5.4

Consolidated *revenues* of the Tim Brasil group in 2006 total BRL 10,836 million and grew by 23.4% compared to 2005 (+27.9% for revenues from services alone), The increase is due to the sharp expansion of the customer base and the input from valued-added service revenues, which, as a percentage of total revenues rose from 5.7% to 6.9%.
In July 2006, Anatel (the Brazilian regulatory agency) eliminated the "Bill and Keep" regulation under which the Mobile Operators, until that date, had not received or paid interconnection charges on the minutes of local mobile-mobile traffic when the balance between the incoming and outgoing minutes exchanged with the Operator fell within a 45-55 range. This change generated a positive impact on sales in 2006 equal to BRL 794 million and a similar increase in interconnection charges.

Consolidated *EBITDA* in 2006 of BRL 2,596 million increased by BRL 1,184 million compared to 2005 (+83.9%). As a percentage of revenues, EBITDA is 24% and shows an improvement of 7.9% compared to 2005.
The organic growth of EBITDA compared to 2005 is equal to 81.7%, with EBITDA as a percentage of revenues at 24.1% (16.3% in 2005).

	Year 2006	Year 2005	Change	
(millions of BRL)			amount	%
HISTORICAL EBITDA	2,596	1,412	1,184	83.9
Non-organic (income) expenses:	11	23		
Corporate restructuring costs	*11*	*8*		
Other	*0*	*15*		
COMPARABLE EBITDA	2,607	1,435	1,172	81.7

As for the change in costs, the following is noted:

- purchases of materials and external services of BRL 6,042 million increased by 10.6% compared to 2005 (BRL 5,463 million), mainly on account of the aforementioned interconnection costs. As a percentage of revenues, purchases are 55.8% (62.2% in 2005);
- personnel costs, equal to BRL 570 million, increased by BRL 88 million compared to 2005 (+18.3%) due to the increase in the number of personnel. The percentage of personnel costs to revenues is 5.3% (5.5% in 2005);
- other operating expenses amount to BRL 1,754 million (BRL 1,543 million in 2005) and include sundry expenses of BRL 1,274 million in 2006 (BRL 1,144 million in 2005) principally made up of indirect taxes and duties, TLC operating fees, writedowns and bad debts expense and losses on receivables of BRL 449 million in 2006 (BRL 354 million in 2005) and other items of BRL 31 million in 2006 (BRL 45 million in 2005).

Consolidated *EBIT* in 2006 is a positive BRL 58 million (a negative BRL 574 million in 2005). The improvement in the result from 2005 was achieved despite higher depreciation and amortization charges, from BRL 1,953 million in 2005 to BRL 2,540 million in 2006, mainly relating to capital expenditures for network infrastructures and information systems. Effective January 1, 2006, subscriber acquisition costs (referring to subsidiaries for the purchase of handsets when there are contracts binding the customer to the company for a period of at least 12 months, otherwise a penalty is applied in the event of the early cancellation of the contract) are capitalized and amortized in relation to the revenues and on the basis of the period of the contract.
As a result of the capitalization of these costs, the amortization charge for 2006 is higher by BRL 158 million.
The organic growth of EBIT in 2006 is BRL 69 million and grew by BRL 592 million compared to 2005.

(millions of BRL)	Year 2006	Year 2005	Change amount	Change %
HISTORICAL EBIT	58	(574)	632	-
Non-organic (income) expenses:	11	51		
Non-organic (income) expenses already described under EBITDA	11	23		
Additional non-organic (income) expenses	-	28		
Other (income) expenses	-	28		
COMPARABLE EBIT	69	(523)	592	-

Capital expenditures amount to BRL 1,910 million (BRL 2,551 million in 2005), with a decrease of BRL 641 million owing to the gradual completion of nationwide coverage. Capital expenditures in 2006 include BRL 318 million of capitalized subscriber acquisition costs as indicated above.

KEY FACTORS

In 2006, the Brazilian market continued to expand although at a slightly slower pace than in 2005. At the end of 2006 there were 99.9 million lines (53.2% of penetration of the population), compared to 86.2 million in 2005 (47.2% penetration). The Tim Brasil group reinforced its position as the second-largest operator on the market. With 25.4 million lines, of which more than 90% are GSM, its market share increased to 25.4% from 23.4% at the end of 2005 and the gap between the group and the largest operator closed even further (11 percentage points at the end of 2005 compared to less than 4 percentage points at the end of 2006). It should also be emphasized that, in the last quarter of 2006, Tim Brasil led the market in terms of revenues, and that, in 2006, for the first time, EBITDA as a percentage of revenues was higher than that of all its competitors.
These results were achieved thanks to the leadership of the Tim Brasil group on the GSM market, which, in 2006, was grew even more as a result of the improvement of the quality of national coverage. In 2006, the strategy of the Tim Brasil group focused on:

- improving Customer Care activities so as to augment levels of loyalty and retention;
- investing in the brand image to strengthen the group's leadership position;
- segmenting the offering even more to limit the churn rate, especially in segments with a high expenditure propensity, and stabilizing the ARPU as a whole;
- reducing acquisition costs for customers, especially with regard to subsidies for purchasing handsets;
- increasing the levels of VAS use, including Data and messaging services by the Business clientele.

Lastly, in 2006, Tim Brasil reorganized its corporate structure, by merging TIM Celular and TIM Participacoes. This should streamline the operational and also lead to more effective financial management.

GENERAL INFORMATION ON SERVICES

The main achievements of Tim Brasil in 2006 involved activities associated with extending GSM coverage to 165 more towns in Brazil, bringing coverage to about 160 million people (85% of the total population) to encourage the migration of clientele from TDMA to GSM.
At December 31, 2006 the total number of customers (source KPI Network) was 25,410 thousand, of which 23,085 thousand used GSM technology and 2,325 thousand TDMA technology.

During 2006, 557 new GSM BTS were introduced to the network, bringing the total to 8,903 (the number of TDMA BTS remained almost constant at 2,362), 10 BSC (total equal to 133), 5 MSC (total equal to 55) and 3 HLR (total equal to 14).

The main activities during 2006 also involved:

- the introduction of the split architecture to extend the GSM Core Network;
- launch of the COPA (Home Zone) service: calls originated within a local area and terminated towards fixed numbers within the same area are managed on the basis of a differentiated charging system;
- the optimization of existing leased lines, leading to a reduction of operating costs;
- extension of the NGN IP backbone to support Long Distance traffic.

MARKETING AND DISTRIBUTION

In 2006, the services of the TIM group in Brazil were marketed through the country's largest distribution network, consisting of about 8,500 POS dedicated to the consumer clientele. In terms of composition, 8% of these POS are proprietary shops or franchised shops and 29% are owned by exclusive dealers. The remaining 63% are multi-brand POS of organized large-scale distribution, a channel which focuses on guaranteeing an adequate level of representation throughout the territory covered by the company's mobile services. Furthermore, again with regard to the consumer channel, the company relied on more than 250 thousand POS to provide top-up services.
With regard to the business segment, in 2006, the company had more than 150 direct exclusive sales outlets for large companies (Key Account Managers) and a network of more than 600 partner agencies (TIM Business Promoters) dedicated to small and medium-size companies.

MEDIA

■ THE BUSINESS UNIT

The Media Business Unit operates in the following segments:

- Television: with La7 and MTV, both in the production and broadcasting of editorial content through the television broadcasting networks operated under concession and in the marketing of advertising space in TV programming. It also functions as a television broadcasting network operator using analog and digital technology. Furthermore, the BU manages satellite channels and pay-per-view services using Digital Terrestrial TV (DTT);
- News: with TM News, a national news agency operating 24/7 under the APCom brand.

■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:

MEDIA	
TELEVISION	NEWS
Telecom Italia Media S.p.A. Telecom Italia Media Broadcasting S.r.l. MTV Italia S.r.l. MTV Pubblicità S.r.l.	Telecom Media News S.p.A.

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

In 2006, the following corporate-related events took place:

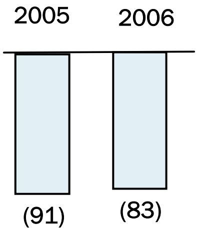
- on January 1, 2006, the merger of La7 Televisioni S.p.A. in Telecom Italia Media S.p.A. became effective. This completes the transactions envisaged by the internet and media activities reorganization plan begun in April 2005. The merger did not require any changes in the bylaws of Telecom Italia Media nor was there any increase in the share capital of Telecom Italia Media to service the merger since the company already held all of the shares of La7, which, after the merger, were canceled without any share exchange;
- on January 11, 2006, the contract signed on September 26, 2005 for the sale of 100% of Gruppo Buffetti S.p.A. to Dylog Italia S.p.A. and Palladio Finanziaria S.p.A., was finalized; this had a positive financial effect of euro 65.8 million;
- on March 31, 2006, the board of directors of Telecom Italia Media S.p.A. approved the contribution of the "Digitale Multiplex" business segment to Telecom Italia Media Broadcasting S.r.l. (a wholly-owned subsidiary of Telecom Italia Media S.p.A.) against a capital increase of euro 27 million. The transaction responds to the need to comply with existing law which requires companies to maintain a corporate distinction between radio and television network broadcasting operators and content suppliers (Law 177/2005, Consolidated Law on Radio and Television).

  Subsequent to the above transaction and the relative request, on May 9, 2006, the Ministry of Communications issued the license for domestic television broadcasting using digital technology on land frequencies to Telecom Italia Media Broadcasting S.r.l..

■ OPERATING AND FINANCIAL DATA

The following table shows the key results in 2006 compared to 2005. The amounts do not take into account the results of Gruppo Buffetti, which is classified in discontinued operations, or the Internet business, which was transferred to the Wireline Business Unit.

EBITDA



(millions of euro)	2006	2005	Change amount	Change %
Revenues	207	180	27	15.0
EBITDA	(83)	(91)	8	8.8
% of Revenues	*(40,1)*	*(50,6)*		
EBIT	(137)	(130)	(7)	(5,4)
% of Revenues	*(66,2)*	*(72,2)*		
Capital expenditures	85	65	20	30.8
Employees at year-end (number)	919	886	33	3.7

Revenues in 2006 total euro 207 million, with an increase of 15.0% compared to euro 180 million in 2005. This is due to the affirmation of the editorial content of the broadcasting of the two channels, the increase in sales from pay-per-view events, as well as the positive revenue input from the agreements reached with Mediaset and Telecom Italia over soccer rights. In particular:

- revenues from the Free to Air analog and satellite business area amount to euro 168 million in 2006, an increase of 3.6%;
- revenues from Digital Terrestrial TV amount to euro 32 million, compared to euro 10 million in 2005;
- revenues from the News business area amount to euro 9 million, an increase of 38.8% compared to 2005.

EBITDA in 2006 is a negative euro 83 million compared to a negative of euro 91 million in 2005; this is an improvement of 8.8%.

Organic growth, compared to 2005, is equal to 14.7% (+euro 13 million). Organic growth was calculated by excluding non-organic expenses of euro 6 million in 2006 relating mainly to penalties for the early cancellation of a sales contract, expenses regarding disputes with personnel and termination benefit incentives, as follows:

(millions of euro)	Year 2006	Year 2005	Change amount	Change %
HISTORICAL EBITDA	(82.9)	(91.4)	8.5	9.3
Effect of change in scope of consolidation		(0.2)	0.2	
Non-organic (income) expenses:	5.7	1.1	4.6	
Restructuring costs	*2.8*		2.8	
Other expenses	*2.9*	*1.1*	*1.8*	
COMPARABLE EBITDA	(77.2)	(90.5)	13.3	14.7

In particular, operating profitability during 2006 shows an improvement in analog and satellite Free to Air broadcasting, driven by the growth of national advertising (+10.8%). The

improvement is also a reflection of La7's actions to concentrate its resources on adding more programs to its schedule with a higher audience/advertising return and MTV's actions to develop new multichannel/multiplatform strategies. Digital Terrestrial TV, in the presence of an improvement in pay-per-view margins, which are still negative, reported higher operating costs associated with the first-year start-up of the new "free" channels (La7 Sport and Flux) against an advertising contribution which is still negligible.
Furthermore, in "other activities", there was a marked reduction in the costs of the Central Functions, with a positive impact of euro 8 million on EBITDA. This was the result of measures taken to reduce costs, begun in 2005, and greater efficiency of the staff structures following the merger of La7 into Telecom Italia Media S.p.A..

EBIT in 2006 is a negative euro 137 million. This is euro 7 million higher than the negative EBIT reported in 2005 (euro 130 million) due mainly to an increase in depreciation and amortization charges (euro 18 million) in the Television area. The increase in those charges is primarily the consequence of investments made in 2005 following the acquisition of a new nationally-televised network and the acquisition of new frequencies and infrastructures put into place in 2006 to complete the Digital Terrestrial network.
The organic change compared to 2005 is a negative 3.1%, calculated as follows:

(millions of euro)	Year 2006	Year 2005	Change amount	Change %
HISTORICAL EBIT	(137.5)	(129.8)	(7.7)	(5.9)
Effect of change in scope of consolidation		(0.1)	0.1	
Non-organic (income) expenses already described under EBITDA	5.7	1.1	4.6	
Additional non-organic (income) expenses	0.1	1.0	(0.9)	
Other	*0.1*	*1.0*	*(0.9)*	
COMPARABLE EBIT	(131.7)	(127.8)	(3.9)	(3.1)

Capital expenditures total euro 85 million (euro 65 million in 2005) and mainly refer to investments in the Television area in connection with Digital Terrestrial Television (euro 52 million chiefly consisting of the acquisition of Indefeasible Rights of Use from Telecom Italia) and the acquisition of television rights (euro 23 million).

Employees at December 31, 2006 number 919 (886 at December 31, 2005) and include 47 persons with temp work contracts (49 at December 31, 2005). Compared to December 31, 2005, the total number of employees shows an overall increase of 33 due mainly to people hired in the Television area for new TV productions, the operation of the new satellite channels and pay-per-view services.

■ KEY FACTORS

The sale of Gruppo Buffetti and the merger of La7 Televisioni S.p.A. in Telecom Italia Media S.p.A., in January 2006, completed the process of rationalizing the activities of the Group which began in 2005. As a result of this reorganization process and thanks to the important capital expenditures program implemented in the prior year, Telecom Italia Media has strengthened its position on the media market and intends to seize all the opportunities offered by the rapid evolution of new platforms (Digital Terrestrial TV, DVBH, IPTV, etc.), consolidating its identity as a multimedia, multi-platform operator, having carved itself a reputation as one of the most dynamic operators on the Italian market.
The activities of Telecom Italia Media reflect the new corporate configuration of the Group and are conducted by the following business areas:

- the "Television" Business Area operates in the sector of producing and broadcasting content through the television broadcasting networks operated under concession nationally and through digital networks, and in the marketing of advertising space in TV programming. It also functions as a television broadcasting network operator using analog and digital technology. Furthermore, "Television" manages satellite channels and Pay-per-view services using Digital Terrestrial TV (DTT);

- the "News" Business Area operates through TM News, a leading national news agency with a marked international connotation. It was conceived as the result of a partnership with Associated Press (AP) and provides news around the clock as well as analyses, special reports, and regular reports from its offices in Rome and Milan and from abroad: Brussels, New York and Budapest.

■ BUSINESS AREAS

TELEVISION

<u>DIGITAL TERRESTRIAL TELEVISION</u>

During the new Serie A return soccer championship, the commercial Digital Television offering "La7 Cartapiù" continued to broadcast events involving the 10 Cartapiù teams. Customers were able to purchase the events of 10 of the 20 Serie A teams, either singly or as a package. At December 31, 2006 about 1,066.9 thousand cards had been put into circulation and about 65% of them had been sold. June 2006 saw the launch of the "*Estate Musica*" offer, a new series of concerts by important Italian artistes, which can be acquired singly or as a 30-day package.

During 2006, the service was further improved and extended both by introducing stereo sound and dual sound (enabling customers to choose a different commentator to the one offered by the main channel) and the launch of the interactive "t-betting" application, thanks to which owners of SNAI Cards can bet on all the Serie A soccer games by tuning in to the La7 Cartapiù and La7 Sport TV channels. The number of points of sale selling the smart cards increased, with the new tobacconist and newsagent channels. Communication activities on La7 Cartapiù continued: an "autopromo" campaign on the analog La7 channel and the digital La7 Cartapiù channels, in the sports sections of daily newspapers until the end of the soccer championship, and a poster campaign in the largest Italian cities.

With the start of the new championship and the agreement with Mediaset (described below), some important promotional and commercial partnerships were also established in the cities of the 5 Top Teams. The first agreements were signed with the Sicilian club Palermo Calcio, the TV channel Primocanale (Genoa), and the newspapers "Giornale di Sicilia" and "La Sicilia" (Catania).

The following is also pointed out:

- on July 27, 2006, Telecom Italia Media and Mediaset signed an agreement for the reciprocal sale of rights to broadcast the soccer matches of the top teams of the respective bouquets on Digital Terrestrial Television for the next three championship series. Thanks to the agreement, Telecom Italia Media will be able to broadcast the games of five of its teams (Fiorentina, Palermo, Cagliari, Sampdoria and Catania) when they play away games at the stadiums of the Mediaset teams and Mediaset will have the same rights for the away games of the Milan, Inter, Roma, Lazio and Torino teams. Furthermore, Mediaset will pay Telecom Italia Media the sum of euro 64 million, divided as follows: euro 12 million for the 2006-2007 season, euro 24 million for the 2007-2008 season and euro 28 million for the 2008-2009 season;
- in August 2006, Telecom Italia Media signed a contract with Telecom Italia to exclusively supply Telecom Italia with the audio-visual content of the home games of the "La7" teams, for which Telecom Italia Media has and/or will have the broadcasting rights using DVBT and DVB-H technology for the seasons 2006/2007 - 2009/2010, with the aim of allowing Telecom Italia to broadcast the above pay-TV content on TVphones;
- in November 2006, QOOB TV was launched. This is the new multimedia platform which uses

television, the Internet and mobile phone technology to broadcast the best there is in terms of animation, films, graphic design and music so that spectators can experience TV in an active way, make their own contributions and express their preferences;
- on December 21, 2006, the euro 100 million loan approved by the European Investment Bank last July was disbursed. The loan, the first of its kind in Italy's Media sector, was granted to support Telecom Italia Media's investment program in the Digital Terrestrial network and will cover investments made and still being made during the period 2005-2007, for a total of euro 280 million. The investments will be directed to an expansion of the transmission infrastructures for the development of digital TV throughout the national territory. The loan, secured through Telecom Italia, has a term of seven years.

La7 Free to Air

During the first half of the year, the audience seemed to be mainly interested in the area of information, analysis and political discussion in the period running up to the elections in April. In January and February, the network's average audience share was 2.9%, an increase of 13% compared to the same period in 2005. The credibility and style of programs broadcast by La7 have become a benchmark for an ever-wider audience which particularly favored its early-morning programs (Omnibus and Omnibus W.E.), the usual programs broadcast in the evening such as "Otto e mezzo" and "L'infedele" and the various editions of the News.
Later, in spring, the increase in the audience share was even more significant with an average of 3.1% (+19% compared to 2005). Contributors to the increase in the evening audience share included especially "Le Invasioni Barbariche", a show presented by Daria Bignardi, which confirmed the success already underlined in the previous year, and the program "Crozza Italia".
During the summer period of July and August 2006, the average audience share reached 3.2% with an average growth of 16% compared to 2005, and an increase of 26% for Daytime TV.
The autumn program schedule contained several novelties in the field of information and realtainment, sport, programs with a scientific slant and fiction. The season ended with an average audience share of 3%, an increase of 5% compared to 2005. Of the various time-bands, the highest audience share was reported in the morning, with information programs, and the band with "Access and Prime Time TV", the audience share of which increased by +22% and +12% respectively. Specifically, in Daytime TV, there were gains for "Omnibus" (+22% compared to autumn 2005) and for the film series "Matlock", broadcast at 11:30, with new, exciting legal cases for Atlanta's most famous lawyer to solve (+23% compared to the film series broadcast just before the News of the prior year).
News programs also reported a positive trend and increased their audience share, especially the afternoon edition, with 2.7% compared to 2.1% in 2005 (+26%), but also the 8 p.m. edition with 1.8% compared to 1.6% in 2005 (+12%).

MTV

From the point of view of audience share, MTV remains the undisputed leader with 8,850,000 daily contacts, an increase of 5% compared to the previous year and 15.8 million weekly contacts (+3% compared to May 2005), and has been making constant progress since 2001, according to Makno & Consulting's Television System Observatory published in May 2006. The positioning of music, the network's core business, was further enhanced by two new programs: Our Noise (an hour of music looking at the most interesting new releases) and the charts program MTV 10 of the Best. In parallel, TRL – one of the network's classics – reproposed its role as a window on the MTV world, using every possible means of interaction: texts to kids on stage, the Internet, mobile phones, and with an ever -growing audience, exploding in March with the TRL Awards (more than 100,000 kids in Piazza Duomo in Milan) and again in summer with TRL on tour. Rhythm, variety, daring and eccentricity are its key features, resulting in evening viewing which provides a real and competitive alternative: Very Victoria (very successful with the audience and generating lots of press coverage); School in Action (the only pure reality show on Italian TV); Pimp my Wheels (acknowledged as one of the bastions of MTV entertainment); Italo (Spagnolo) (with its “window on the world”) and Parental Control (the first MTV program which allows parents to “invade” the sentimental lives of their kids. But, above all, 2006 was the year of the multi-platform. Here, too, in this broader, multi-channel context, MTV has succeeded in anticipating the timing of multimedia development, with a network which is already highly diversified. In this sense, MTV Italia continues to be the largest producer of live music in Europe: from TRL on Tour, the TRL awards, Supersonic, Storytellers, MTV Day, Cocacolalive@MTV, Brand:new and Replay 25th anniversary. More confirmation of the channel’s success came from the music scene on Sky, where MTV’s satellite network (MTV+MTV Hits+MTV Brand:new) occupies a central and record position, both from the point of view of image profile (MTV Brand:new won the Hotbird Award as the best European music channel in the last 2 years), and audience. In fact, with more than 6.1 million weekly contacts, MTV leads the sector of music and young people. In three years, growth has exceeded 100% (source Audistar Eurisko – spring 2006).

NEWS

In June 2006, the News area renewed its exclusive contract for Italy until 2010 with Associated Press, whose news the channel translates into Italian and then distributes. It now has an updated logo which is a graphic representation of the partnership, and the offering of news bulletins has been further enhanced. The process of updating the production and distribution platforms continues in order to industrialize the multi-platform management of printed and multimedia content.

OLIVETTI

THE BUSINESS UNIT

The Olivetti Business Unit operates in the sector of ink-jet products for the office, digital printing systems and the development and production of products associated with silicon technology (ink-jet printheads and MEMS) and also specialized applications for the banking field and commerce and information systems for gaming and lotteries. The reference market of the Business Unit is focused mainly in Europe and Asia.

THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows (the main companies are indicated):

OLIVETTI

Olivetti S.p.A.
- Olivetti I-Jet S.p.A.
- Olivetti International B.V.
- (foreign sales companies)

Since 2006, the Olivetti Business Unit is operating with a new organizational structure based on the Business & Market Development area (responsible for all marketing and sales) and the Product/Technology Development & Industrial Operations area (responsible for manufacturing, research and logistics).

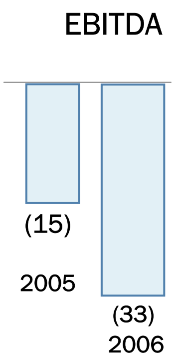
MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following took place:

- on February 28, 2006, 60% of the share capital of Wirelab was sold to the shareholder Urmet. Following the sale, stakes are held in Wirelab S.p.A. as follows: 90% Urmet S.p.A. and 10% Olivetti S.p.A.;
- on April 6, 2006, the extraordinary shareholders' meeting of Olivetti S.p.A. voted to absorb the accumulated loss at December 31, 2005 (equal to euro 33 million) by using the residual reserves for euro 8 million and by a cash payment on the part of the shareholder for euro 24 million. The shareholders' meeting voted to increase share capital from euro 128 million to euro 154 million with payment at the same time;
- at the end of May 2006, the associate Olivetti Tecnost Portugal S.A. was formally dissolved and cancelled from the companies' register;
- on October 7, 2006, the winding-up of Olivetti Tecnost H.K. Ltd. was concluded with the subsequent cancellation of the company from the companies' register;
- on November 21, 2006, the company AdValso S.p.A. was set up. This company has its registered office in Ivrea and is a wholly-owned subsidiary of Olivetti S.p.A.;
- on December 14, 2006, the sole shareholder, Telecom Italia S.p.A., made a payment to Olivetti S.p.A. for euro 50 million to cover the accumulated losses.

OPERATING AND FINANCIAL DATA

The following table shows the key results of the Olivetti Business Unit in 2006 compared to 2005.



(millions of euro)	2006	2005	Change amount	Change %
Revenues	440	452	(12)	(2.7)
EBITDA	(33)	(15)	(18)	-
% of Revenues	*(7.5)*	*(3.3)*		
EBIT	(50)	(38)	(12)	(31.6)
% of Revenues	*(11.4)*	*(8.4)*		
Capital expenditures	10	19	(9)	(47.4)
Employees at year-end (number)	1,428	1,750	(322)	(18.4)

Revenues in 2006 amount to euro 440 million and decrease by euro 12 million (-2.7%) compared to year 2005. Excluding the effects of the change in the scope of consolidation, exchange rates and the sale of intellectual properties, the negative change is euro 5 million (-1.1%). The reduction is especially due to the decrease in the revenues of products for Gaming and traditional Ink-jet products, which were only partly compensated by higher revenues of specialized printers, new Ink-jet products (multifunctional color printers and portable photo printers launched on the market during the last months of 2005) and professional Office products.

EBITDA in 2006 is a negative euro 33 million. This is euro 18 million higher than the negative EBITDA reported in 2005 because of the sales push aimed at entering the new ink-jet products market.

The organic change is a positive euro 5 million and was calculated as follows:

(millions of euro)	Year 2006	Year 2005	Change amount	Change %
HISTORICAL EBITDA	(33)	(15)	(18)	°
Effect of change in scope of consolidation	-	2		
Non-organic (income) expenses:	21	(4)		
Industrial riconversion costs	*13*	-		
Restructuring costs	*8*	-		
Other	-	*(4)*		
COMPARABLE EBITDA	(12)	(17)	5	(29.4)

The increase is due to cost savings as a result of measures taken to rationalize the fixed costs structure and the release to income of provisions of the associate Olivetti do Brasil.

EBIT in 2006 is a negative euro 50 million. This is euro 12 million higher than the negative EBIT in 2005. The organic change is a positive euro 3 million and was calculated as follows:

(millions of euro)	Year 2006	Year 2005	Change amount	Change %
HISTORICAL EBIT	(50)	(38)	(12)	31.6
Effect of change in scope of consolidation	-	2		
Non-organic (income) expenses:	19	2		
Non-organic (income) expenses already described under EBITDA	21	(4)		
Additional non-organic (income) expenses	(2)	6		
Gain on the sale of non-current assets	*(2)*	-		
Other (income) expenses	-	6		
COMPARABLE EBIT	(31)	(34)	3	(8.8)

Capital expenditures in 2006 total euro 10 million, half of which relates to multifunctional products, and decreased by euro 9 million compared to 2005.

Employees at December 31, 2006 number 1,428, of whom 1,278 are in Italy and 150 outside Italy. The figure does not include persons with temp contracts (there were 7 at December 31, 2005). The reduction of 322 persons, compared to December 31, 2005, is mainly attributable to the termination of employment (255) and the exclusion of Wirelab from the scope of consolidation (54).

KEY FACTORS AND STRATEGIES

Olivetti continued to place emphasis on building its sales efforts, industrial reorganization and renewal of the offering.

In a difficult and highly competitive market context, work continued on the new line of multifunctional products and on strengthening the company's position on extra-European markets. Significant results were achieved in terms of volumes of new products and new business for specialized terminals.

The restructuring and rationalizing process at the manufacturing and technological level is nearing completion. This involved:

- the restructuring and concentration of production hubs mainly for specialized terminals and gaming products;
- the centralization of R&D activities.

Product offers continued to be updated and expanded and refer to:

- the launch of new multifunctional products based on ink-jet technology, achieving the goal fixed in terms of cost reductions and product range expansion;
- the optimization of the mix of traditional products and strict price controls.

BUSINESS AREAS

BUSINESS & MARKET DEVELOPMENT

The year 2006 was marked by pressure over the prices of hardware. In addition, huge efforts were made in the commercial sphere to augment the company's visibility and presence in the channels specialized in the new line of products based on ink-jet technology (multifunctional printers and portable photo printers). As a result, significant sales volumes were reached in the main European and South American markets.
In the second half of the year, the product range was expanded by the introduction of the new multifunctional entry-level models, along with others with Wi-Fi functions.

The sales of other ink-jet products, fax machines, reported a contraction on the European market which sparked off even fiercer competition with regard to prices. Consumption of fax accessories reported a decrease in volumes owing to a stronger presence in the consumer area than in the business area.

Sales of the other product lines, photocopiers and office products based on laser technology, printers for banks and the retail market and cash registers increased compared to the same period of 2005 because of greater integration among sales channels as a result of the new organization which brought the entire product portfolio offering to every customer.
In particular, sales of printers for banking increased by +18% compared to the prior year.

As far as the Large Customer Accounts market in Italy is concerned, the offering was expanded by participating in important bids for multi-year contracts for complete ticketing services and network printing/copying systems with customers like Poste Italiane, Ferrovie (the Italian railway operator) and Italian banks. In this context, in July 2006, Olivetti won a bid to supply printing/copying services for Poste Italiane worth euro 13 million.

PRODUCT/TECHNOLOGY DEVELOPMENT & INDUSTRIAL

The main activities in 2006 in the “consumer” ink-jet technology segment are as follows:

- restyling of the range of multifunctional products launched in 2005 and the extension of the production range with the introduction of a fax model (with printer, photocopier, scanner and fax functions);
- introduction of a new multifunctional “entry-level” product;
- development of a new platform of multifunctional products and associated high-performance printheads, scheduled to become available in the first half of 2007;
- the introduction of new fax models.

In the professional products sector, the following took place:

- activities aimed at updating and expanding printers for banks;
- completion of the range of traditional fiscal cash registers and the development of a fiscal cash register using ink-jet technology;

With regard to the plan to reconvert the Carsoli plant, the initiatives were completed with regard to the activities mentioned in the agreement signed in June 2006 with the labor unions and local authorities, namely the start-up of new customer-care activities for telephone services.

MARKETING AND DISTRIBUTION

The Olivetti group has a sales presence in 83 countries in the world (particularly in Europe and Asia). The group operates through the dealers channel, the mass-merch channel, the very large accounts channel (direct sales and system integrators) and the international sales channel (distributors)

OTHER ACTIVITIES

"Other Activities" of the Telecom Italia Group are formed by the Central Functions (Group Functions and Service Units) and by the foreign operations not included in other Business Units (Entel Bolivia, Sofora and ETECSA).

CENTRAL FUNCTIONS

The Central Functions are composed of the Group Functions, which have responsibility for guaranteeing the coordination, direction and control of the activities under its charge at the Group level, and the Service Units, which have the task of ensuring that the common operational activities servicing the business are carried out.

Central functions – Details of Operating Costs

The following table shows the operating costs incurred during 2006, compared to those of the prior year, restated to take into account the different organizational structure.
The table excludes the effects of certain expenses (such as, for example, the OTE closing and the Opportunity settlement which both took place in the first half of 2005) in order to present a more meaningful and comparative representation of the operating trend of the Central Functions.

OPERATING COSTS

	Year 2006	Year 2005	Change	
(millions of euro)		Proforma	amount	%
Group functions (*)	(507)	(528)	21	(4.0)
Service Units (*)	(1,173)	(1,222)	49	(4.0)
Eliminations	*66*	*69*	*(3)*	*(4.3)*
Total central functions	(1,614)	(1,681)	67	(4.0)

(*) See the tables on the following page.

Operating costs show a reduction of euro 67 million mainly as a result of the decrease in professional fees, consulting fees, other outside costs and also labor costs also as a result of the transactions for the sales of Telecom Italia Learning Services and Eustema.

Details of the Group Functions and the Service Units are provided in the following paragraphs.

GROUP FUNCTIONS

Group Functions include the Staff Functions of Telecom Italia S.p.A. (Human Resources & Organization excluding the Welfare function which is under the Service Units, Finance Administration & Control, Corporate & Legal Affairs, International Legal Affairs, Public & Economic Affairs, Corporate Development, Investor Relations, General Counsel and IT Governance), Group Communication, which includes Progetto Italia, Advertising & Image and Media & Opinion Maker Relations, Telecom Italia Latam and Telecom Italia International.

OPERATING COSTS

(millions of euro)	Year 2006	Year 2005 Proforma	Change amount	Change %
Staff functions	(436)	(437)	1	(0.2)
Group Communication	(51)	(54)	3	(5.6)
Corporate LATAM + TI International	(20)	(37)	17	(45.9)
GROUP FUNCTIONS	(507)	(528)	21	(4.0)

Compared to 2005, operating costs decreased by euro 21 million as a result of the reduction in professional fees, consulting fees, communication costs and other outside costs and also labor costs.

The data presented includes costs that were recharged for activities performed by the Service Units.

SERVICE UNITS

Service Units include the operational service activities performed for the Business Units/Central Functions/Group Companies. The data shown takes into account internal exchanges within Telecom Italia S.p.A..

OPERATING COSTS

(millions of euro)	Year 2006	Year 2005 Proforma	Change amount	Change %
Real Estate Activities and Services	(987)	(978)	(9)	0.9
Administrative Services Center	(46)	(53)	7	(13.2)
Security	(49)	(65)	16	(24.6)
Purchasing	(37)	(38)	1	(2.6)
Welfare	(26)	(25)	(1)	4.0
Other & Eliminations (1)	(28)	(63)	35	(55.6)
SERVICE UNITS	(1,173)	(1,222)	49	(4.0)

(1) Includes Telecom Italia Audit and Compliance Services, Telecom Italia Learning Services (up to June 30, 2006), Telecom Italia Finance and other companies.

Operating costs decreased by euro 49 million. Efficiencies and savings in building management, by the Administrative Services Center and Security as well as lower costs for training following the sale of Telecom Italia Learning Services made it possible to fully compensate the effects of inflation on property leases and the significant increase in the prices of fuel and electrical energy.

REAL ESTATE ACTIVITIES AND SERVICES

Tiglio Project (Real Estate Investment Funds)

Under the second phase of the Tiglio Project – which calls for an end to the process of appreciating the real estate assets held by Tiglio I and Tiglio II by contributing the assets to real estate investment funds or concluding individual sale transactions – activities in 2006 continued to be centered on seeking the best investment opportunities offered by the market.

Consistent with the progress made on the project, during 2006 the companies Tiglio I and Tiglio II effected certain transactions involving their capital and thus optimized their equity and financial structure.
In particular, the two companies distributed their capital in the form of the share premium reserve to the Telecom Italia Group for a total amount of approximately euro 31 million. Tiglio I approved a distribution of euro 24 million – collected in full – of which euro 23 million was Telecom Italia's share and euro 1 million was Telecom Italia Media's share. Tiglio II approved a distribution to Telecom Italia of euro 7 million, also collected in full during the course of 2006.
Tiglio II also approved the distribution of dividends to Telecom Italia for euro 2 million, collected in March 2006, and also made a payment of euro 3 million to Telecom Italia for its share of the distribution of dividends declared in 2005 which had not yet been paid.
Tiglio II, finally, approved the reduction in share capital and reimbursed the shareholders. Telecom Italia's share amounts to income of euro 4 million which was almost entirely collected in December 2006.

Sale of properties

As part of the activities to optimize the physical space occupied by network equipment to gradually free part of the buildings used for such equipment, in 2005, the board of directors of Telecom Italia S.p.A. approved the sale of more than 1,300 properties for a total amount of about euro 1 billion. The first part of this project was completed in 2005 and involved 867 buildings. On March 1, 2206, June 1, 2006 and on November 17, 2006, Telecom Italia S.p.A. transferred, respectively, a second part consisting of 348 buildings, a third part consisting of 116 buildings and a fourth part consisting of 47 building to the subsidiary Olivetti Multiservices (OMS), and, at the same time, the relative lease contracts were signed.

Subsequently, under the agreements with the "Raissa" and "Spazio Industriale" real estate investment funds, both signed on December 23, 2005 and amended by the agreements signed on June 21, 2006, the following transactions took place:

- on March 29, 2006, OMS contributed a second group of 201 properties to the Raissa Fund (27 of which are under a simultaneous long-term finance leaseback) with a contribution value of euro 158 million and at the same time transferred the financial debt of euro 97 million assumed beforehand by OMS. The majority of the shares of the Raissa Fund that came from the properties contributed was sold to institutional investors headed by The Morgan Stanley Real Estate Funds. Pirelli RE has a 35% stake in the Raissa Fund under a joint venture with the same funds;
- on March 30, 2006, OMS contributed a second group of 120 properties to the Spazio Industriale Fund with a contribution value of euro 71 million and at the same time transferred the financial debt of euro 60 million assumed beforehand by OMS. The majority of the shares of the Spazio Industriale Fund that came from the properties contributed was sold to institutional investors headed by Cypress Grove International Funds. Pirelli RE has a 35% stake in the Spazio Industriale Fund under a joint venture with the same funds;

- on June 26, 2006, OMS contributed a third group of 54 properties to the Spazio Industriale Fund with a contribution value of euro 41 million and at the same time transferred the financial debt of euro 35 million assumed beforehand by OMS. The majority of the shares of the Spazio Industriale Fund that came from the properties contributed was sold to institutional investors headed by Cypress Grove International Funds;
- on June 29, 2006, OMS contributed a third group of 57 properties to the Raissa Fund (13 of which are under a simultaneous long-term finance leaseback) with a contribution value of euro 47 million and at the same time transferred the financial debt of euro 29 million assumed beforehand by OMS. The majority of the shares of the Raissa Fund that came from the properties contributed was sold to institutional investors headed by The Morgan Stanley Real Estate Funds;
- on December 14, 2006, OMS contributed a fourth group of 33 properties to the Raissa Fund (5 of which are under a simultaneous long-term finance leaseback) with a contribution value of euro 30 million and at the same time transferred the financial debt of euro 18 million assumed beforehand by OMS. The majority of the shares of the Raissa Fund that came from the properties contributed was sold to institutional investors headed by The Morgan Stanley Real Estate Funds;
- on December 20, 2006, OMS contributed a fourth group of 7 properties to the Spazio Industriale Fund with a contribution value of euro 3 million and at the same time transferred the financial debt of euro 2 million assumed beforehand by OMS. The majority of the shares of the Spazio Industriale Fund that came from the properties contributed was sold to institutional investors headed by Cypress Grove International Funds.

The Telecom Italia Group realized a gross consolidated gain of euro 135 million on the above-described transactions and a positive impact on the consolidated financial debt of the Group equal to euro 296 million before taxes.

With reference to the properties which came under the control of OMS following the transfer from Telecom Italia, OMS has 98 properties still to be monetized which are currently leased to Telecom Italia S.p.A., since OMS sold a building of this type on December 29, 2006.

Sale of investments

In accordance with the plan for the rationalization of the Group's investment portfolio, the following is mentioned:

- in March 2006, OMS Holding BV (an indirect subsidiary of Telecom Italia) sold the entire investment in RUF Gestion S.a.S. (100%) to the company Bangor S.a.S. for an equivalent amount of euro 33 million, realizing a consolidated gain before taxes of euro 27 million;
- on September 28, 2006, steps were taken to wind-up the company OMS Holding BV (a wholly-owned subsidiary of Olivetti Multiservices), whereas on October 27, 2006, steps were taken to wind up the company Olivetti System Technology (a wholly-owned subsidiary of TI Finance).

INTERNATIONAL HOLDINGS

Entel Bolivia Group
Held by: Telecom Italia International through ICH/ETI 50%

The Entel Bolivia group (consolidated line-by-line) operates in the fixed (particularly long-distance national and international telephone segments), mobile, internet and data transmission sectors in Bolivia.

In 2006, the fixed telephony business continued to concentrate mainly on the commercial sphere, where action was geared to consolidating the "Aquí Entel" (public service) initiative. This initiative, used mainly for local calls to mobile phones and despite the current capacity limitations (it is based on accesses with mobile technology), reported a growth in the number of lines of about 77% compared to December 2005 (21,970 at December 31, 2006 compared to 12,383 at December 31, 2005) and an increase in revenues due chiefly to a 51% increase in local traffic volumes. At the same time, there were changes in rates and promotions geared to increasing international long-distance traffic which, together, made it possible to completely offset the losses reported in the same telephony segment in the first half of the year.
The number of fixed lines at December 31, 2006 (74,000) increased by 29.8% compared to December 31, 2005 (57,000).

In the mobile telephony business, in 2006, there was fierce competition from the competition by the operator Telecel which launched its own GSM service (under the Tigo brand). The offering by the competitor, which included subsidies for acquiring handsets and the possibility of operating above 850 MHz and by the operator Viva caused a loss of market share of approximately 10% since December 2005, especially in La Paz and Santa Cruz and in the east of the country. To combat the competition, Entel responded in the second half of the year by launching new rate plans, with the aim of increasing the clientele and mobile-mobile traffic. Furthermore, in November, the "2x1" (dos por uno) rate plan was launched, enabling customers to use twice the value of the top-up or, for customers with postpaid traffic, twice the number of minutes of their subscribed rate plan. Thanks to this plan, it proved possible to invert the trend of the monthly variation in customers which had been negative since January.

In the Value Added Services (VAS) sector, starting from August 2006 charges were reduced for GPRS and Edge services to make them more competitive than the services offered by Tigo, which had also adopted an aggressive sales policy for these types of services.

The number of mobile lines at December 31, 2006 (equal to 1,443,000) was much in line with those at December 31, 2005 (1,447,000) after having totally recovered the reduction in the number of lines after cleaning out the customer base (about 61,000 lines) and fierce competition.

Telecom Argentina Group
Held by: Telecom Italia and Telecom Italia International through Nortel Inversora/Sofora 13.97%

The group operates in the sectors of wireline and mobile telephony, internet and data transmission in Argentina and also offers mobile telephone services in Paraguay.

Land lines in service (also including installed public telephones) are about 4,095,000 at December 31, 2006, an increase of 3.7% compared to December 31, 2005.

The growth of Broadband by Telecom Argentina in 2006 was considerable and reached a total of about 448,000 customers for an increase of 103% compared to December 31, 2005.

In the mobile business, the customer base of the Group reached approximately 9,589,000 (12.1% of which is in Paraguay) with an increase of 41% compared to December 31, 2005. The number of postpaid customers increased by 35.8% compared to December 31, 2005 and represents 31.6% of the total customer base (compared to 32.8% at the end of 2005). Customers who use GSM services reached 86.7% of the total customer base.

ETECSA

Held by: Telecom Italia International 27%

The company operates a monopoly in the sectors of fixed and mobile telephony, the Internet and data transmission in Cuba.

The number of fixed lines installed (also including installed public telephones) is about 973,000 at December 31, 2006, an increase of 14% compared to December 31, 2005. Of the lines installed, 49,000 are invoiced in US dollars and the others, connected to the social development of Cuban telecommunications, in pesos.
In 2006, the number of Internet and data customers increased and, at December 31, 2006, had reached about 20,000 accesses (compared to 16,000 at the end of 2005).

In the mobile business, at December 31, 2006, the customer base had reached 152,700, an increase of 16% compared to December 31, 2005. The increase is mainly concentrated on the prepaid clientele, which represents almost 90% of the total. In 2006, the migration of customers from TDMA towards GSM technology continued and is now used by 81% of the total customer base (compared to 70% at the end of 2005).

***

On October 27, 2006, Telecom Italia International N.V. (“TII”) transferred, for USD 410 million, its 38% investment in the share capital of Solpart Participaçoes S.A. (the controlling holding company of Brasil Telecom) to Brasilco S.r.l., a newly established Italian company held by a trust set up under British law, with TII itself as the beneficiary. Under the trust deed, Credit Suisse Securities (Europe) Limited (“CSFB”) acts as the trustee managing the investment and the corporate rights deriving therefrom, also for the purpose of selling the investment to third parties with the assistance of JP Morgan which had already been engaged by Telecom Italia S.p.A. to evaluate any sales opportunities. TII, as the sole beneficiary of the trust, will continue to receive any earnings from the investment in Solpart Participaçoes S.A., including the price of its future sale.

As a result of the above transfer, approved in advance by the Brazilian telecommunications authority, Anatel, TII ceded ownership of the Solpart Participaçoes S.A. shares and the relative governance rights, thus resolving the question concerning the overlapping of the mobile and long-distance licenses between the Brasil Telecom group and the TIM group in Brazil and consequently averting the possible application of sanctions by Anatel to the two operators.

During December, Brasilco S.r.l. collected USD 4.5 million representing its share of a reimbursement of capital approved by the shareholders’ meeting of Solpart Participaçoes S.A.. On January 29, 2007, this amount was paid to TII as a reimbursement of reserves by Brasilco S.r.l..

Sustainability section

Introduction

For the past ten years the Telecom Italia Group has been analysing its own performance towards the stakeholders on which the Group depends and, at the same time, influences by its own activities: Customers, Suppliers, Competitors, Institutions, the Environment, the Community, Human Resources, Shareholders.

The Sustainability Section is included in the Annual Report, thus confirming the intention of the Group to present its financial performance together with the non-financial one.

Results

The results achieved in 2006 with respect to goals set in the 2005 reporting are detailed below.

✓ "Evolution" Project: it has been developed according to the performance improvement goals set with regard to customers, in particular concerning the time for fixed line activation and for technical assistance. A detailed description of results attained is included in paragraph "Customer focus" in the Customer chapter.

✓ Environmental targets:
- Energy: the Group focus on the development of the most promising technologies to produce energy from alternative sources, in order to contribute to the reduction of environmental pollution, has been realized with the implementation of photovoltaic and fuel cell projects.
  In order to evaluate at best the energy performance of Telecom Italia, an indicator has been defined to measure energy efficiency both considering energy consumption and the wider service offer. As compared to 2005, the improvement of eco-efficiency, measured by such indicator, is equal to approximately 60%.
- Waste: the differentiated waste collection of paper, cardboard, wood and multimaterial has been extended to the main Group's offices (over 30 new premises were concerned).
- Paper: during the last months of 2006 an awareness campaign involved all the employees in Italy, in order to promote a reduction of paper use, favouring recycled paper instead of new one.
- Emission of carbon dioxide:
  Vehicles: the car fleet renewal involved a 28.5% reduction of CO_2 emissions as compared to potential emissions by dismissed vehicles.
  Heating systems: the replacements done allowed a reduction of CO_2 emissions equal to 800 tons.
- Electromagnetic emissions:
  - 88% of the most widespread and technologically innovative mobile handsets models have been concerned by the SAR (Specific Absorption Rate) qualification.
  - The goal to reduce, during maximum voice traffic periods, the power emitted by some GSM Base Transceiver Stations, thus reducing electromagnetic field intensity, has been attained. In some stations having quite significant electromagnetic emissions, power has been reduced using the Half Rate code (instead of Full Rate), achieving a 15% reduction.

Further details on the achievement of environmental targets are included in the Environment chapter.

- ✓ A policy concerning labour standards and human rights has been defined for all subsidiaries both in Italy and abroad, in order to ensure adequate employee protection in the various countries where the Group operates. The policy is available in the Sustainability channel of the Group website.

- ✓ A policy on the methods adopted by the Telecom Italia Group in its relationship with suppliers has been defined. The policy is meant to safeguard ethical, environmental and social values, consistently with the principles of the Group's Code of Ethics. Further details on the policy, that also foresees confidential reporting on possible irregularities observed by suppliers in the purchasing process, are included in the Suppliers chapter.

- ✓ In consideration of the ever-increasing significance of on-line financial communication, the Telecom Italia website (http://www.telecomitalia.it) review has been completed, including the Sustainability channel, in order to make it more appropriate to meet analysts, investors and other stakeholders' information requirements. In the "Webranking" survey, conducted in 2006 by Hallvarsson & Halvarsson (Swedish company leader in financial communication), Telecom Italia ranked first in Italy (among 83 companies with highest capitalization) and third in Europe (among 165 companies with highest capitalization) concerning the quality of on-line communication. In particular the Sustainability Section of the Telecom Italia website ranked among the three best Italian sections on Corporate Social Responsibility.

- ✓ The Group has defined a theoretical model for the representation of internally generated intangible assets that can not be measured by common accounting metrics, such as for instance the ability to innovate, the valorisation of human capital, the quality of services offered, the respect of the environment and the relationship with the other stakeholders. These topics contribute to the non financial corporate performance attracting an ever-increasing market interest. The results achieved have been presented during a conference at the Bocconi University of Milan.

- ✓ Telecom Italia has contributed to the drafting of guidelines aimed at minimising energy consumption for broadband technology. The initiative has been promoted by the European Commission through the Joint Research Centre and has involved the most important players of the sector in the drafting of a Code of Conduct (CoC) defining power management methods and technical solutions to contain energy consumptions, avoiding any negative impact on the quality of services in offer. The CoC has been submitted for approval to equipment manufacturers and TLC providers. Telecom Italia is currently evaluating adhesion procedures.

Acknowledgements

The inclusion of Telecom Italia S.p.A. in both the categories of indexes managed by Dow Jones has been confirmed:
- "Dow Jones Sustainability World" Indexes (DJSI World), including 318 companies, Sustainability leaders at World level;
- "Dow Jones STOXX Sustainability" Indexes (DJSI STOXX), including 162 companies, Sustainability leaders at European level.

Telecom Italia S.p.A. has also been confirmed as a component of all the significant indexes

(tradable and non tradable) of FTSE4Good:
- "FTSE4Good Global" (755 companies), the first 100 companies by market capitalization are included in the FTSE4Good Global 100 - tradable index.
- "FTSE4Good Europe" (296 companies): the first 50 companies by market capitalization are included in the FTSE4Good Europe 50 - tradable index.

Telecom Italia S.p.A. is also included the following indexes:
- the "Pioneer" index managed by ESI (Ethibel Sustainability Index), including 200 companies selected at global level among those accepted in the "Excellence" index (280);
- the "ASPI (Advanced Sustainable Performance Index) Eurozone" including 120 companies;
- the "ECPI Global" index consisting of 300 securities while the Europe index includes 150 securities, managed by E.Capital Partners;
- the " Euro Ethical" and "Euro CSR" indexes, including 40 securities, managed by Axia.

Telecom Italia has been ranked among the best 100 companies at world level with reference to the quality of its Sustainability reports in the "The Global Reporters 2006 Survey" conducted by the specialised agency SustainAbility in co-operation with UNEP (United Nations Environment Programme) and the rating agency Standard & Poor's.

Sustainability strategy for 2007-2009

The Group is fully convinced that business activities have to be carried out taking into consideration the stakeholder expectations, consistently with principles included in the internationally accepted standards to which the Group refers (in this regard see the "Reference" paragraph in the Introduction). Corporate management should aim at the pursuit of economic results always considering the environmental and social context within which the company operates.

The Sustainability strategy for the above-mentioned three-year period is based on the following pillars:
- care on service quality, constantly monitored by the departments in charge (in this regard see the "Customer Satisfaction" paragraph in the Customer chapter);
- inclusion of Sustainability reporting within Annual reports, thus confirming the Group intention to jointly present its financial and non financial performance;
- assessment of the Sustainability impact of business projects submitted to the approval of the Group's Investment Committee by filling a specific investment form (in this regard see the "Reporting and planning" paragraph in Introduction);
- stakeholder involvement in corporate processes (in this regard see the "Stakeholder Involvement" paragraph in the Introduction);
- evolution of reporting towards a better correspondence with the Global Reporting Initiative (GRI) guidelines;
- definition of quantitative goals in line with issues deemed most significant with respect to Sustainability (in this regard see the "2007 objectives" paragraph in the Introduction);
- integration between Sustainability and innovation: a specific section has been devoted to Corporate Responsibility within the Technological Plan, i.e. the document in which the company defines its strategy in terms of technological evolution;
- inclusion of specific questions on customer perception of the Sustainability model adopted by the Group, into questionnaires for the assessment of customer satisfaction, starting from the end of 2006;

- confirmation of international commitments on Sustainability among which the adhesion to Global Compact and the support to the Alliance among the European Commission, national partner organizations and European companies leaders in Sustainability, launched on March 22, 2006 with the aim of promoting the development of CSR and to make Europe a pole of excellence.

At the beginning of each chapter of this section the specific strategy defined for the related stakeholder is described.

To make sure that Sustainability issues are appropriately considered in the Group's management decision-making process, objectives associated to the variable remuneration system have been set. The table below summarises such objectives by stakeholder.

Stakeholder	Incentive-associated objectives
Customers	- Customer Satisfaction - Quality of the service provided
Human Resources	- Surveys on staff attitude - Employee Health and Safety - Training on safety and environment issues - Training and professional growth programs - Welfare activities and employee well-being
The Environment	- Materials, energy and water consumption - Atmospheric emissions - Waste management - Environmental remediation
Institutions	- Compliance with laws, regulations and codes - Quality and timeliness of corporate communication
Suppliers	- Environmental audits at suppliers' premises
The Community	- Organisation of cultural events - Quality of the initiatives /projects for the Community

2007 objectives

Consistently with the analysis on the most significant Sustainability topics (in this regard see the "Hot Topics" paragraph in the Introduction) and with commitments undertaken, the Group has defined quantitative targets concerning Customers, Human Resources, The Environment and Digital Divide, briefly described below and more widely discussed in the related chapters. These targets are included in the 2007-2009 Sustainability Plan and are available in the Sustainability section of the Group's website.

Area	Target Description
Customers	Improvement of time efficiency in activing new connections to fixed line voice services
Customers	Improvement of time efficiency in activing new connections to ADSL services
Customers	Improvement of time efficiency for technical assistance
Customers	Increase of automated setting up of new fixed line connections (Linea Pronta mode)
Staff attitude	Maintenance of the last recorded satisfaction level
Training	Increase of training hours per person
Sickness	Maintenance of the last recorded sickness rate
Equal opportunities	Increase in the number of employed women
Energy efficiency	Improvement of TLC services eco-efficiency
Electromagnetism	Power emission reduction through the installation of a second carrier on UMTS cells
Electromagnetism	Specif Absorption Rate measures on mobiles on the market
Waste	Increase of corporate offices adopting recycling waste management programs
Paper	Increase of the percentage of purchased recycled paper
Emissions	Reduction of carbon dioxide emissions (CO_2)
Digital Divide	Increase in the percentage of ADSL, UMTS and IPTV services coverage

Stakeholder Involvement

The involvement of stakeholders in the company decision making processes is one of the most qualifying aspects of a sustainable company.
The Telecom Italia Group's stakeholder involvement mainly refers to the following activities:

STAKEHOLDER	ACTIVITY	CHAPTER/PARAGRAPH
Customers	The co-operation with Consumers' Associations involves meetings aimed at safeguarding the consumers' rights with regard to the Group's products and services as well as providing information on the company organisational changes possibly affecting customers.	Customers / Relationship with Consumers' Associations
Customers	Customer Satisfaction is measured through the Integrated Feedback System (IFS) based on over 200,000 telephone interviews to customers and on thematic focus groups, whose composition ensures the participation of all customer ranges. Data collected are processed to improve organisational processes and service quality.	Customers / Customer Satisfaction
Competitors (National level)	At national level Telecom Italia takes part with competitors in the following associative activities: ▪ DGTVì – Association for the development of Terrestrial Digital in Italy ▪ Radio and Television Federation (FRT) ▪ Digital Environment ▪ High-Definition Forum (HD Forum)	Competitors / Organizations and associations
Competitors (International level)	At international level Telecom Italia takes part with competitors in the following associative activities: ▪ BRT (Brussels Round Table) ▪ ETNO (European Telecommunications Network Operators' Association) ▪ GSME (GSM Europe) ▪ EIF (European Internet Foundation) ▪ ERT (European Round Table of Industrialists) ▪ ESF (European Service Forum) ▪ EABC (European American Business Council) ▪ BRUEGEL (Brussels European and Global Economic Laboratory) ▪ ETP (European Telecommunications Platform) ▪ ITU (International Telecommunications Union) ▪ BIAC (Business and Industry Advisory Committee)	Competitors / Organizations and associations
Institutions	The Group co-operates with both national and international institutions with the aim of establishing collaborative and transparent relationship and providing support if required.	Institutions / Relations
The Environment	Together with the most important TLC players Telecom Italia took part in the in the drafting of a Code of Conduct aimed at the reduction of energy consumption and promoted by the European Commission through the Joint Research Centre.	Environment / Energy
The Community	Many initiatives in favour of the Community are designed and realised in partnership with Institutions and Non Governmental Organisations in order to adress efforts towards the satisfaction of the principal needs as perceived by the Community. Within the initiatives carried out: ▪ Two call centers in the S. Vittore and Rebibbia prisons in co-operation with the Ministry of Justice. ▪ The project "Tim Music in the schools", in partnership with the Brazilian Government. ▪ The digital inclusion program in the North-East of Brazil "Sou ligado!" (I am connected!") in co-operation with the non governmental organisation Visão Mundial.	Community / Initiatives in the Community , Investments in the Community
Human Resources	The fifth edition of the survey on staff attitude Group Photo based on an on-line questionnaire for employees in Italy, Germany and Brazil has been realized. The results have been published on the Intranet and spread through specific meetings.	Human Resources / Internal communication
Human Resources	The Lighthouse project is an internal feedback initiative aimed at proposing actions plans to improve the staff attitude, develop internal loyalty indicators and to start actions aimed at developing corporate business.	Human resources / Internal communication

Human Resources	The Project "Values in progress", aimed at spreading behaviours compliant with corporate values has seen the participation of 2,200 Group's resources including senior managers, middle managers and office staff.	Human Resources / Internal communication
Human Resources	The organizational changes described have been carried out involving the Trade Unions	Human Resources / Industrial relations
Shareholders	A new financial communication channel with retail shareholders has been opened through the Shareholders Club TI Alw@ys ON.	Shareholders / Financial communication
Shareholders	Organisation of formal meetings with the market plus daily contacts through direct meetings and telephone conversations as well as a specific road show devoted to the SRI investors (Socially Responsible Investing).	Shareholders / Financial communication

References

In defining and implementing Sustainability strategies and programs, the Telecom Italia Groups refers to the guidelines issued by the most important world organisations for strategy and standardisation on Corporate Responsibility, particularly by UN Agencies and Programs for Environment and Human Rights and by OECD (Organisation for Economic Co-operation and Development).

Since 2002 Telecom Italia has adhered to the principles set out by Global Compact, the most important initiative at world level, launched in 2000 by UN to promote environment conservation, respect of human rights and labour standards, and anti-corruption practices.

The management system for Sustainability also takes into account the main international standards specifically concerning the various stakeholders:
- the ISO 9000 and ISO 14000 certifications for Quality and Environment Management Systems, ensuring the quality of service to customers and the safeguard of the environment;
- the Social Accountability 8000 standard (SA8000), aimed at favouring the respect of human rights and labour standards by companies and by their supply chain;
- the method suggested by the London Benchmarking Group (LBG) for measuring investments in the Community;
- the principles stated in the Conventions of the International Labour Organization (ILO) for the respect of the fundamental rights of workers.

Aimed at protecting Shareholders, the Group Corporate Governance system hinges on the Code of Ethics and reflects the highest national and international standards. It is based on the central role of the Board of Directors and of independent Directors, the transparency of operational decisions, the effectiveness of the internal control system and the strict regulation of potential conflicts of interest. Within the internal control system, the Organizational Model, ex Legislative Decree dated June 8, 2001, no. 231 is aimed at preventing specific offences including corruption, extortion and corporate crimes.
Further information is included in the "Report on Corporate Governance" chapter of this annual report.

Charters, Codes and Values

The Charters of Services describe the principles of conduct with regard to customers and the commitments undertaken by the main companies of the Group in terms of quality of the service. The Charter of Services and the General Subscription Conditions of Telecom Italia are available on the Group's companies' websites (www.187.it; www.tim.it and www.la7.it).

Codes, procedures and principles supporting the governance system are available in the appropriate section of the www.telecomitalia.it website and on the Group Intranet, providing easy access to all the staff.
The pillar of the system is the Code of Ethics, representing the primary component of the organisational model and of the overall internal control system of Telecom Italia Group, founded on the belief that ethics in the conduct of business is a condition for business success. The respect of the Code of Ethics is a requirement for governing bodies, management and employees of all the companies of the Group, within the boundaries of their competences, functions and responsibilities.

The System of Values adopted by Telecom Italia is a constant benchmark of conduct for all the Group's employees, creating a sense of belonging to a single organisation. The various corporate processes and systems for the valorisation and rewarding, assessment and training of the staff, are inspired by the Charter of Values thus consistently orienting individual attitudes in a common direction for the whole Group.

- Customer focus
  To consider customers as the main employer and customer satisfaction as the basic value. To be ready to listen both internal and external customers' needs and to take steps to anticipate requests and rapidly provide answers.
- Taking responsibility
  To take responsibility in the achievement of tangible results and to accept delegation as an opportunity, without referring to management all problems that can be solved in one's field of competence.
- Innovation
  To ensure the development of innovative solutions and promote new modes for the improvement of the existing processes and systems, in order to strengthen the positioning of the company on the market.
- Pro-action
  To cause things to happen rather than reacting to events. To seize and develop opportunities occurring in one's own reference context, no matter how weak is the indication, and to advance proposals and initiatives useful to achieve the company and Group's goals.
- Efficiency
  To consider time-efficiency as a very important asset affecting the costs of services provided and the loyalty of both internal and external customers. To handle needs and problems tackling multiple and defective inputs, working out timely and practical solutions.
- Integration
  To work with the colleagues as a team, minimising conflict and maximising the effectiveness of information exchange and professional contribution, in view of a common result for the company and the Group.
- Trasparency
  To ensure an ethically-oriented conduct of business; to entertain internal and external relationships that are correct and loyal, favouring information exchange.

- Professional excellence
  To continuously improve one's own competences, undertaking responsibility on personal professional growth project in view of contributing to the success of the Company and of the Group.

Reporting and Planning

The analysis of the performance and the related reporting are based on a multi-stakeholder approach and on a set of approximately 200 KPI (Key Performance Indicators). KPI have been developed on the basis of the GRI analysis (Global Reporting Initiative), of the Global Compact principles, the questionnaires sent by the main rating agencies (SAM for Dow Jones Sustainability Indexes, EIRIS for FTSE4Good, SIRI, Vigeo, Ethibel, Oekom and others) for the purpose of admission to the Sustainability stock-exchange indexes.

The KPIs are managed through a centralised software platform, also used to manage other Company's applications governing accounting, financial and control processes. This also allows data sharing among the various platforms, thus ensuring the maximum integration of Sustainability in the other corporate processes.

The Group's companies considered for the purpose of Sustainability reporting must meet at least one of the following requisites: revenues exceeding euro 50 thousand, number of employees exceeding 50, excluding sold/destined to be sold companies.

The selection of issues to be published in the report, or on TI website, is made on the basis of the principle of materiality considering the level of societal concern and the related impact of the Telecom Italia Group activities.

For the investments projects exceeding a defined threshold (euro 2.6 million for Operations, euro 1.0 million for Media and Olivetti) submitted to approval of the Group Investment Committee, an assessment form stating the investment impact in terms of Sustainability has to be filled in. The project managers state whether the project they are submitting for approval has a positive, negative or neutral impact in term of Sustainability on certain significant areas identified for each stakeholder. The analysis of such impacts is part of the decision making process for project approval.

The evaluations reported on the investment forms, together with other projects submitted by the Sustainability responsible for each corporate department, are included in the Sustainability Plan that covers 3 years.

DJSI (Dow Jones Sustainability Indexes): equity indexes including companies meeting defined Sustainability parameters, managed by Dow Jones in co-operation with SAM (Sustainable Asset Management).

FTSE4Good (Financial Times Stock Exchange): equity indexes including companies respecting defined standards of responsibility, managed by FTSE in co-operation with EIRIS (Ethical Investment Research Service).

SIRI (Sustainable Investment Research International Company): company operating in the SRI (Socially Responsible Investment) sector providing research and consultancy services.

Hot Topics

Sustainability concerns all the corporate processes however certain issues are particularly significant and require specific consideration with regard to the implementation of the Corporate Responsibility model defined by the company. Such Sustainability "hot topics" have been identified by the Telecom Italia Group on the basis of:

- requests by Sustainability rating agencies for inclusion in sector indexes, through questionnaires for the assessment of the Group performance;
- requests by investors during dedicated Road Shows or one-to-one contacts;
- analysis of media and reports published by specialised companies;
- benchmarking of Sustainability activities carried out by other companies, both national and foreign.

With regard to all the identified hot topics the Group has set goals, that are listed in the "2007 objectives" paragraph of the Introduction. The Group's position on each hot topic is described in the paragraphs listed below :

- Customer Care
  To improve customer satisfaction Telecom Italia has put into action several initiatives. Among these there is the "Evolution" project, aimed at dealing with customers with transparency on fixed line activation and technical assistance. Detailed information is available in the "Customer focus" paragraph of the Customer chapter.
- Human Capital
  It is one of the key success factors for a company and represents one of the aspects on which the Group is focusing the most. Initiatives on Equal Opportunities, Development, Education and training, Health and Safety, Welfare are described in the Human Resources chapter.
- Electromagnetism
  This is an issue that has all along been given special consideration by the scientific community and public opinion. The Group commitment to reduce emissions is described in the "Electromagnetic emissions" paragraph of the Environment chapter.
- Climate Change
  The need to reduce CO_2 emissions arises from scientific evidence supporting the cause/effect link between greenhouse gas emissions and climate change. The Group is committed to reduce its emissions and both encourages and supports the dematerialization of assets and services through actions and strategies described in the Environmental chapter, at the "Climate change" paragraph.
- Energy
  Due to the exhaustibility of fossil fuels and their negative impact on environment, energy saving and alternative source studies are issues of burning topicality. The initiatives undertaken by the Group on this matters are described in the "Energy" paragraph in the Environment chapter.

- Waste
  The monitoring of waste production, particularly the most polluting kind, and the adoption of differentiated waste collection are issues attracting deep attention by economic operators. Further information is available in the “Waste management” paragraph of the Environment chapter.
- Digital divide
  The diffusion of communication technologies may involve cultural and geographical discriminations and Telecom Italia has undertaken specific actions to face both risks. Further information is available in the Customer chapter, “Digital Divide” paragraph.

Financial data and added value

The following tables show the added value of Telecom Italia Group, calculated on the basis of accounting data, its distribution among stakeholders and the related contribution.

ADDED VALUE			
	12.31.2006	12.31.2005	Change %
(millions of euro)	(a)	(b)	(a-b)/b
Standard production value (1)	31,767	30,409	4.5%
Raw materials and external services	(14,191)	(12,937)	9.7%
Added value	**17,576**	**17,472**	**0.6%**
Other items (2)	2,982	1,913	55.9%
Gross added value	**20,558**	**19,385**	**6.1%**

(1) Including revenues, work in progress change, inventory change, costs for internal works capitalised, contributions for operating expenses.
(2) Representing the balance between the following items of the income statement: other operating costs/other operating income, dividends deliberated, value adjustments to financial assets, net income from equity investments, financial income, profit on exchange rates, net result from activities sold/destined to be sold, end of year result owing to Parent Company or third parties

DISTRIBUTION OF ADDED VALUE AMONG STAKEHOLDERS AND THIRD PARTIES			
	12.31.2006	12.31.2005	Change %
(millions of euro)	(a)	(b)	(a-b)/b
Employees	3,005	2,868	4.8%
Institutions	3,691	3,524	4.7%
of which			
- Social security costs	796	807	(1.4%)
- Income taxes	2,519	2,395	5.2%
- Indirect taxes	141	141	0.0%
- TLC license fees	235	181	29.8%
Shareholders	3,002	2,342	28.2%
Financers	5,014	5,113	(1.9%)
Business (depreciation and amortization, reserve funds for risks and fees, other accruals and adjustments)	5,846	5,538	5.6%
Added value distributed to stakeholders	**20,558**	**19,385**	**6.1%**

CONTRIBUTION TO THE STAKEHOLDERS		
(millions of euro)		
Suppliers(1)	17,768	Consumption of raw materials and external services, industrial investments
Institutions (2)	3,691	Expenses, taxes and TLC license fees
Employees	3,005	Cost of labour net of compulsory contributions
Shareholders	3,002	Dividends deliberated
Financers	5,014	Interest and other financial costs

(1) The breakdown of the contribution to this stakeholder is described in the chapter “Suppliers”.
(2) The breakdown of the contribution to this stakeholder is described in the chapter “Institutions”.

Customers

Strategy

The Group's companies aim at providing excellent products and services through their close attention to customers and their will to listen to the customers' requests. The goal we pursue is assuring immediate, competent and reliable answers to the customers' requests, while being polite, kind and collaborative.

Focus on Customers

The Group's actions for improving customer satisfaction are listed below, set into three different categories:

<u>Services</u>

- A project called "Evolution" - launched in 2005 in order to provide customers with clear and reliable answers concerning access and maintenance - is currently ongoing and its targets are progressively increasing:
  - since February 2006 it includes voice services for residential customers, micro and small business customers everywhere in Italy;
  - since May 2006 it has been extended to the "Alice Standard" (ADSL) offer for residential customers.

  The main targets of 2006 concerned:
  - keeping the technicians' appointments at the customer premises (target achieved in more than 98% of cases for plain phone services and 97% for ADSL);
  - providing new access lines through "Ready access", a way of providing new access lines fast and automatically, without technical assistance, which covered over 15% of requests.

  Thanks to its results, the project will predictably be extended to other services:
  - "Alice Voice" and "Alice Home TV" starting in May/June 2007.
  - "ADSL Business" starting in September/October 2007.

  The project's targets for 2007 are reported in the Sustainability section of the Group's website.

  Registered customers may access the websites www.187.it and www.191.it to exploit a series of services among which:
  - preview of the Telecom Italia bill directly online before receiving the paper invoice; online customers can view details of each phone call (the last figures of called numbers are omitted) specifying type of call, offer, date, called number, time, length and cost. Residential customers may also obtain explanations on all items of the invoice or on possible variations as compared to previous ones. They may also lodge inquiries to Customer Service, obtaining an answer within 24 hours;
  - the service "Your records" allows to track progress of customer records concerning purchases, requests for new access or access variations, fault repair requests (the latter only for residential customers) and back-up of both sent and received e-mails.
  - the service "phone-line data" allowing online request of: moving their phone number to a new address (residential customers may alternatively ask for leaving the phone number with the new entrant in the old home, free of charge), change of billing address,

details of calls together with the possibility of blocking premium services such as “144”, “166”, “899”.

- The service “tell us online” allows customers to inform Telecom Italia about payments made after the expiry date or about bills whose payment has not yet been recorded by Telecom Italia, in order to avoid service termination or to allow for reactivation of the telephone line.

• The www.187.it portal now features the “Digital Assistant” service, a digital version of customer care providing customers with support in surfing among all the services available on the site, which also helps them to quickly solve many of their needs associated to fixed line management. The Digital Assistant offers in particular on-line information and helps customers to lodge requests to Customer Care. In the latter case the time required to reply is clearly stated, and the customer receives via e-mail clear information about the progress of his records. The Digital Assistant may prove to be a useful support also for hearing-impaired customers as they may choose to display a written version of all information.

o Concerning ADSL service provision, the Alice portal for residential customers has been expanded, adding a section on technical assistance named “Help Alice”. The portal also integrates the “Alice helps you” system, offering two main advantages:
  - customers are enabled to identify and solve, on their own, certain technical problems;
  - Telecom Italia technicians are provided with a tool which displays information and any detected problem associated to the customer workstation.

<u>Products</u>

• All products marketed by Telecom Italia undergo strict technical tests to assure their compliance to European directives and to the directives’ implementation laws at national level, some of which are:
  - EU rules on equipment protection and safety of use for the customer;
  - RoHS rules prohibiting to use certain substances in electric and electronic equipment;
  - RAEE rules on disposal of product at end of life.

  Various quality tests/trials are carried out to assure that the product is compliant with the technical and performance requisites which were agreed and undersigned by Telecom Italia with its suppliers.

  Furthermore, product usability is tested/analysed, to make sure end users receive products whose use is simple, practical and fast.

<u>Employee incentive system</u>

• Within the framework of performance related compensation, Telecom Italia S.p.A. has a target relative to customer satisfaction. The income indicator (Gross Operating profit) has in fact been associated to a customer loyalty indicator. Such indicator is an average of customer satisfaction with regard to service, of Customer Relationship Management, of image and of technical quality.

Customer Satisfaction

The Group has adopted a multi-channel approach to CRM (Customer Relationship Management), providing customers with technical assistance both through toll-free numbers and websites.
Through the support of the CRM system, the customer care staff:

- provides information and technical support;
- directly manages customer requests (One Call Solution) or warns the proper departments in charge of solving the detected problem;
- manages commercial contacts, sells and activates contracts.

Furthermore, the CRM system keeps track of calls received by Call Centers.
The CRM staff is adequately trained, both on technical aspects and behaviour, and it is supported by a portal providing guidelines for solving problems, in the "One Call Solution" perspective.

The Customer Satisfaction model developed in past years for the fixed network has been expanded in 2006 to the mobile network customers.

Customer Satisfaction monitoring occurs through the Integrated Feedback System (IFS) that takes customer needs into consideration, both general needs (collected through past contacts) and specific recent needs (for instance, the request for a specific service such as a new ADSL line), but it also takes into consideration calls made to the Call Center requesting information, administrative issues, or reporting inefficiency claims.
IFS is based on over 200,000 telephone interviews to customers. Collected data are used to improve organisational processes in order to better meet customer needs. Starting with the end of 2006, interviews include specific questions on the perception of Telecom Italia's Sustainability model.

IFS also involves qualitative analyses based on focus groups. In 2006 the latter paid special attention to broadband (analysing reason for choice, kinds of use, problems with the service). They were carried out on groups of people representative of Italian geography, chosen on the basis of length of ADSL connections, kind of offer, provider.

Telecom Italia uses two methods in order to survey Customer Satisfaction:

- a kind of survey on the customer's overall perception, unrelated to any recent specific experience by the customer, which allows to analyse the cause-and-effect relations determining customer satisfaction.
  This methodology, similar to the one underlying the ACSI (American Customer Satisfaction Index), is based on an indicator which allows for inter-sector and international comparisons, which is stable and predictive.
  Such indicator provides important clues on the drivers which can improve customer satisfaction. This type of survey is applied to all customer segments, whether consumer or business;
- another kind of survey is carried out immediately after the event being analysed (for instance a contact with the Call Center operator).
  People interviewed are asked to provide, about a recent call, both an overall evaluation of the service they experienced (e.g.: overall satisfaction) and an evaluation on each specific aspect of the experience (e.g. waiting time to speak to the operator, courtesy and competence).

Data included in the table below refer to the second kind of surveys.

Customer satisfaction on customer care

	Customer segment	Overall satisfaction	Courtesy of operator	Competence of operator
Fixed telephony	Consumer [1]	61.6%	90.2%	78.7%
	Business [2]	54.1%	88.4%	72.0%
Mobile telephony	Consumer [3]	81.1%	93.5%	86.0%
	Business [4]	75.8%	94.0%	79.0%

1 Satisfaction with the assistance provided by 187.1 on information, marketing and administrative calls: 2006 weighed average (TOP2). TOP2 refers to the % of "very satisfied+satisfied" in the 5-point scale (very satisfied, satisfied, not entirely satisfied, unsatisfied, very unsatisfied).

2 Satisfaction with the assistance provided by 191.1 and 191.9.1 for information, marketing and administrative calls (TOP2): weighed average of TOP2 in 2006.

3 Satisfaction with the assistance provided by 119: weighed average (TOP3) in 2006. TOP3 refers the % of people answering "excellent+very good+good" in the five-point satisfaction scale (excellent, very good, good, limited, inadequate).

4 Satisfaction with the assistance provided by the toll-free number for Businesses: weighed average (TOP3) in 2006.

Digital Divide

The spread of information and communication technologies has given rise to noticeable opportunities of development for the population but it has, at the same time, generated the risk of new gaps due to social and geographic reasons: this is an issue deserving special consideration by the ICT sector.

Geographic Digital Divide

Telecom Italia has undertaken a series of initiatives aimed at expanding ADSL coverage: from 86% at the end of 2005 to 89.5% at the end of 2006 (data refer to the total of Telecom Italia's fixed lines).
At the end of 2006 IPTV was available for 45% of Telecom Italia's lines. UMTS coverage, in terms of resident population, was 70.8%. For broader bandwidths on mobile networks Telecom Italia adopts HSDPA technology, allowing to achieve 3.6 Mbp/s: at the end of 2006 it was implemented through 3,500 antennas amounting to an HSDPA coverage of about 35% of the population.

A working group has been set up, with the participation of all competent departments, in order to:
- define the company's strategic positioning on this topic;
- monitor its development both at national and international level;
- coordinate the various activities carried out by the company.

The working group has developed an IT system named "Digital Divide Project" (DDP) as an operational tool for its activities. For each Italian municipality, DDP collects and presents data relative to the current status and its development (whether planned or still under analysis) from both perspectives: market and technical aspects.

Social Digital Divide

Many social reasons lead to the exclusion of some people from benefits achievable through ICT: belonging to underprivileged social groups (because of age or income), but often simply lack of appropriate information. The main areas of intervention of the Telecom Italia Group for the reduction of the social Digital Divide are:

- Spreading ICT culture: the "Future Centre" in Venice is a place where Telecom Italia displays some of the most innovative technologies, which can be tried for free, and where meetings are held on issues associated to new technologies and their social and environmental impacts. The Group also contributes to the "Science Festivals". Still, the Group's website contains detailed explanations and references on the latest ICT innovations and trends.
- Support for the elderly: Telecom Italia offers free classes for the elderly, teaching the use of the Internet.
- Support for people with disabilities: a service allowing the hearing-impaired people to use several functions of mobile handsets is operating.
- Support in developing areas: Telecom Italia runs projects in Latin America to reduce technological Digital Divide (Sou Ligado!) and projects aimed at reducing the illiteracy rate among poor children.

More information on single projects is available in the "Community" chapter.

Research and tests on innovative services

The main innovative services under study in the Group's laboratories - in co-operation with research institutes and both Italian and foreign universities - having a positive environmental and social impact are described below.

Infomobility: vehicular platforms on board

Telecom Italia is developing a platform devoted to infomobility services and mainly based on localisation systems. Infomobility services aim at optimising management of both public and private transportation (sorting traffic to avoid jams), of parking and limited traffic areas, and they enable "Mobile Payments" (automatic or assisted payments) and vehicle control (intelligent navigation, entertainment, etc.).
The infomobility platform and the related services offer several advantages for the environment and the population as they allow to:

- reduce the polluting impact of transportation thanks to lower average kilometric hauls;
- reduce traffic pressure on urban fabric;
- save energy;
- rationalise traffic and urban infrastructure use (i.e. parking) through the diffusion of online on board systems.

Dynamic–TV: users may become a "source" of contents

The "Dynamic-TV" project changes TV pattern use: no more broadcast only, but users may become a "source" of contents, making them available to other users and sharing them. Exploiting the attractiveness of mass contents sent through digital terrestrial TV or IPTV, perhaps by joint offers, "Dyamic-TV" may promote high-quality niche contents, available at low cost.

Other innovative sustainable services under test

The table below lists some services under test in our laboratories which might have positive impacts in terms of Sustainability.

ZigBee ticketing	System issuing tickets for public transportation via mobile handsets (mobile ticketing).
Vehicular access to controlled areas	Platform for the dynamic management of access to controlled areas through systems wearable by drivers or mounted on vehicle.
Post Accident Remote Diagnosis	"eCall enabled" service for remote diagnosis of patients made on the accident spot (for instance, transferring biometric parameters to emergency centers).
Fire Brigade	Remote real time monitoring of the Fire Brigade's actions through a ZigBee sensor network (Body Area Network) integrated in clothes.
Net computing platform	The platform provides workers, at home and on demand, with applications, storage and processors based on shared virtual resources.
Services for house management	Solutions for improving management of consumption (water and electric energy), systems for theft prevention and for remote management of home appliances

Certifications

In 2006 the Group's quality systems achieved the following certifications:

	Certification	Departments/Company
Telecom Italia S.p.A, Operations	ISO 9001	Departments: Sales & Customer Services, Marketing, Technology (*) Companies: TI Sparkle, Elettra, Pathnet, Loquendo
	ISO 14001	Departments: Technology Companies: Ti Sparkle, Elettra
	AUDIWEB	Company: Matrix
	ISO27001	Departments: ICT Operations (inside Technology dept.)
Olivetti SpA	ISO 9001	Departments: Business & Market Development, Product & Technology Development, Industrial Operations, Market Communication
	ISO 14001	Olivetti plant at Arnad (AO)

(*) The Technology Department now includes the following Departments/Companies: Wireline Network, Tim Network, TILab and IT Telecom.

Protection of minors

To protect minors from adult contents or more generally from contents possibly damaging their psycho-physical development (e.g. violence, racism, offences to religion), the Group's companies have undertaken the initiatives described below.
A working group has been set up for each platform (fixed, mobile, TV). Each group is coordinated at central level and it contains representatives of the departments in charge of the offer of services, in view of:

1. assuring compliance to national ruling normative and European directives;
2. meeting the needs expressed by the associations and movements for the protection of consumers and of minors;
3. promoting correct and socially responsible behaviours.

These are the main activities carried out in 2006:

- Guidelines have been drafted for the classification and control of contents issued by the Group. These guidelines concern not only contents that are directly offered by Telecom Italia, but also contents offered by third parties buying spaces within Telecom Italia portals.

- Filtering systems and procedures for the Group's offer of adult content on the Internet have been defined. These measures aim at preventing minors to access adult content available on the Group's portals.
- Contents proposed by the Group through its mobile platform do not fall in the class subject to filtering. However parents (or whoever involved) can activate "blacklists", that is the possibility to prevent surfing from mobile handsets to selected sites. Moreover, the Group ascertained its own compliance with recent Resolution no. 661/06/CONS "Safety measures for minor protection to be implemented on videophone mobile handsets" published on the Italian Communication Authority (AGCOM) website on November 29, 2006.
- Concerning premium voice services, Telecom Italia requires the use of a PIN code for access to services which might be ranked as "adult", such services however are not offered by the Group.
- The Group's televisions do not broadcast contents requiring filtering systems. Broadcasting is compliant with ruling normative and with the above mentioned guidelines.

In 2006 the Group continued its control activities to prevent the diffusion of juvenile pornography. The Group's companies have set up abuse management teams, "Abuse Desks", where service users can report abuses or inappropriate use of services to the Group's companies. In the case of Internet services, Abuse Desks are differentiated according to service typology (mobile, residential, business): besides managing alarms on problems associated to the Group's services, desks inform competent authorities about any significant event, such as the presence of pedopornographic contents on the Group's networks. As for interactive services such as Chats, Forums and Blogs, offered by the Group's suppliers of services, a prevention system based on the presence of "moderators" has been set up and it is in charge of identifying and reporting the presence of illicit content, blocking its transmission.

Research and innovation in e-security

Research and development activities on the issue focus on:

- Protection and early detection of attacks on new network and service infrastructures;
- Development of innovative tools for predictive analysis of risk exposure level (i.e. through advanced use of modelling and simulation techniques);
- Methods allowing to manage security measures available on the network, for instance filtering and monitoring systems, so as to automatically change configurations and intervention rules following changes in risk scenarios, so as to respect established security targets;
- Development of innovative security services based for instance on new generation SIM and mobile handsets.

Research activities are associated to patent development, in order to protect achievements, as well as to scientific publications. The last year saw the development of ten patent applications.

Relationship with consumers' associations

The company started its collaboration with consumers' Associations in 1983, when it was still named "SIP". In the years several agreements have been signed and, in 2006, the Telecom Italia Group has actively collaborated with 17 among the main Associations. Such collaboration involves meetings aimed at safeguarding consumers' rights with regard to the Group's products and services, and the presentation by the Group's managers of the main projects of organisational development possibly affecting customers, as for instance the reorganisation of Customer Care services ("Evolution" project).
The collaboration with Associations involves informative meetings on the launch of new services and their relative contractual terms. A positive outcome of the collaboration with Associations is constituted by the "parity" conciliation procedures that since 1991 have allowed the resolution of about 40,000 disputes with customers.

The Group takes part, as a founder member, in the Consumers' Forum, which brings together Consumers' Associations, companies and research institutes. The Forum deals with issues related to consumerism. Within the Forum's activities, with Telecom Italia's support in planning and organizing, there are initiatives of joint training with Associations on Conciliation. Projects and initiatives have been developed in order to promote a "collaborative consumerism" and to provide strategic feedback to the appropriate Group departments.

The Group's commitment with regard to consumers' rights is also shown by its actions in support of access to services by disabled customers.

The Telecom Italia Group is firmly determined to protect consumers' interests in a framework of loyal collaboration and transparent mutual information. Its recent decision to put off the increase in line rental charge expected in 2007 for residential customers confirms the Group's commitment to protect the general interests of consumers.

Conciliation

The conciliation procedure between Telecom Italia and Consumers' Associations is based on the "parity" model involving direct responsibility of both parties: the customer, who chooses a Consumers' Association and fully entrusts the relevant representative to deal about his dispute, and the Company who participates with his representative having an equivalent mandate. Conciliation applications are presented at appropriate offices included in Telecom Italia's premises over the national territory. The procedure is entirely free of charge for the customer. Starting with the application date and for the ensuing 45 days Telecom Italia refrains from any activity concerning the customer and undertakes to offer within such deadline a proposal to solve the dispute. Conciliation proceedings are then drafted and the customer is free to sign or refuse. If the conciliation proceeding are signed by both parties, the document becomes immediately operational. If the customer refuses to sign the proceedings, he/she is free to have resort to ordinary legal actions as appropriate. The conciliation procedure is accessible by Telecom Italia's customers only if ordinary claim procedures proved unsatisfactory.

SUPPLIERS

The contribution of the Group to the stakeholder "Suppliers" is reported below.

TELECOM ITALIA GROUP				
(millions of euro)	Financial year 2006		Financial year 2005	
Expenditure for raw materials and external services (net of TLC licence fee)		13,956		12,756
- of which correlated entities	263		414(*)	
Industrial investments		5,114		5,173
- of which correlated entities and internal capitalization	1,039		1.006	
Total contribution		**19,070**		**17,929**
- of which correlated entities and internal capitalization		(1,302)		(1,420)
Total net contribution		**17,768**		**16,509**

*Including euro 5 million relative to "sold/destined to be sold activities".

■ Strategy

Purchasing processes within the Telecom Italia Group are designed to procure products/services at the best market conditions while assuring requisites such as quality, safety and respect for the environment. Procurement processes call for the competitive comparison of technical/economic offers from suppliers selected on the basis of company procedures in force at Group level and characterised by ethical negotiation.

■ General

For high-risk commodity categories, the selection, evaluation and control of the Group's potential suppliers involves a pre-contractual "qualification" phase to assess their economic/ financial and technical/organisational characteristics in light of their possible inclusion in the Group's Supplier Register.

Regardless of the commodity risk level, each of the Group's suppliers is required to commit, both personally and on behalf of any authorised sub-contractors, collaborators and employees, to comply with the ethical-behavioural principles included in the Group's Code of Ethics.

Once included in the Group's Supplier Register, companies receiving purchase orders after the competition/negotiations process undergo controls during the supply phase. These controls range from the Vendor Rating monitoring (systematic assessment of supply) to Incoming Quality Control (mandatory with regard to acceptation/use of the purchased item).
More information on these activities is available in the Purchase section of the Suppliers portal (http://suppliers.telecomitalia.it/).

■ Audits

Summary of controls on the Suppliers carried out during 2006.

☐ Supplier Qualification: 448 controls (relative to 755 commodity categories), of which 15% with a negative outcome and 20% with a fixed-term qualification.

☐ Sub-contractor qualification: 173 controls (relative to 262 commodity categories), of which 13% with a negative outcome and 27% with a fixed-term qualification.

☐ Vendor Rating monitoring: 82 reports issued relative to approximately 500 Suppliers and to 58 purchase categories.

☐ Technical-organisational audits at Supplier's premises to perform Incoming Quality Controls on products and services: over 250 controls for a total of approximately 350 batches of controlled products. Of these, about 70 were exceptionally accepted due to secondary nonconformities, while 21 were rejected for severe nonconformities and thus sent for reworking.

☐ Technical-organisational audits at Supplier's premises to perform qualification procedures: 120 relative to 190 commodity categories, of which approximately 7% with a negative outcome while about 6% obtained fixed-term qualification due to technical deficiencies and thus subjected to further examination.

☐ Technical-organisational audits at the premises of high-risk Sub-contractors (plant engineering-operational activities), to perform qualification procedures in view of use by Suppliers: 151 audits relative to 196 commodity categories of which approximately 9% with a negative outcome and about 17% with fixed-term qualification due to technical deficiencies and thus subjected to further examination.

More than 6,000 controls were also performed on the execution of technical works, mainly focused on the installation phase of new plants and on the provision of services and works.

Main Sustainability initiatives

In 2006 the following initiatives were carried out:

- In line with the principles included in the Group's Code of Ethics and with the rules established in the Group's Procedure for "Purchases of Products and Services", a "Policy on relationship with Suppliers" has been defined. This illustrates how the principles of Sustainability and ethical negotiation are promoted and pursued throughout the procurement process to ensure legal, transparent and correct relations with Suppliers. This *Policy* has been published in the Purchase section of the Supplier Portal (http://suppliers.telecomitalia.it/) and it also allows suppliers to confidentially report any eventual misconduct by the Group's staff with regard to the business relationship.
- The Group has defined its Guidelines for the assessment of products and suppliers with regard to their environmental compatibility; on the basis of this document, the eco-compatibility assessment has been tested with some international suppliers during the second half of 2006, confirming the adopted model's substantial validity.
- The Group has also defined a check list aimed to assess, during supply quality audits at supplier's headquarters/plants, any Supplier initiatives on Ethics and Sustainability, with special reference to the safeguard of the environment, the health, safety and rights of employees. The test assessments performed on 43 companies also aimed at promoting a tangible commitment to pursuing the aforementioned Sustainability values throughout the supply chain with the involvement of their suppliers (sub-contractors of the Group).

Nearly 40% of the suppliers, showing various deficiencies with respect to the Group's expectations, made a firm commitment to implement the first improvement initiatives during 2007.

- Audit procedures on the suppliers of foreign subsidiaries also continued. In particular, before being included in the Supplier's List, all the new suppliers of Telecom Italia S.A. (France) are required to submit a self-certification in compliance with Legislative Decree no. 231/2001. This includes a statement of commitment to the principles of the Code of Ethics of the Telecom Italia Group and a declaration that no insolvency proceedings, protests or severe administrative sanctions are ongoing.
- Telecom Italia Group took part in a strategically oriented workshop on Sustainability and Integrity in Relations with Suppliers (SIRF) involving some of the most important Italian companies that operate in the services and manufacturing sectors. Following the formalisation of conduct rules and of implementation criteria for the procurement process that were based on guidelines inspired by international standards of corporate responsibility, an assessment was carried out which also involved the Telecom Italia Group. The Group's compliance rating, according to the SIRF standard, assessed by an independent company on a five-point scale (inadequate, limited, adequate, good, very good) was "very good".

Commitments for 2007

- Expansion of audits (request to commit to the principles of the Group's Code of Ethics and to provide a self-certification statement on the absence of prejudicial conditions, supplier qualification, Vendor Rating) for the suppliers of foreign subsidiaries (in particular Tim Partecipaçoes, Telecom Italia S.A. and Hansenet).
- Start of the ISO 9001 certification for the Purchasing Department of the Telecom Italia Group.
- Publication of the English version of the Supplier Portal along with the related documents.
- Application of the Guidelines for the eco-compatibility assessment of products and suppliers to a greater number of products.
- Extension of audits to a greater number of suppliers (in 2006 audit tests were performed on 43 suppliers) on initiatives adopted by suppliers on the Ethics and Sustainability issues together with follow-ups on the suppliers' commitments made during the first audit cycle.

Competitors

Strategy

The Telecom Italia Group is committed to the promotion of fair competition that is considered positive both for the Group's interests and those of all market operators, as well as customers and stakeholders in general. Furthermore Telecom Italia pursues excellence and competitiveness on the market, offering to its customers services characterised by quality and efficiency.

Organizations and associations

Co-operation with competitors at national level

In 2006 Telecom Italia has chaired DGTVì, the Association for the development of the Terrestrial Digital broadcasting in Italy to which Rai, Mediaset, Bordoni Foundation (FUB), Radio Television Association, Aeranti-Corallo and D-free also take part. In December FUB has officially declared its intention to leave the Association starting from February 2007.
Participation in the DGTVì enables the Media Group broadcasters to interact with the radio-television market players and to actively take part in the evolution process towards the Terrestrial Digital.
In the year the Association promoted several activities:

- Organisation of the second national conference on Terrestrial Digital, held in Naples on July 14-15. During the event, the establishment of a ministerial committee as supervisor of the digitalisation process in Italy has been announced.
- Implementation of two market surveys aimed at assessing the diffusion of decoders, both at national level and in the so-called "all digital"areas. The surveys have been commissioned to two distinct companies.

DGTVì is also actively taking part in the National Committee Digital Italy: such committee has been established after the Naples conference and sees the participation of the main players in the digitalisation process (Institutions, television broadcasters, cable and satellite operators, publishers, consumers). Its deploys its strategy and analysis activities through a Technical Committee articulated in nine thematic subgroups.
As at September 2006 over 4,300,000 decoders had been sold.

Telecom Italia adheres to the Radio and Television Federation (FRT) as a member of the Chairing Committee. Besides the national and satellite broadcasters, FRT gathers 150 local and radio broadcasters.

In concert with the involved operational departments, the Group continues to take part in the activities of Digital Environment, an Association promoted by FUB, gathering all the ICT players in the Terrestrial Digital sector. The Association aims at the identification of appropriate solutions to harmonise the interactivity development of Digital TV in terms of user services and applications. In the second half of 2006 the Association undertook no initiatives also because of new sector regulations changing the reference framework.

The membership of the Group, as founder, to the High Definition Forum (HDF) is being formalised. Promoted by FUB and established on September 19, the HD Forum has as its main goal the promotion and spread in Italy of high-definition. Founders are Eutelsat, Fastweb, FUB, IDS Multimedia, Sony Italia, ST Microelectronics, Telsey and Mediaset.

The Group membership has been promoted in agreement with the involved operational departments (Television and Rosso Alice) and offers the following advantages:
– constant updating on competitor activities concerning high-definition (in particular Sky, Mediaset and Fastweb);
– greater influence in promoting initiatives pertaining to standardisation or regulations.

Since 2002 Telecom Italia Media is a shareholder of Auditel with a 3.33% share, and has one representative in the Board of Directors and one in the Technical Committee. Auditel is the only subject, in terms of audience rating, recognised in Italy also by advertising companies who – on the basis of Auditel data – price advertisements on single TV channels.

Telecom Italia is involved in the management of association relationship, co-ordination of lobbying and representation activities with Confindustria and its Associations.
These initiatives, involving in some cases joint actions with competitors, consist both at national and local level, of actions and meetings relative to the development of business and safeguarding the corporate interests on the economic, legislative, trade unions and labour themes.
The Group is a member of 99 territorial Associations and of the following Federations/National partner organizations: Confindustria Servizi Innovativi, Asstel, Assoelettrica and Assografici.

Co-operation with competitors at international level

- BRT (Brussels Round Table which gathers various European TLC and manufacturing companies, is established to maintain a constant dialogue with European Institutions on significant themes concerning the ICT sector at Community level, in particular concerning regulations.
- ETNO (European Telecommunications Network Operators' Association) is the largest continental sector Association. Among its goals there is the development of a competitive and efficient European telecommunication market, to be achieved through co-ordination among operators and dialogue with the Institutions. Telecom Italia is a member of the Executive Board and chairs the working groups "Sustainability" and "Frequency management".
- GSME (GSM Europe) is an Association gathering the European mobile operators. One of its objectives is the development of the European mobile market, paying special attention to the market regulations aspect. Telecom Italia takes part in the *Strategy Forum* and in the work groups "Regulatory"," Mobile content", "Frequency" and "Health and environment".
- EIF (European Internet Foundation) gathers members of the European Parliament, TLC manufacturers and operators, software providers, ISPs and content providers. The Association aims at creating, within the European Parliament and among the various communications operators represented in Brussels, a favourable environment for fast development of the Internet, broadband, convergence and multimedia technologies and services, benefiting the final consumer;
- ERT (European Round Table of Industrialists) is a forum gathering about 45 leaders of European industry for the purpose of promoting competitiveness and European economy growth;
- ESF (European Services Forum) includes the European operators in the services sector and aims at promoting the interests of the European services industry and the liberalization of the services sector worldwide in the framework of the GATS 2000 negotiations;
- EABC (European American Business Council) is an Association headquartered in Washington and Brussels whose aim is supporting and facilitating transatlantic dialogue on

the most significant development issues concerning industrial sectors strategic both for EU and USA.

- BRUEGEL (Brussels European and Global Economic Laboratory) is an European Study Center established on January 18, 2005 on the basis of joint collaboration among the Governments of the European Union and the main business players of the continent. It is dedicated to the analysis of international economy, development of chief industrial sectors and role of EU in the global economic context.
- ETP (European Telecommunication Platform) unites European Telecommunications and manufacturing companies for the purpose of promoting and discussing common issues relative to electronic communications.
- ITU (International Telecommunications Union) is an UN agency and aims at promoting co-operation between Governments and private sector on international technical standards, on operational procedures for wireless services and development programs for telecommunication infrastructures in developing countries. Adhesion to ITU as a representative of the private sector enables the Group to take part in the thematic Study Groups and Project Groups in the sectors ITU-Telecommunication Standardization (ITU-T) and ITU-Radiocommunications (ITU-R). Within the sector ITU-Development (ITU-D), Telecom Italia chairs the Group on “Question 10-2/1: Regulation for licensing and authorization of converging services”.
- BIAC (Business and Industry Advisory Committee) represents industrial associations of OECD countries and is a preferential channel for dialogue with OECD (who has contacts with governments only).

Activities regarding competition

In the first few months of 2006 the guidelines relative to an "antitrust compliance programme" have been defined. The program consists of multilevel information and training initiatives and aims at spreading within the Group the correct cultural approach to the antitrust regulation, as well as awareness that competition is not a threat but, on the contrary, an essential asset for business activities.

Substantial changes in Telecom Italia organisation chart occurred in the second half of 2006 and in January 2007, prompting a phase of analysis extended to all Group processes and activities having a potential antitrust impact. We are now reviewing and completing such analysis.

With Resolution no. 587/06/CONS of September 27, 2006 a task force aimed at studying the technical/economic aspects and the related regulation evolution of the re-organizational process of Telecom Italia network has been established within AGCOM. The technical task force, in which Telecom Italia takes part, is committed to the pre-analysis of the technical/economic aspects and of implications and perspectives – also in terms of regulatory evolution – of a possible break-up process related to Telecom Italia access network, as well as of the possible development of the Next Generation Network.

Institutions

The contribution of the Group to the stakeholder "Institutions" is reported below.

TELECOM ITALIA GROUP						
	Financial Year 2006			Financial Year 2005		
(millions of euro)	Total	Italy	Abroad	Total	Italy	Abroad
Social security and pensions	796	720	76	807	750	57
Income taxes	2,519	2,519	0	2,395	2,395	0
Indirect taxes	141	95	46	141	93	48
TLC license fees	235	53	182	181	39	142
Total	3,691	3,387	304	3,524	3,277	247

Strategy

The Telecom Italia Group is determined to continue its collaborative and transparent relationship with the European Union and national institutions in view of facilitating dialogue on specific issues.

Relationship

The legislation activities of Central National Institutions (Parliament, Government) and local Institutions (Regions, Local Entities and independent sector Authorities) are constantly monitored by the Telecom Italia Group.
The approval procedure of legislation concerning sector issues is therefore constantly monitored. When requested, the Group also provides technical support to the competent institutions (Parliamentary Commissions, Ministry of Communications and other Ministries, local Authorities) in drafting the legislation for the relative areas of interest.

The Group subsidiaries and/or associated companies operating abroad directly interact, with the operational support of the parent company, with sector Authorities (Antitrust and Regulatory Authorities) and competent Institutions (Ministries of Communications, Parliamentary Committees) in the various countries, to represent and support the Group position and to ensure a correct competition dynamics in the related markets. Foreign companies also provide Institutions with support in the drafting of sector legislation, acting in observance of procedures adopted.

For the purpose of monitoring the activities with a significant impact on the Group, Telecom Italia interacts with the European Commission and its Regulatory Committees (for example the Communication Committee and Radio Spectrum Policy Group regarding spectrum management), the Council of Europe, the European Parliament and ERG (European Regulators Group).

National legislation

The laws of interest to the Group, both approved or under examination during 2006, are reported below:

Approved laws

- On June 25, 2006, the constitutional law changing the second part of the Constitution, passed by the Berlusconi Government, underwent a confirmative referendum with negative outcome thus restoring the former constitutional reform of 2001. The “communication regulation” is therefore currently included in concurrent legislation matter with legislation control entrusted to the Regions, except for the determination of fundamental principles still a competence of the State. Within the framework of the Constitutional Bill proposed by the former Berlusconi government, Telecom Italia had supported a change then included in the final version of the law undergoing the referendum and meant to bring electronic communications regulation back among the issues subject to exclusive State legislation; this would have solved several critical points of the former 2001 reform. In the Group view, following the referendum outcome, the critical points of the former reform– i.e. the ”communication regulation” included in concurrent legislation matter – still remain.
- Law 38/2006 on the fight against paedophilia, imposing the obligation on suppliers of electronic communication services to cooperate with a central institute at the Ministry of the Interior to counteract this phenomenon.
- Legislative decree no. 140/2006 adopting in national legislation the Directive 48/2004 on the protection of intellectual property rights and the fight to counterfeiting and piracy phenomena. The Decree includes measures to counteract the violation of intellectual property rights. The initial draft equated, in terms of responsibility and of the consequent sanctions, the perpetrator of the infringement and the intermediary whose services are used by third parties to infringe intellectual property rights; this critical provision has been subsequently attenuated by the inclusion of a reference to the provisions of Legislative Decree 70/2003 on e-commerce, excluding any responsibility of the Service Provider.
- Law 51/2006 converting Decree Law 273/2005 concerning the definition and the extension of terms related to preceding legislative provisions; among other things it includes the extension from 2006 to 2008 of the deadline for the complete switchover of the television system on terrestrial frequencies from analogical to digital broadcasting.
- Law 296/2006 (2007 Financial Act) includes, among many provisions, the reduction of the tax burden for businesses, implemented by reducing IRAP (Regional tax on production) on labour cost; the mechanism excludes several subjects among which businesses operating on licence and fee in a series of sectors including telecommunications. A further provision affecting the sector business is the equalization of fiscal deductibility on a single rate, equal to. 80% of business expenditure for electronic communication services. A Fund has been moreover established at the Ministry of Communications for conversion to digital, aimed at the diffusion of digital TV technology to the whole national territory; a tax allowance on individual income tax has been provided for replacement of television sets in view of conversion from analogical television to digital; appropriations have been provided for executive interventions by the Ministry of Communications to be implemented through Infratel in support of the new processes implementing broadband infrastructure in Southern Italy.

Laws under examination

- Bill including provisions for the regulation of the television sector during the conversion to digital technology.
  In October the Council of Ministers has approved and submitted to the Chamber of Deputies the so-called “Gentiloni bill” on television reform. The bill is a legislative initiative from government aimed at implementing in national legislation the EU recommendations, in the framework of the infringement procedure against Italy initiated in July 2006 disputing

some aspects of the "Gasparri law" and of the Consolidating Act with respect to European regulations. The bill provisions mainly concern: conversion in advance to digital system of one network for operators owning 3 networks (within 15 months since the approval of the law); a 20% ceiling on broadcasting capacity for each content provider in the digital television system. The stricter limit on financial resource collection (included in the radiotelevision consolidating act), concerning businesses with revenues exceeding 40% in the electronic communication sector has been replaced with the prohibition to these same businesses to merge with dominant television broadcasters.

- Bill delegating the Government on review of regulation concerning ownership and marketing of transmission rights, both on television and on other electronic networks, of football events.
  The bill approved by the Council of Ministers in July and submitted to the Chamber of Deputies institutes a new system based on the centralised sale of television rights by the subject in charge of organising sporting competitions. This regulation includes all existing platforms: satellite digital, terrestrial digital, cable, UMTS, broadband, encoded terrestrial analogical.
- Bill on wire-tapping. The bill has been approved by the Council of Ministers in August and is currently under examination at the Chamber of Deputies. It redesigns the subjects mainly concerning the duration of wiretapping, the publication of investigation reports and the related sanction regulation.
- Bill on collective compensation safeguarding consumers. The government bill approved in July by the Council of Ministers and being examined by the Chamber of Deputies, regulates the "class action" mechanism.
- Draft resolution concerning the new regulation on the transfer of 40% broadcasting capacity. This draft has been approved by AGCOM on November 23 and the Authority intends to submit it to public consultation though no decision has been taken yet. The obligation to the 40% transfer and the related regulation concern Rai, Mediaset and TI Media. The latter is also included among subjects having the requisites to access the 40% capacity (minimum coverage not being achieved as provided by Law 249/97, equal to 80% of the territory including all provincial chief towns). Such right is however limited to area not supplied by digital plants. The most important news are:
  - all operators owning more than one analogical concessions are obliged to transfer capacity with no exception;
  - access to the reserve is granted to content providers not having any control or connection relation with the operator obliged to reserve, satellite and cable operators and both local and national television broadcasters not reaching the territory minimum coverage.

  The Regulation also establishes the numbering to be applied to the automatic ordering for LCN channels (Logical Channel Numbering) offered on the terrestrial digital platform.

European legislation

The Group activity focused on the following issues:

- analysis of EU communications about the revision of the Regulatory Framework on Electronic Communications and participation in the consultation based on a communication, a working document of the Commission's services and an impact assessment illustrating the most significant strategic alternatives considered;

- analysis of the review proposal regarding the Recommendation about significant markets that are liable to the imposition of ex ante regulatory obligations and participation in the related consultation launched by the European Commission. The Commission review proposal, published in parallel with the Framework review documentation, involves a reduction from 18 to 12 of the reference markets. The new Recommendation would remove in particular the retail voice market and the retail leased line market. The Group contribution emphasized support to the proposal involving a reduction of the number of markets liable to the imposition of ex-ante obligations.

- review of the “Television Without Frontier” Directive through a Directive proposal by the European Commission, currently under discussion at the European Parliament and EU Council, that distinguishes between linear (traditional television) and non linear (on demand audiovisual contents) services extending some television provisions to on demand services.
- adoption process of EU recommendations on collecting societies;
- adoption by the European Commission of the proposal of a directive on retention of data processed through electronic communication services;
- adoption process of the EU directive on domestic service market (Service Directive);
- adoption process and approval procedure of the EU Directive on penalties for intellectual property rights infringement.;
- proposal for a regulation of international roaming and adoption of the same regulation by the European Parliament and EU Council;
- analysis of the activity of European bodies in charge of the implementation of the regulation framework (Sector committee– Cocom – and European Regulators Group– ERG).

International legislation

The Group activity focused on the following issues:

- analysis of the regulatory development in countries of interest and support to the Group companies abroad in the management of relations with Regulatory and Antitrust Authorities and in the definition of regulatory strategies, consistently with the Group positioning in Italy; participation in the national and European public consultations and to work groups at the various Regulatory Authorities;
- participation to both national and European public consultations and to the working groups within the various Regulators;
- participation to Merger & Acquisition processes and to foreign companies disposal procedures in strict co-operation with the relevant central departments; drafting of the related antirust and regulatory notifications;
- control of regulatory compliance of foreign subsidiaries and safeguard of the related licences.

The environment

Strategy

It is based on the following principles:

- to improve the efficiency of both energy and natural resources;
- to minimise the negative environmental impacts and maximise the positive ones;
- to spread the culture of a correct approach to environmental issues;
- to ensure the commitment towards an ever-increasing improvement of environmental performances;
- to adopt purchase policies considering environmental issues.

Environmental performance indicators

The environmental performance data shown below refer to:

- waste
- water
- energy
- atmospheric, electromagnetic and acoustic emissions

The data reported have been calculated on the basis of management data appropriately reclassified.

Waste

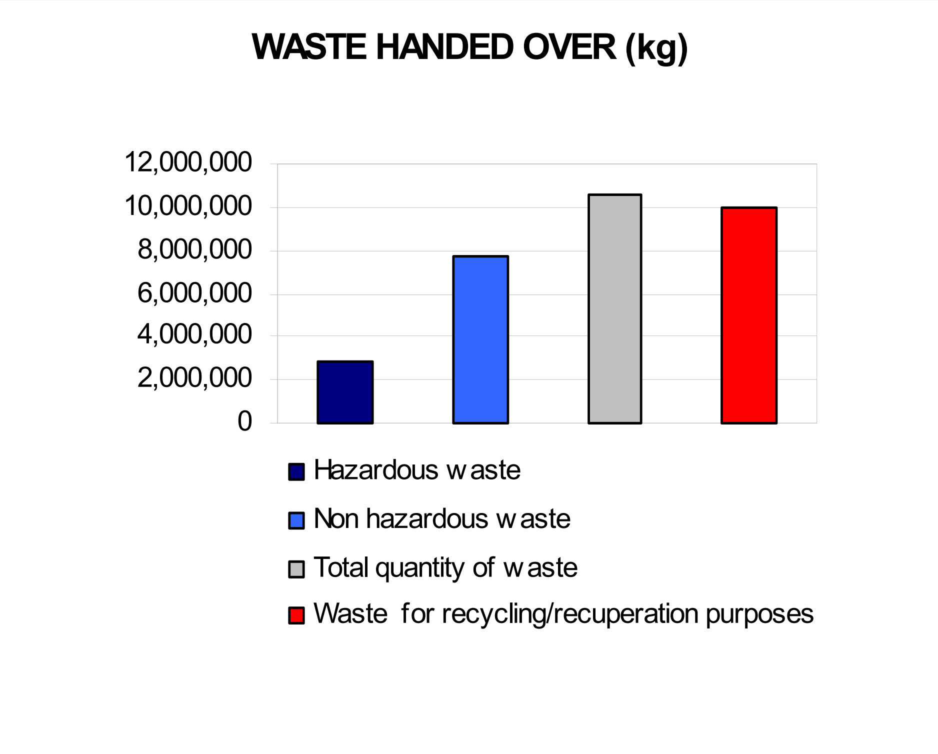
Data shown in the table below refer to the quantity of waste handed over [(1)] to carriers and booked in compliance with the related law [(2)].

WASTE HANDED OVER				
		Telecom Italia S.p.A 2006	**Change %**	
			2006 vs 2005	**2006 vs 2004**
		(*)(**)		
Hazardous waste	**kg**	**2,838,949**	**3.99%**	**-36.62%**
Non hazardous waste	**kg**	**7,715,179**	**-18.32%**	**-5.69%**
Total quantity of waste	**kg**	**10,554,128**	**-13.32%**	**-16.64%**
Waste for recycling/recuperation purposes	**kg**	**10,029,708**	**-3.48%**	**0.08%**
Ratio between recycled/recuperated waste and total waste		**95.03%**	**9.68%**	**15.87%**

1 The term "handed over" refers to waste delivered to carriers and destined to be recuperated, recycled or destroyed

2 Slight variances as compared to statements at December 31 might occur up to March 30 as data are derived from waste accounting books that are only consolidated once the real weight has been verified at destination. Such information is provided to the waste producer within three months from delivery, hence data variances are possible.

(*) Tables referring to Telecom Italia S.p.A. include TIM Italia S.p.A., merged by incorporation with effect from March 1, 2006. Data pertaining to the preceding years have been recalculated for homogeneous comparison purposes.
(**) Data do not include removed telephone poles, which are reported in the appropriate table.



Non hazardous waste production appears reduced as compared to 2005, due to the decrease of components mainly included in such waste (equipment, packaging and metals) depending on operational requirements of activities.
The last quarter saw an increase of waste handed over to authorised carriers for recycling and disposal also due to a new contract for waste management signed in September 2006. The continuation of such trend is expected in 2007.
As far as hazardous waste, the quantities handed over to carriers as compared to 2005 appear substantially stable while the significant market decrease as compared to 2004 is essentially due to the lower quantity of batteries and of waste containing hazardous materials.
The ratio between recuperated/recycled waste and total waste handed over is affected by the related nature and by ever-increasing interaction with companies. The sustained high-level of such indicator shows the efficiency of the process.

WASTE HANDED OVER

		Group 2006	Waste breakdown by BU (%)		
			Operations and other activities (*)	Media	Olivetti
	Kg	14,706,881	88.52%	0.23 %	11.24%

(*) In the Environment chapter tables, the scope relative to Operations and other activities include Wireline, Domestic Mobile, Mobile Brasil, Central Departments and Entel Bolivia Group.

Waste Management

Computerised waste accounting books, that expedite the management of waste produced by Telecom Italia and also allow regular monitoring, have been updated in 2006 to implement changes brought forth by the recent Legislative Decree 152/06.
The operational procedures on waste management of Telecom Italia and Telecom Italia Sparkle have been updated to conform to the new organisational structure.
Office differentiated waste collection activity has been increased and has involved over 30 offices in Rome and Milan. In 2007 such project will concern other national offices. Paper, glass, plastic, aluminium and wood separately collected will be handed over to consortiums specialised in recycle/recuperation. An information campaign has been launched on this issue to raise staff awareness and involve them.
In Latin America, Tim Brasil premises and shops have been equipped with containers appropriate to collect used batteries.
The organisational, logistic and economic impacts of Legislative Decree 151/05 - dealing with the management of waste from electrical and electronic equipment (WEEE) - on Telecom Italia have been thoroughly investigated. Telecom Italia is concerned by the above mentioned Legislative Decree as both an indirect and sometimes direct producer of such waste.
From this viewpoint and considering the need to manage mobile terminals handed in by employees upon periodic renewals of service equipment, a project has been launched involving the withdrawal of technically obsolete equipment. Mobile terminals are either sold to be reused or undergo recuperation, particularly concerning substances representing potential environmental and social risks (mercury, lead, cadmium, chrome, and tantalum).

Recuperation of wooden telephone poles

In compliance with the Agreement Program on wooden telephone poles, signed in 2003 with the Ministry of the Environment, the Ministry of Production Activities, the Conference of State and Regions and the recuperation company, in 2006 the Group continued the recovery of the poles. Details are shown in the table below.

TELEPHONE POLES REMOVED

	Telecom Italia S.p.A. 2006	Change % 2006 vs 2005	2006 vs 2004
no.	190,124	-7.49%	15.23%

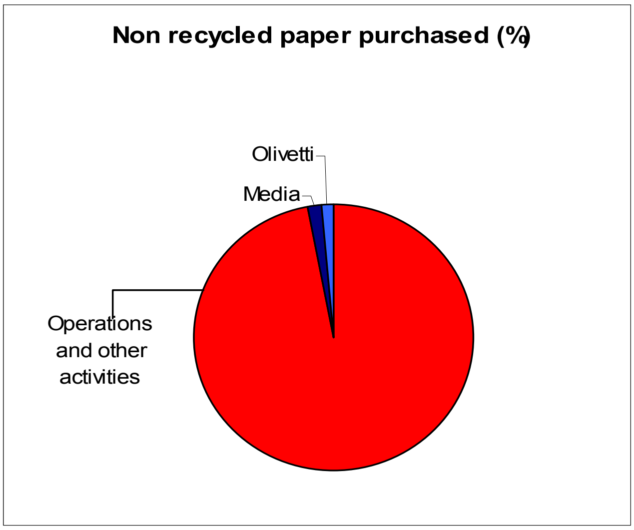
The number of poles removed with respect to 2005 is decreased, showing the failed achievement of the objective set out in the Agreement Program for 2006. The failure was mostly due to the lack of available connection technologies alternative to wooden poles, compared to program forecast.
The recuperation activity will continue in 2007 in line with the engagements undertaken.

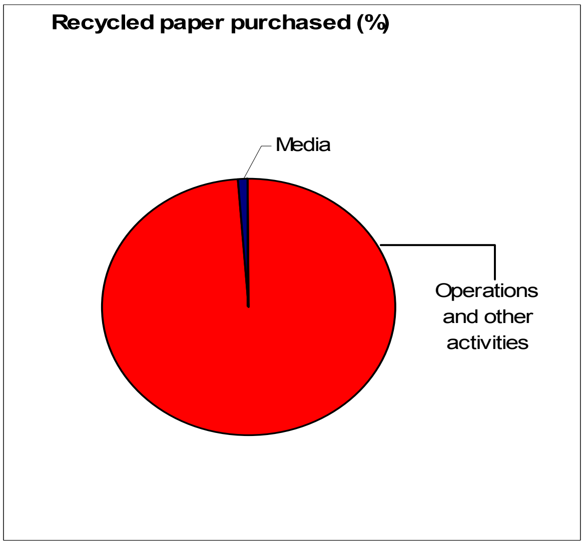
Paper

Paper consumption breakdown by Business Unit and related incidences on Group's total volume are reported below .

PAPER

		Group 2006	Paper Breakdown by BU (%)		
			Operations and other activities	Media	Olivetti
Non recycled paper purchased	kg	1,119,712	96.97%	1.74%	1.28%
Recycled paper purchased	kg	25,233	98.93%	1.07%	-
Total paper purchased	kg	1,144,945	97.01%	1.73%	1.26%





Paper consumption is in line with 2005 data.
To improve the trend an awareness campaign concerning all employees of Italian offices has been launched, in order to promote a reduction of paper consumption and use of recycled paper instead of new one.
TIM Brasil adopted specific procedures to reduce paper consumption in offices (two-sided print, shared printers).

■ Water

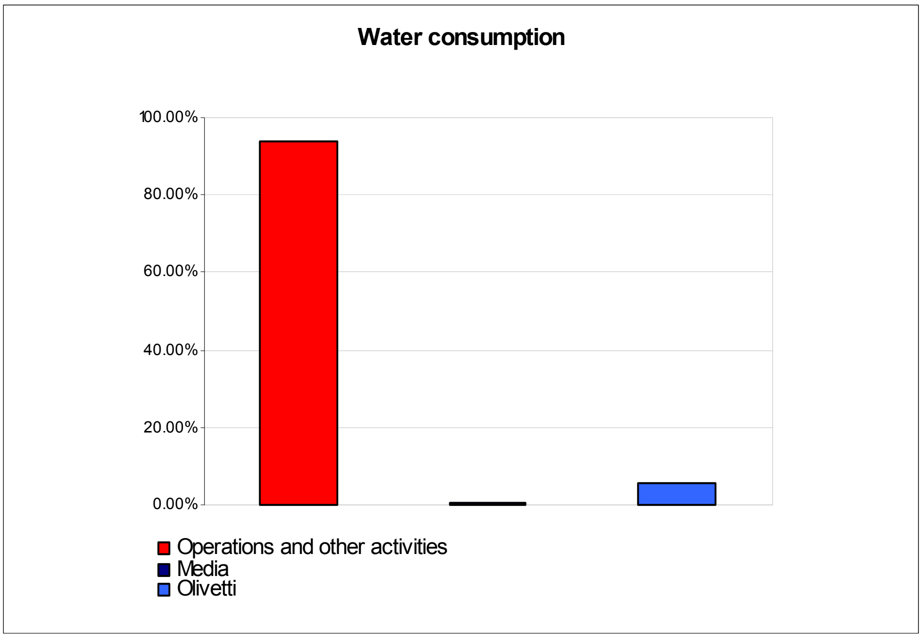
Water consumption data relative to Telecom Italia S.p.A. and the Group are reported below.

WATER CONSUMPTION

	Telecom Italia SpA 2006	Change % 2006 vs 2005	Change % 2006 vs 2004
m^3	4,220,492	-11.38%	-24.04%

WATER CONSUMPTION

	Group 2006	Water breakdown by BU (%) Operations and other activities	Water breakdown by BU (%) Media	Water breakdown by BU (%) Olivetti
m^3	4,856,550	93.98%	0.42%	5.60%



Decreasing trends are the result of special monitoring of water consumption carried out on the most staffed premises of Telecom Italia S.p.A..

The rationalisation of office spaces had led to the closure of over 400 premises, thus contributing to the decrease of water consumption.
In Southern America TIM Brasil has promoted several water consumption rationalisation activities, among which the installation of timers on office taps, the reuse of rainwater, the collection and reuse of waste water.

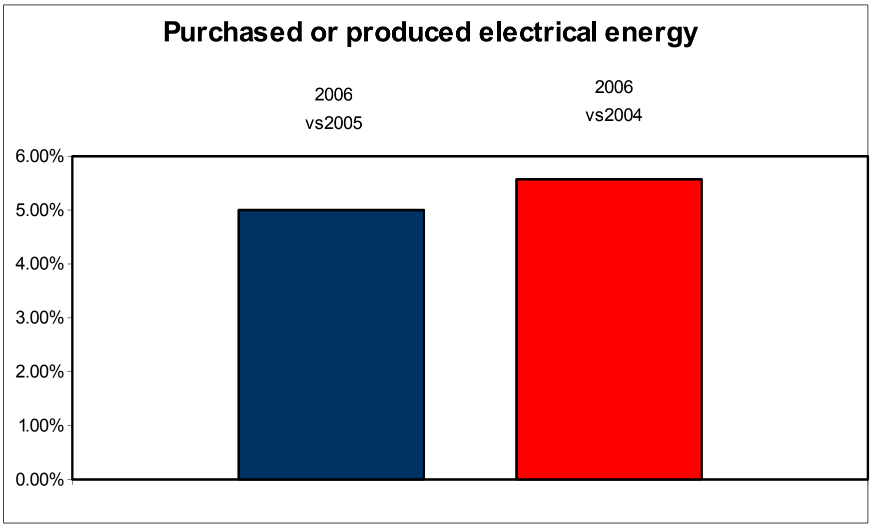
Energy

Electricity consumption data relative to Telecom Italia S.p.A. and the Group are reported below.

Electricity

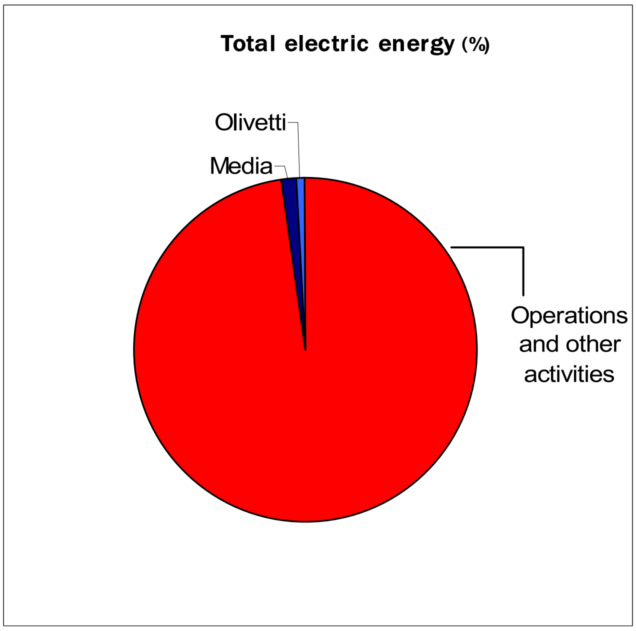
PURCHASED OR PRODUCED ELECTRICAL ENERGY

		Telecom Italia S.p.A 2006	Change %	
			2006 vs 2005	2006 vs 2004
Electricity from non-renewable or mixed energy sources	kWh	2,076,938,000	7.95%	12.08%
Electricity from renewable energy sources	kWh	30,000,000	-63.55%	-78.96%
Total purchased or produced electricity	kWh	2,106,938,000	5.02%	5.57%



PURCHASED OR PRODUCED ENERGY

		Group 2006	Electricity breakdown by BU (%)		
			Operations and other activities	Media	Olivetti
	kWh	2,571,429,921	97.87%	1.27%	0.86%



The increasing trend characterising electrical energy consumptions of Telecom Italia S.p.A. stems from growing energy requirements in the TLC sector, essentially due to data traffic increase and new services being offered. In this regard Telecom Italia is focusing on energy efficiency: as detailed below, the eco-efficiency indicator shows an approximately 60% improvement

The decrease of energy certified as purchased from renewable sources is due to lower import band (energy imports from abroad) acquisitions in 2006 following the increase of customers on the free market in Italy. Approximately 20% of the energy comes from renewable hydroelectric and geothermic sources, solar energy plants and wind-farms.
The Group interest in the most promising technologies in the field of alternative energy sources is also showed by the following initiatives:

- installation of fuel cells in five locations (Trentino Alto Adige, Piemonte, Sicilia). Through new storage technologies, these plants use hydrogen as energetic *back up* for powering mobile telephony transmission equipment;
- implementation of four photovoltaic plants, each having 30 kW nominal power, as back-up of as many telephone exchanges;

- assessment of potential of innovative self-routing concentration for company purposes, enabling an increase of electric yield up to 35% as well as a reduction of costs for plants and spaces occupied.

Energetic efficiency in the industrial consumptions of the Technology has been improved through the following initiatives:

- replacement of energy stations with lower conversion yield;
- installation of new Free Cooling plants;
- replacement, rationalisation and optimisation of conditioning plants;
- compacting of commutation modules;
- switch-off of obsolete plants and equipment.

TIM Brasil implemented several projects to rationalise electrical energy consumption, too:

- automatic lighting and conditioning;
- electrical circuit sectioning;
- installation of presence sensors;
- replacement of incandescence lamps with fluorescence ones.

Eco-efficiency indicator

The formulation of this indicator is meant to monitor and improve the Group's energetic efficiency. It is the ratio between the service offered to customers (simplified to the quantity of transmitted bits) and the related environmental impact (proportional to energy consumption).
We considered the voice and traffic data, both from fixed and mobile networks, as well as industrial (conditioning of plants, network operation) and civilian energetic consumptions (i.e. office heating, vehicle fuel consumption, office electricity consumption).
The evidence of an eco-efficiency improvement trend of TLC processes/services is given by the analysis of the indicator that measures transmitted bits on energy consumption. The 2006 improvement compared to 2005 is mostly due to the increased number of transmitted bits deriving especially from the increase of new broadband lines and a larger use of the existing ones. Our commitment continues with the definition of an improvement goal for 2007 published on our website www.telecomitalia.it, in the Sustainability section.

Year	kBit/kWh	Bit/Joule
2003	492,082	137
2004	777,248	216
2005	1,311,676	364
2006	2,144,178	596 (*)

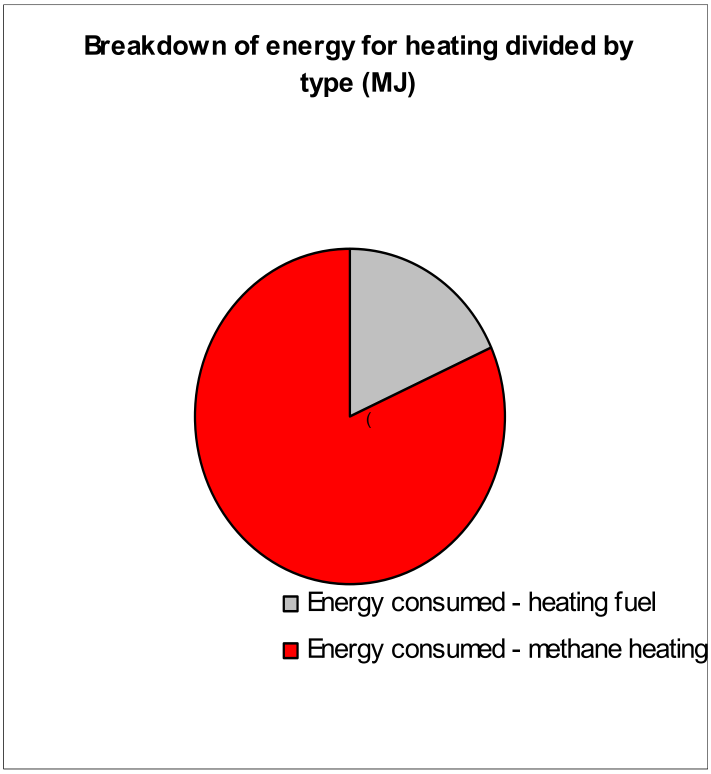
(*) 2006 data has been calculated on the basis of management data (period January/September) and based on estimates of traffic and consumption volumes (period October/December)

Concerning energetic efficiency, the European Union, through the Joint Research Centre (JRC) and with the involvement of the most important players of the sector, has promoted a Code of Conduct (CoC) aimed at minimising energy consumption for broadband connection services. The CoC has been established also thanks to Telecom Italia coordination and is in force since January 2007. It defines power management methods and technical solutions for the containment of energy consumption concerning both customers and providers, without compromising the technological development and the quality of services.

Adhesion to CoC is voluntary and is also promoted by ETNO as it implies to undertake engagements in line with ETNO Sustainability Charter and ETNO Energy Policy. Telecom Italia is currently evaluating adhesion procedures to CoC.

Heating fuels

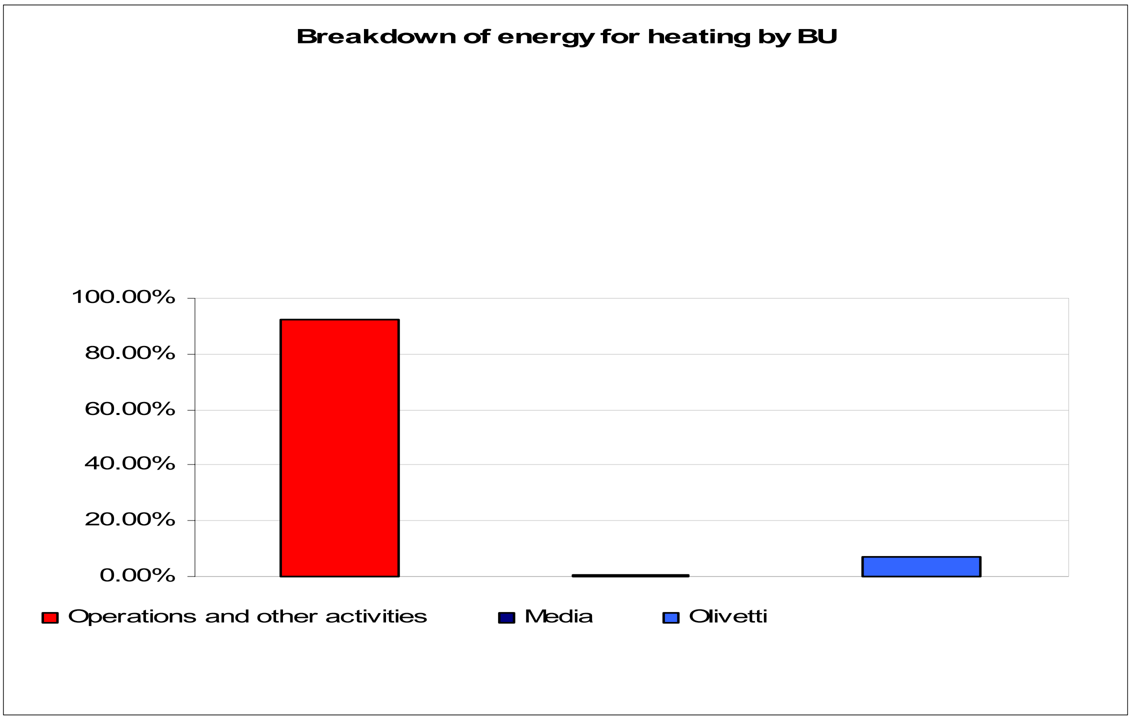
ENERGY CONSUMPTION FOR HEATING SYSTEMS				
			Change %	
		Telecom Italia S.p.A 2006		
			2006 vs 2005	2006 vs 2004
Energy consumed - heating fuel	MJ	161,740,466	-2.81%	-8.06%
Energy consumed - methane heating	MJ	726,164,586	-4.72%	-4.30%
Total energy consumed for heating	MJ	887,905,052	-4.37%	-5.01%



Heating consumption data show a remarkable reduction due to the optimisation of office space. The fuel mix used reflects the company's commitment on the improvement and modernisation of heating systems, through the replacement of obsolete diesel oil heating systems with methane ones.

ENERGY CONSUMPTION FOR HEATING SYSTEMS

		Group 2006	Energy breakdown by BU (%)		
			Operations and other activities	Media	Olivetti
	MJ	1,002,395,510	92.51%	0.43%	7.06%



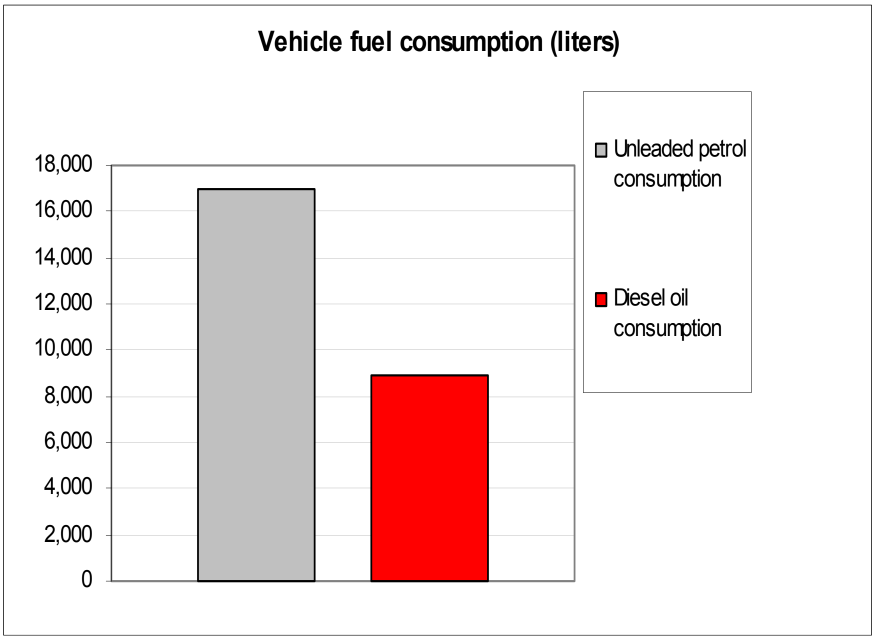
Vehicle fuels

VEHICLE FUEL CONSUMPTION

		Telecom Italia S.p.A. 2006	Change %	
			2006 vs 2005	2006 vs 2004
Unleaded petrol consumption	l	16,985,560	-10.28%	-13.27%
Diesel oil consumption	l	8,949,711	7.93%	-4.10%
Total vehicle fuel consumption (*)	MJ	865,767,950	-4.33%	-10.11%

* Represents the conversion in MJ of unleaded petrol and diesel oil consumption expressed in liters.

Total consumption data in megajoule show decreased vehicle consumptions consistently with the decrease of distance travelled (see table below), thanks to corporate rationalisation policies on vehicle use.
The increase of diesel oil consumption and the reduction of petrol consumption are due to a partial fleet renewal in favour of diesel vehicles.
LPG consumptions have not been included in the above table as not remarkable.



NUMBER OF VEHICLES AND DISTANCE TRAVELLED

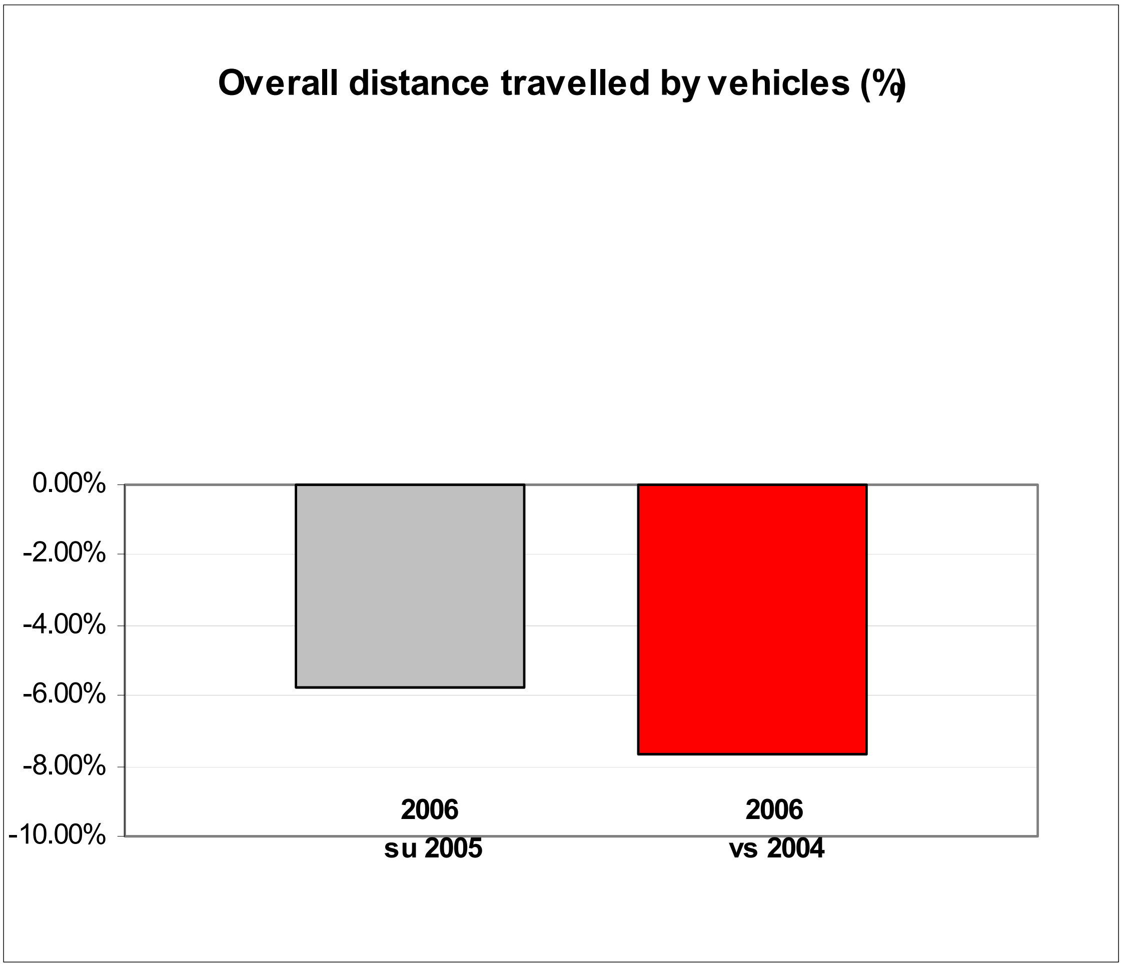
		Telecom Italia S.p.A. 2006	Change % 2006 vs 2005	Change % 2006 vs 2004
Total number of vehicles	no.	22,133	-2.64%	0.98%
Number of low-emitting vehicles (*)	no.	21,775	-3.80%	-0.36%
Overall distance travelled by vehicles	km	314,338,775	-5.80%	-7.65%

(*) Unleaded petrol vehicles, eco-diesel, bludiesel, LPG (compliant in Europe to the Euro4 standard or higher), electrical vehicles or vehicles using other fuels with comparable or lower emissions.

NUMBER OF VEHICLE AND DISTANCE TRAVELLED

		Group 2006	Distance travelled breakdown by BU (%)		
			Operations and other activities	Media	Olivetti
Total number of vehicles	no.	24,309	98.52%	0.44%	1.04%
Overall distance travelled by vehicles	km	356,619,773	97.60%	0.63%	1.77%

(*) Data shown are related to distances travelled and number of all the Group's vehicles (industrial, commercial, granted in use to senior/middle managers), both through leasing and ownership. Concerning Entel Bolivia and TIM Partecipaçoes, vehicles owned by the sales force and the related distances travelled are included only in the case of significant use for corporate purposes and when characterised by continuity of use.

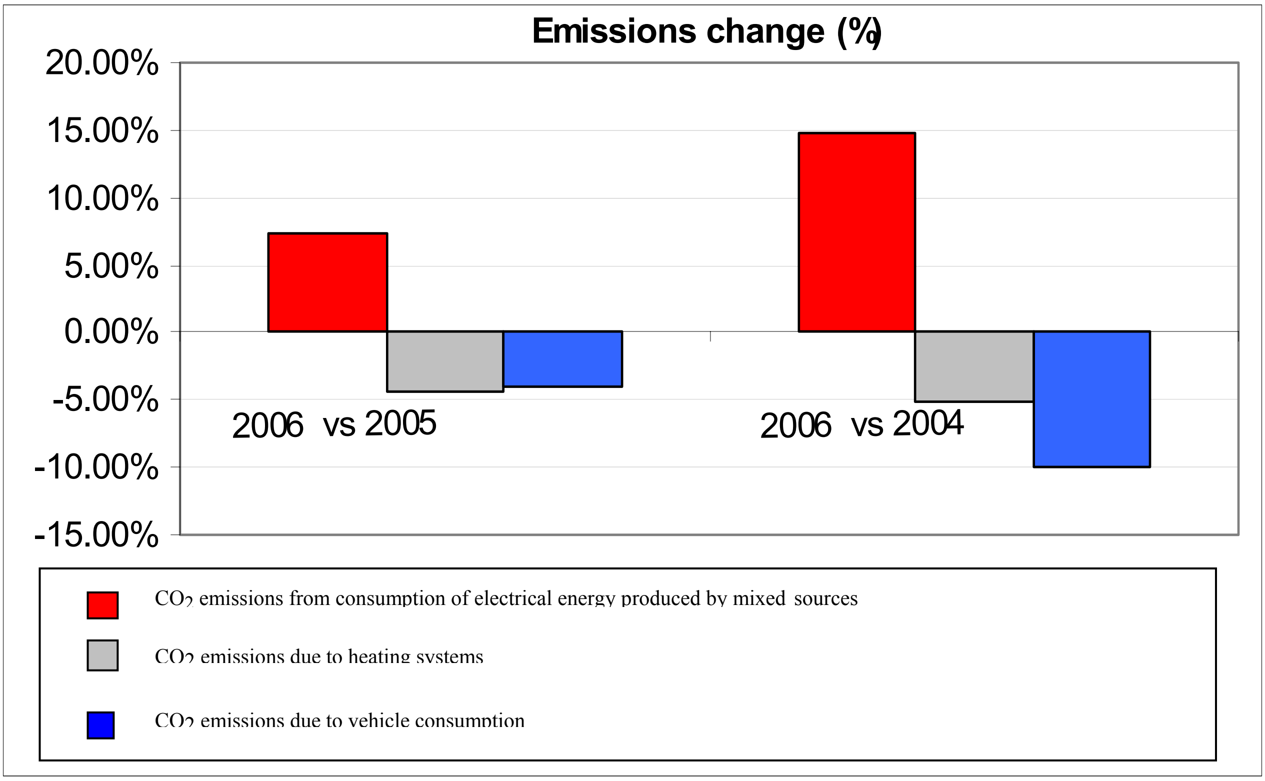


Atmospheric emissions

The only significant concern of Telecom Italia as to atmospheric emissions is carbon dioxide (CO_2). These are divided by indirect emissions (deriving from electrical energy used to power telephone and data networks and premises) and direct emissions (fuel used for heating and vehicles).

ATMOSPHERIC EMISSIONS

		Telecom Italia S.p.A. 2006	Change %	
			2006 vs 2005	2006 vs 2004
CO_2 emissions from consumption of electrical energy produced by mixed sources	Kg	908,907,531	7.31%	14.74%
CO_2 emissions due to heating systems	Kg	59,107,598	-4.33%	-5.10%
CO_2 emissions due to vehicle consumption	Kg	61,693,999	-3.98%	-9.92%
Total CO_2 emissions	Kg	1,029,709,127	5.83%	11.57%



ATMOSPHERIC EMISSIONS		Group 2006	Emissions breakdown by BU (%)		
			Operations and other activities	Media	Olivetti
CO_2 emissions from consumption of electrical energy produced by mixed sources	Kg	977,273,841	98.24%	1.46%	0.30%
CO_2 emissions due to heating systems	Kg	66,643,908	92.56%	0.42%	7.02%
CO_2 emissions due to vehicle consumption	Kg	94,220,405	98.05%	0.55%	1.40%
Total CO_2 emissions	Kg	1,138,138,153	97.89%	1.32%	0.78%

In 2006, notwithstanding the reduced emission consumption trend concerning vehicles and heating, the increased consumption of electrical energy from non renewable sources has caused an increase of CO_2 emissions as compared to 2005.

CO_2 emissions have been calculated according to UNEP (The GHG Indicator: United Nations Environment Programme Guidelines for Calculating GreenHouse Gas Emissions for Businesses and Non-Commercial Organizations) and ETNO criteria within the framework of the "Climate Change" project.
Data pertaining to emissions from electrical energy consumption have been derived from parameters published by Enel in its Environmental Report 2005.

ATMOSPHERIC EMISSIONS		Group 2006	Emissions breakdown by BU (%)		
			Operations and other activities	Media	Olivetti
CO_2 emissions from consumption of electrical energy produced by mixed sources	Kg	977,273,841	98.24%	1.46%	0.30%
CO_2 emissions due to heating systems	Kg	66,643,908	92.56%	0.42%	7.02%
CO2 emissions due to vehicle consumption	Kg	94,220,405	98.05%	0.55%	1.40%
Total CO_2 emissions	Kg	1,138,138,153	97.89%	1.32%	0.78%

Climate change

Scientific evidence supports the causal relationship between greenhouse gas emissions and climate change, hence the need to reduce CO_2 emissions, also involving significant economic repercussions.
The TLC sector may play a significant role both by developing technologies and prompting behaviours helping to reduce greenhouse gas. The Telecom Italia Group is well aware of this.

The Group approach is based on two different action levels: to reduce its own greenhouse gas emission on one side, to favour and support the dematerialisation of assets and services on the other side.

As far as the reduction of the Group's greenhouse gases, the following initiatives were launched in 2006:

- a pluriennial modernisation program, designed to renew vehicles and heating systems through technological choices having lower environmental impact, has been launched in view of reducing direct emissions. In 2006 1,600 Euro3 vehicles have been replaced with 1,500 Euro4 vehicles. Such vehicle renewal brought forth an approximate 30% reduction of CO_2 emissions that would have been produced by the replaced vehicles. We are also continuing to replace thermal plants fuelled by oil with methane-fuelled plants, allowing to reduce CO_2 emissions for the heating of buildings. The replacements implemented in 2006 achieved a CO_2 emission reduction equal to 800 tons.
  In the "Energy" and "Atmospheric emissions" paragraphs of this chapter the trends related to the consumption of fossil fuels and greenhouse gas emissions are reported;

- as compared to 2005, a 60% improvement of eco-efficiency has been achieved, with the related effects in terms of greehouse gas emissions reduction.

As far as asset and service dematerialisation, the Group provides products and services enabling to eliminate or reduce the greenhouse gas emissions caused by people and object displacement. Here are some examples[3]:

[3] According to estimates: 100 million audio conferences avoiding physical displacement would lead to save more than 2 million CO_2 tons; 10 million teleworkers, working just two days a week from home, would save approximately 11 million tons of CO_2; 10 million users receiving on-line invoices for telephone services, instead of traditional paper invoices, would made it possible to save approximately 11,000 tons of CO_2. Examples are purely indicative and the purpose is just to give a concrete idea of TLC service potential. They are based on projects that are audited by independent third parties, and are tested on a small scale by ETNO members within the framework of the initiative "Saving the climate @ the speed of light", developed together with WWF (www.etno.be/sustainability).

- Videoconference and audio conference services avoid the physical displacement of people.
- TLC services allow telework and the consequent reduction of house/office displacement of employees.
- Online invoicing and payments, besides allowing saving paper and consequently the energy related to production and transportation, eliminate displacements to make payment.
- Thanks to Telemedicine services (see the related paragraph in the "Community" chapter) the need for doctors and patients to meet is reduced, thus avoiding displacements and the related greenhouse gas emissions.
- By using information obtained from mobile terminals, Infomobility projects (see the related paragraph "Study and experimentation of innovative services" in the "Customers" chapter) allow to better manage traffic, thus reducing both travel time and CO_2 emissions.

The Group also takes part in the initiative launched by ETNO and by WWF "Saving the climate at the speed of light" - information & communication technology for CO_2 reductions. The initiative, supported by Margot Wallström, current Vice-President of the European Commission, is set out in two proposals:

✓ to demonstrate the concrete possibility to reduce CO_2 emissions through the application of ICT solutions, giving specific examples of applications developed by European TLC operators in co-operation with University centres and Research Institutes;

✓ to promote within the European Commission context the implementation of such solutions and their inclusion in EU strategies for sustainable development.

As far as the emission of substances depleting stratospheric ozone that protectively shields life on earth filtrating harmful UV radiation, starting from January 1st, 2009, the marketing of ozone-depleting substances (e.g. HCFC) for conditioning plant will be banned.
The Group is therefore taking steps to upgrade its plants using ozone-depleting gases (about 25,000 units, 90% with respect to the total plants). A gas compatible with ozone-protecting requirements has been successfully tested on a sample of about 100 conditioning plants.

Electromagnetic emissions

The commitment of Telecom Italia Group to the electromagnetic emission issue is substantiated by the following:

- careful and accurate management of plants along their whole life cycle, in observance of regulations in force and of internal standards of efficiency and security;
- use and continuous research of advanced technological tools for control and monitoring.

The most significant initiatives of the year are detailed below.

The SAR qualification (Specific Absorption Rate) for mobile terminals is applied to assure electromagnetic field levels lower than limits established by national and EU regulations. Controls on terminal Specific Absorption Rates, carried out by Telecom Italia laboratories, are meant to control manufacturers' assurances. In this regard the Group has fulfilled its commitments for 2006 (we qualified the 88% of mobile terminals [4]) and has defined a challenging goal for 2007 (see the Sustainability section of the Group website).

Concerning the electromagnetic emissions of Base Transceiver Stations (BTS), the goal to reduce, during maximum voice traffic periods, the power emitted by the GSM Base Transceiver Stations, thus reducing electromagnetic field intensity has been attained.

[4] The percentage refers to the total of mobile terminals of the most widespread and technologically innovative type.

The GSM standard involves as a matter of fact multiple voice codes: Full Rate (FR), requiring a radio resource for each conversation, Half Rate (HR) requiring one radio resource for two simultaneous conversations. The power emitted by radio transceivers is lower with the HR code but it requires a careful design of the network.
In this regard we have identified locations that are particularly significant in terms of emissions and have reduced BTS emissions using the Half-Rate code (instead of Full Rate). Our goal for 2007 (see the Sustainability section of the Group website), has been reformulated in view of the growing importance of UMTS technology. The basic consideration, in order to reduce magnetic field emissions, is that as the traffic carried by UMTS BTS increases, there is an augmentation in the power emitted and therefore a higher intensity of the electromagnetic field. Traffic carried being the same, if two radiofrequency carriers are used (additional reception/transmission frequency), instead of a single carrier, the total power emitted by the Station is lower. In high-traffic conditions a 15% power reduction is achieved.

The TI Media Group substantiates its commitment on the issue of electromagnetic emissions also thanks to co-operation with the Department of Occupational Medicine of the University of Turin.
A program has been launched for the systematic and periodic monitoring of electromagnetic emissions levels of La7, MTV and TIMB plants (Telecom Italia Media Broadcasting), in order to ensure the observance of law limits in force and high safety standards. The Telecom Italia Media Group controls in particular that:

- the electromagnetic field levels produced by the emissions of its plants are always lower than 20 V/m in areas that can be reached by people not belonging to the Company and that in areas including houses, nurseries, schools or in any case attended for more than 4 hours daily, electromagnetic fields levels must be lower than 6 V/m;
- worker exposure levels are not higher than limits established by Directive 2004/40/EC.

On the basis of controls performed on the Italian territory in 2006, the electromagnetic emissions generated by La7 and MTV resulted within lawful limits, showing significantly lower values with digital television transmission [(5)].

Electromagnetism and the study of its potential effects on biological systems has been for several years the subject of much debate within the scientific community and public opinion. The regulations, studies and research on this subject are available on the Italian version of the website www.tim.it (per il sociale/ambiente/elettromagnetismo).

[5] The digital technique allows a 75% reduction of electromagnetic emissions with respect to traditional analogical techniques.

Acoustic emissions

In observance of regulations in force the control of acoustic emissions by corporate plants continued.
In 2006, 414 intensity measurements on the noise produced by conditioning plants and power plants of telephone exchanges and Base Transceiver Stations have been performed, and appropriate steps have been taken in the occurrence of non-conformance.

Environmental Management Systems

Environmental Management Systems (EMS) contribute to the sustainable management of productive and support processes and stimulate a continuous improvement of the environmental performance.
The four systems, i.e. fixed network, mobile network, TILab (having ISO 14001 and ISO 9001 certification) and ICT (having ISO 9001 certification) have been integrated in a single System developed in compliance the UNI EN ISO 9001 and UNI EN ISO 14001 requirements and managed by the Technology Department of Telecom Italia.
The system has been verified with positive outcome during three audit sessions by the CSQ certification Board. Audits involved two territorial areas and the central departments. Several internal audits have moreover been held in order to check the implementation and application of the Environmental Management System in observance of the ISO 14001 and of requirements defined by corporate procedures regulating all activities having an environmental impact.
Olivetti I-Jet and TI Sparkle confirmed their certification for ISO 14001 also for 2006.
In the "Customer" chapter the environmental certifications achieved or confirmed in 2006 are reported.

The "Environment" Project

Started in 2004 with an action plan spanning over the three years 2004-2006 the project has been reviewed in 2006 to ensure the appropriate monitoring of environmental issues within the Group. For each approved project, a project manager in charge of the implementation has been identified while an Operation Committee and a Steering Committee have been established to assure constant monitoring on activity progress, the approval of new projects and the related funding.
Among the new proposals already approved by the Steering Committee there are the implementation of new Environmental Management Systems, the management of waste from electrical and electronic equipment and the intervention on conditioning plants operating with stratospheric ozone-depleting gases.

Strategy

The Group aims at assisting in the economic welfare and growth of the communities in which it operates by providing efficient and technologically advanced services.
In keeping with these objectives and with the engagements undertaken with their stakeholders, the Group's companies consider research and innovation to be priority factors for growth and success.
Compatibly with their own nature of private subjects and the need for economic efficiency, in their decision-making processes, the Group's companies do consider the social significance of telecommunication services, meeting the needs of the Community and of its less fortunate members.
The Group favourably regards and supports social, cultural and educational initiatives meant to promote the human being and to improve its life standards.

Classification of the contribution according to the LBG model

In 2006, the contribution of the Group to the Community, calculated according to the guidelines of the London Benchmarking Group (LBG), is equal to approximately euro 42.4 million (euro 41.8 million in 2005).
Contributions have been calculated on the basis of management data appropriately reclassified and partly based on estimates.

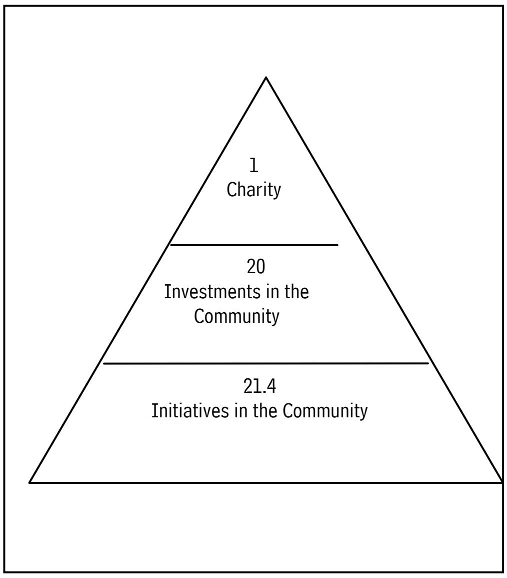
Founded in 1994, the LBG is an association comprising over 100 large international companies and represents the worldwide standard of reference for the classification of contributions to the Community.

To measure and report corporate commitment to the Community, the LBG has devised a pyramid model that reclassifies contributions according to three different categories[6] (Charity, Investments in the Community, Initiatives in the Community):

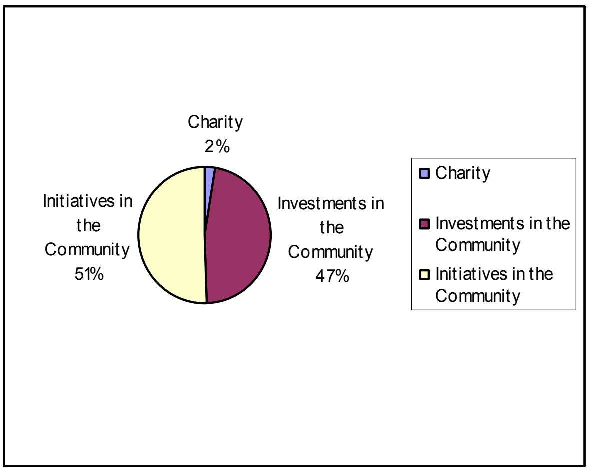
[6] The LBG model foresees the inclusion of the activities mainly characterised by the Group's sense of moral responsibility into the first three levels of the pyramid, leaving to the companies the choice of reporting on the activities directly linked to core business (business basics). This year the business basics are not reported, therefore the 2006 data is comparable with the sum of the first 3 levels of the pyramid that amounted to euro 41.8 million in 2005.

LBG model

Millions euro



Breakdown of contributions to the Community by the Telecom Italia Group (%)



The criteria adopted for the allocation of contributions to the various levels of the pyramid are reported below.

<u>Charity</u>
Intermittent support to a wide range of good causes in response to the needs and appeals of charitable and community organisations, increasingly through partnerships between the company, its employees, customers and suppliers.

<u>Investments in the Community</u>
Long-term strategic involvement of the company to address a limited range of "social" issues.

<u>Initiatives in the Community</u>
Activities in the Community, usually by commercial departments, to support directly the success of the company, also in partnership with charities and community-based organizations.

Contributions to national/international organisations not based on a specific medium/long-term program.

Sponsorship of causes or events, not part of a marketing strategy.
Company matching of employee giving and fundraising.
Costs of supporting and promoting employee involvement.
Costs of facilitating giving by customers and suppliers.

Memberships and subscriptions.

Grants and donations based on a specific medium/long-term program.
Sponsorship of events, publications and activities to promote the brand and the corporate identity.
Cause related marketing, promoting sales.
Support to scientific and university research and to charitable organisations.
Community-based care for consumers with special needs.
Civil protection activities.

PROGETTO ITALIA

Telecom Italia Group's commitment to the Community was coordinated by the Brand Enrichment Department, with the goal of promoting and valorising the image of the Group with

respect to Institutions, society, public and private bodies, and single citizens, both Italian and foreign, contributing to the cultural and social growth of our Country.
At the beginning of 2005, the Group established an *ad hoc* company, the Progetto Italia S.p.A., continuing its commitment towards the Community throughout the 2006 year.
From January 2007, the Brand Enrichment initiatives carried out by Progetto Italia are a responsibility of the External Relations Department.
In 2006 Progetto Italia organised about 100 initiatives in 80 Italian towns that involved nearly 600 protagonists from the world of culture, solidarity, education, entertainment and sports and the direct participation of more than one million people.
Some events were broadcasted live at no charge through Internet on Rosso Alice: a new type of diffusion, that doubled the number of people enjoying these initiatives and that will be replied in the future for high-impact public events.
The most significant areas of intervention for 2006, classified in the second and third levels of the LBG model, are reported below.
The complete list of initiatives is available on the website: www.telecomprogettoitalia.it.

Culture
Progetto Italia has spread the knowledge of our artistic and literary heritage to the greater public by organising events involving important protagonists of the Italian and worldwide culture qualifying the Group as a first-class promoter of the protection and management of the Italian cultural heritage.

The contemporary
Through the creation of spaces, itineraries and *ad hoc* events Progetto Italia has valorised the contemporary and contributed to stimulate the discussion on authors and works of our time, with a multi-faceted approach that mixes literature, music and cinema.

Solidarity
The Group's solidarity initiatives by Progetto Italia consisted of significant contributions to improving the living conditions of the less fortunate such as minors and disabled people.
The Trovanoprofit.it portal has been designed and launched with the aim to facilitate contacts among companies, non-profit organisations and people wishing to participate in voluntary activities.

Training
Progetto Italia has favoured innovative methods of spreading the technologies that support the Group services, paying special attention to sectors of the population having fewer opportunities for enrichment and learning, such as the elderly.

Sports
Sports activities promote positive values such as loyalty, team-work and respect towards the opponent. Progetto Italia has contributed to the diffusion of these values through dedicated projects, ranging from competition in schools to events in clubs and town squares.

A breakdown - according to the LBG model - of some of the Group's initiatives undertaken in 2006 is reported below.

■ LEV. 1 – Charity

SMS and solidarity calls

This is a fundraising tool created with the purpose of enabling customers to donate to non profit associations by sending an SMS or by a telephone call. The immediacy and simplicity of this tool allows a more direct appeal to people's generosity and easier donations.

All funds raised have been allocated without deductions by tax authorities (thanks to the awareness campaign launched by telecommunications companies and by non profit organisations, this kind of fundraising is exempt from VAT) and by the company for the costs incurred.

The most significant fundraising initiatives are detailed below:

- Thirty hours for life, meant to support the treatment of severe pathologies, scientific research and the fight for social malaise;
- Chances for Children, an initiative promoted by UNICEF whose objective is to allow access to primary education for 50,000 children in India, Brazil and Ethiopia within 2007;
- SMS Lebanon emergency, a project launched by WFP (United Nations World Food Programme), in agreement with all mobile operators, to support people affected by the Lebanon war.

School in Bolivia

Entel Bolivia has implemented several initiatives aimed at supporting children's education:

- donation of scholastic materials to children coming from rural areas among the poorest of the country;
- activation of educational Tele-centres equipped with PCs and satellite broadband access to the Internet, aimed at promoting the use of IC technologies as educational tools for teachers and students in the rural areas of the country. The initiative brought to 34 the number of Tele-centres currently operating in the country in support of the education of 15,000 children;
- 24 grants awarded to deserving students from low-income families, selected through public competitive examinations.

■ Lev. 2 – Investments in the Community

Telecom Italia - Let's train for life

It is a recreational-educational programme designed by Progetto Italia for schools, and aimed at contributing to the cultural, civil and social growth of young people through motor education and sports as promoters of positive values.

The project is meant for schools at all levels and offers a series of educational tools and multidisciplinary didactic materials modulated according to age ranges, to teachers, students and families. The project is linked to the "Athletics–live" initiative that organises numerous meetings in schools between students and athletes from various sports disciplines each year.

In 2006 99 meetings were organised throughout the Country, involving over 16,000 students, 97 schools and 178 athletes.

The solidarity ponies

In 2006, thanks to the joint commitment of TIM and Progetto Italia, "The solidarity ponies" project, now in its eighth edition, has been renewed: it's a free initiative to support the "over 65s" aimed at providing assistance in the home.

The elderly may call a telephone number provided by their Municipality or by the Associations participating in the project to request help. The Municipality operators, connected to an operating exchange, switch calls to the mobile phones of volunteers who can readily swing into action also on holidays.
In 2006 the project involved six important Italian towns (Milan, Turin, Bologna, Rome, Naples, Palermo).

TIM Music in the schools
Originated in 2003 thanks to the partnership between the Brazilian Government and TIM Brasil this project aims – through musical education – at the social recovery of children and teenagers who live in at risk situations.
To date, the program saw the participation of 14,540 children from 42 different public schools: during the weekly music courses notions of civics and peaceful coexistence are imparted to students. Teachers use novels, poetry, films, and comedies as a basis for their lessons, in the attempt to attract young people to studies.
The project covers eight towns and also involves shows in hospitals, organised by the students themselves, now known as "Little Ambassadors of Peace".

Sou ligado!
The Group's mobile companies and the Visão Mundial NGO have implemented the "Sou ligado!"(I'm connected!) project, a digital inclusion program in Pernambuco, in the North-East of Brazil.
By supplying mobile phones and granting Internet access to small traders and low-income professionals, along with providing them lessons on the use of basic communication technologies, this project has improved their economic performance.

Lev. 3 – Initiatives in the Community

Call centres in the prisons of Rebibbia and San Vittore
The Ministry of Justice and Telecom Italia jointly operated to organise two call centres – the first in 2003 in the San Vittore district prison in Milan and the other in 2005, at the Rebibbia prison in Rome – for the provision of Direct Assistance services by the convicts.
This is the first initiative of its kind implemented at a penal institution in Europe, both considering its organisational characteristics and the kind of activity carried out. The initiative received an award for the best Community partnership program, in the fourth edition of the Sodalitas Social Awards that rewards the most significant social initiatives each year carried out by Italian companies in the various sectors of corporate responsibility.

Future Centre
The Centre is located in the heart of Venice and offers a program including both cultural and social initiatives. It is a permanent exhibition on technological innovation allowing visitors to both see, touch and try out the new technologies created in TILab, as well as to attend exhibitions and conferences.
The Future Centre also offers an Internet Saloon, a teaching centre launched in January 2005 and offering free courses to people aged over 60 on Internet navigation and information technology basics. The participants receive a certificate confirming their ability as "Internet surfers".

Technology in support of minors
Through its services and telecommunications infrastructure, Progetto Italia has realized several initiatives in support of minors: :
- 114 Childhood emergency: it is a free service, accessible from fixed networks, to report situations of distress or immediate danger for the personal psycho-physical safety of children and teenagers. The management of reports has been entrusted to Telefono Azzurro, the most important Italian association for the safeguard and protection of children.
- Parents telephone service: it is an initiative promoted by the Fondazione Movimento Bambino and involves a listening service for parents, free of charge and covering the entire national territory, aimed at providing answers to questions that may arise from the parent-child relationship.
- Dreams Mission: a "mini-portal" has been created in order to offer hospitalised children a double possibility: a video-chat to communicate with their families, teachers and friends as well as a series of films, sports events, games and didactic content, thus lessening the burden of hospitalisation. The service is operating at the Paediatrics Department of the Tumor Institute of Milano.

Relationship with Universities
The Telecom Italia Group is strongly committed to support the University world and training centres for young university graduated. At this purpose, it sponsors scholarships and master programs. Through an internship mechanism, the Group supports the technical training of approximately 300 young people every year with a financial commitment equal to about 800,000 euro. Moreover, in 2006 a master fully supported by the Group has been launched at the Turin Polytechnic Institute. The master aims at favouring training on the innovation of networks and services for 40 young engineering graduates.
The Group's contribution to youth training also involves the time dedicated by many of its managers to university courses and masters, as well as to internship workers, students and undergraduates.

■ Business basics

Business basics are the Group's initiatives linked to core business having a relative impact on the Community.

Mobile Care
It is a multimedia video-assistance service for hearing impaired people developed in co-operation with ENS (National Agency for Deaf-Mutes). It allows receiving free of charge all information required to use mobiles and mobile telephony services in the Italian sign language. The hearing impaired people just connect to the WAP 119 service, access the dedicated area and navigate within a menu. Once the information required is selected, a recorded film is displayed on the mobile, providing all the necessary explanations in the Italian sign language.

Telemedicine
Telecom Italia, shareholder of Telbios, continues its strict collaboration with this company for the development of joint offers that integrate their relative operational and business competences.
Telbios develops Telemedicine networks designed to share images, data and medical-scientific competences among renowned hospital centres and remote healthcare facilities, in order to extend the availability of appropriate specialised assistance and to expand the offer of services to patients throughout the Country, thus ensuring the continuity of treatments administered in the hospital and reducing the number of medical checks and unnecessary hospitalisations.

Telbios telemedicine services are Teleassistance, Telecardiology and Telemonitoring. Directly from the home, the patient may record his vital parameters using cutting-edge telemedicine equipment provided by Telbios: electrocardiographs, spirometers, sphygmomanometers, digital balances, etc. The data recorded may be transmitted through a simple telephone connection or by using a GSM mobile to the Telemedicine Service Centre of Telbios, where specialised operators and specialists of the cardiology team of the San Raffaele Scientific Institute of Milan are available around the clock. Data are analysed in real time at the Centre or are sent to specialists of other healthcare facilities that are treating the patient.
The goal of the Telbios services is the improvement of medical assistance, of the collaboration between doctors and patients, in view of a better and more efficient healthcare system.

Research, Development and Innovation

The TLC Italian market is considered among the most advanced, both from the technological viewpoint and evolution of customer attitudes as well as customer consumption profiles.

To Telecom Italia Group technological innovation is therefore an essential and differentiating element in order to develop a competitive advantage and maintain leadership in an increasingly competitive market.

The wealth of technological and innovative competences of the Group has allowed in these years the design, development and adoption on the field of cutting-edge networks, terminals and services, a wealth to be used also in foreign countries where the Group operates.

Technological innovation activities are carried out not only by the "TILab – Innovation, Engineering & Testing" department of Operations – where the activities and expertise needed for basic research are concentrated, to evaluate emerging technologies and intra-moenia development – but also by some Operating Units and Business Units (Network, Market, Information Technology, Web & Media and Security) and by Olivetti.

The technological innovation of the Telecom Italia Group is also the result of strategic partnerships with leading manufacturers of TLC equipment and systems and with top research labs belonging to world-class academic institutions in Italy and abroad.

Technological innovation activities range from reviewing basic technologies with the aim of increasing efficiency of networks and systems, to complex activities which involve an in-depth review of the platforms, services and architectures; the effort bestowed on the field by
Business Units' operational departments is therefore essential to ensure that new services meet customer requirements and continuously improve quality levels.

In financial year 2006 the overall innovative investments of the Telecom Italia Group in tangible and intangible assets amount to approximately euro 3,200 million. Internal staff devoted to these activities as well as to research is approximately 6,300, with an overall commitment of around euro 540 million (of which about euro 130 million already included under investments).

In financial year 2006 the R&D centres of the Telecom Italia Group carried out in particular the following activities.

TILab - Innovation, Engineering & Testing

“TILab – Innovation, Engineering & Testing", a department of the Operations Technology area, operates as a competence centre for the activities of Research, Development and Testing of the Telecom Italia Group, catalysing technological innovation in support of departments in charge of business development. It also operates externally as excellence centre for the TLC sector.

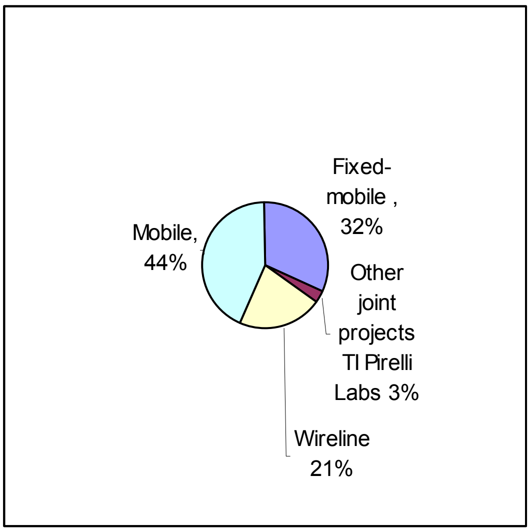
Consistently with such commitment, its technical experts operate therefore for innovation engineering and testing, to make it rapidly and economically accessible to the Group’s customers in the context of the Italian telecommunications market, considered among the most advanced at world level both from the technological viewpoint and that of customer attitudes and consumption evolution.

Technological innovation is therefore for the Telecom Italia Group the essential and qualifying issue enabling their competitiveness and leadership in a market characterised by growing competition levels.

The technological innovation of the Telecom Italia Group is also the result of strategic partnerships with leading manufacturers of TLC equipment and systems and with top research labs belonging to world-class academic institutions in Italy and abroad (Polytechnic of Turin and Milan, Universities of Pisa, Genoa, Florence, Rome, Naples, Bologna, Reggio Emilia, Brescia and Verona, University of Berkeley, Ministry of Innovation and technologies).

In co-operation with the Technical University-Polytechnic of Turin we also launched a University Master on the subject “Network and service innovation in the ICT sector”, with the view to train on specific technological competences thanks to a marked integration between classroom and laboratory activities.

In the field of technological innovation the strong focus put on the opportunity to generate competitive advantages and to create value for the Telecom Italia Group is also being pursued through a strategic management of relations among research, Intellectual Property Rights (IPR) and business, aimed at developing the corporate patent portfolio. In this context and as a consequence of placing more emphasis on the quality of patents instead of large numbers as in the past, in 2006 sixty-three new patents have been registered (86 in financial year 2005), of which 4 following joint research projects with Pirelli Labs. Distribution by activity sector is reported below:



Among the ongoing activities that in the next few years will be significantly perceived by the general public, the following are worth mentioned: the development of mobile communications

and the spreading of broadband in a perspective of evolution of the network and services projected up to 2015.
In particular, results accomplished by TILab in 2006 aimed on one side at achieving a network platform appropriate to the new requirements in terms of traffic and geographic coverage of operating services and on the other side at favouring the introduction of new service/terminals and new network architectures capable of increasing the Group's revenues. TILab also contributed, in co-operation with other departments, to improve the quality of existing services and to rationalise the acquisition costs for new network and user equipment.

Concerning the evolution of Network Architectures towards the Next Generation Network 2 (NGN2) , the Group projected the development course that will lead in the next few years to the introduction in the Telecom Italia network of innovative architectures based on FTTB (Fiber to-the-Building) and FTTCAB (Fiber to-the-Cabinet) technologies. The new network and user technological platforms, the bases of these future developments, have been analysed and characterised whenever possible in the laboratory and through specific trials. The RFI/Requests for Information, to achieve vendors' state-of-the-art in the sector, have also been started.

As far as the updating of network platforms with the new requirements related to traffic and geographic coverage of operating services, several initiatives have been carried out in strict collaboration with Network Operation, which can be summarised as follows:
– expansion of ADSL functions in 1,125 further exchanges, also considering the requirements associated to the "digital divide" initiative;
– introduction of the ADSL2+ function for residential and business customers in 899 further exchanges, thus achieving 1,200 installations at the end of 2006;
– expansion in 497 exchanges of the network function supporting the Alice Home TV service; equipped sites are thus 836 at the end of 2006;
– expansion of network nodes for the UMTS service achieving an incremental total of 1,635 nodes;
– empower UMTS nodes with functions enabling a markedly increased speed of data transmission on mobile terminals (HSDPA function) in 3,528 sites;
– start of the deployment of Core Network equipment, thus avoiding alterations in the mobile network traffic clearance following changes in 2G-3G user mixing;
– installation of a new release of the IMS platform (IP Multimedia Subsystem) enabling the Alice Mia and Push-Over-Cellular services over the whole national territory.

With reference to the contribution given by TILab to the launch of new services and terminals the following events are worth mentioning:
– organisation of the network and user terminal for the marketing launch of "Hi-Speed", data transmission service on mobile based on HSDPA functions and with bit-rate up to 3.6 Mbit/s;
– organisation of the network and user terminal for the Telecom Italia fixed-mobile offer "Unica";
– in co-operation with Mediaset, implementation of the DVB-H trial for the winter Olympic games in Turin and organisation of the network and user terminal for the marketing launch of the Mobile TV service;
– organisation of the network and terminal for the marketing launch of the Video-communication service based on the Combo terminal and of "Telefono di Alice";
– development and organisation of network platforms for the launch of the "Instant Messaging" service between fixed and mobile network communities, the so-called "Alice Messenger",

– activation of the Push-over-Cellular service for residential mobile users, within the “TIM Tribù” offer, enabling an innovative communication mode within a community of mobile customers;
– demonstration at the dealers convention of October 2006 and network organisation in view of the launch of the “News Click” service, providing multimedia content in the push mode to mobile customers;
– demonstration of statistical localisation solutions applied to city infomobility (Venice Biennial–Telecom Italia/MIT pavilion and subsequently in Rome);
– start of a Telecom Italia - Magneti Marelli project for a “service brokering” prototype solution for the automotive market, tested with the “Intelligent Parking” service on a prototype version of platform on vehicle;
– completion of the certification for the new product Aladino VoIP enabling the self-installation of the “Alice Voce” service within the “Alice Tutto Incluso 30 euro” offer;
– experimentation and introduction of Home Networking solutions to simplify home wiring in support of the Alice Home TV service, based on radio technologies (Wi-Fi) or pre-existing home wiring (Powerline on mains or coaxial plant);
– tests in laboratory and in the field on m-commerce and m-ticketing solutions based on mobile terminal with ZSIM (Zigbee enabled SIM).
– certification of the new services for Business “2IN1” customers (two numbers associated in the same SIM).

With respect to service quality quite significant are the TILab contributions to quality improvement on ADSL accesses and the Video-communication service.
TILab has also defined the technical solutions favouring the launch by the Group of important tenders related to Network Transport and Optical Packet Metro as well as to the second supplier of Access Gateway, with significant cost rationalisation results.

Olivetti S.p.A.

The Olivetti Business Unit devotes a significant number of its employees to the technological research and development sector. Its research centres, located both in Italy and abroad, are staffed by about 250 people, corresponding to 16% of its total workforce.
In particular, the ink-jet technology, exclusively owned at European level by Olivetti, and by five other companies worldwide, was created and developed in the Arnad (Aosta) plant, where over 200 employees are engaged in the entire production cycle of thermal ink-jet technology: from silicon processing to print cartridges assembly. In 2006 the Olivetti research centre focused most of all on the development of new models of multifunctional printers and new generations of ink-jet print heads.

Human Resources

Strategy

The Group's companies strongly believe in the centrality of human resources and consider the professional contribution of people operating in it as a key factor for business success, within a mutual loyalty and trust framework.
The Group's companies safeguard safety and health in the workplace and consider the respect of workers' rights as an essential issue in business.
The management of industrial relations aims at ensuring equal opportunities and favouring individual professional growth.

Headcount and changes in the Telecom Italia Group

Headcount at. 12.31.2005 (*)	Changes in the period					Headcount at 12.31.2006 (*)
	Recruited	Terminated	Decrease of temporary staff	Changes in report scope	Total change	
86,531	6,086	(7,127)	(728)	(1,553)	(3,322)	83,209

(*) includes staff on temporary contract, equal to 3,382 in 2005 and 2,654 in December 2006.

Headcount at December 31, 2006 is 83,209.

The reduction of 3,322 employees with respect to December 31, 2005, is due to:
- the sale of Buffetti (-183 employees), Wirelab (-54 employees), Eustema (-134 employees), TILS (-195 employees), Digitel Venezuela (-915 employees) and of the "Radio-maritime services" (-72 employees) by Telecom Italia S.p.A.;
- the entry of 6,086 employees (of which 119 related to sold/destined to be sold activities, i.e. "discontinued operations") and the termination of 7,127 employees (of which 67 related to "discontinued operations"), plus a decrease of 728 employees of temporary staff.

Headcount and changes in Telecom Italia S.p.A.

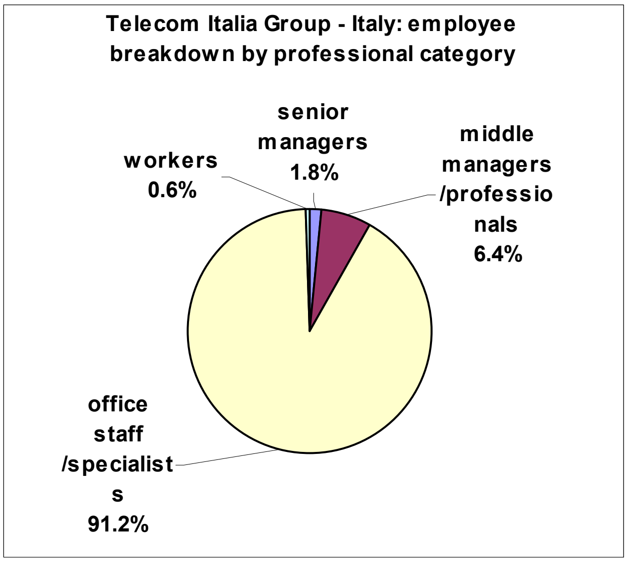
Headcount at 12.31.2005			Changes in the period								Headcount at 12.31.2006		
			Incorporated company Tim Italia 03.01.2006		Recruited	Terminated	Transfers among Group's companies (including the entry of Nuova Tin.it)	Increase of temporary staff	Sale of "Radio-maritime services"	Total change	Staff	Temporary staff	Total
Staff	Temporary staff	Total	Staff	Temporary staff									
52,731	9	52,740	10,315	1,303	526	(2,820)	360	48	(72)	9,660	61,040	1,360	62,400

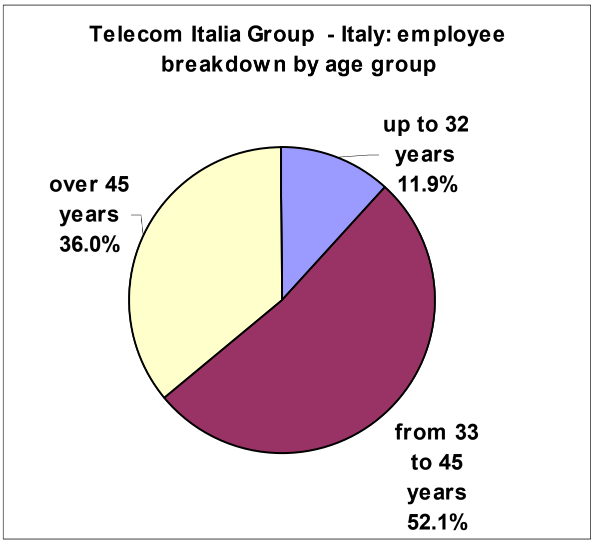
Headcount of Telecom Italia S.p.A. at December 31, 2006 is 62,400.

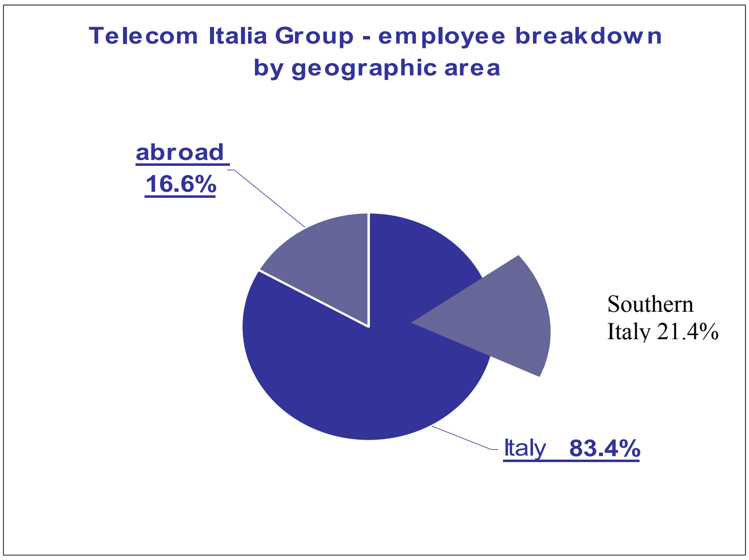
As compared to December 31, 2005 an overall increase of 9,660 employees is observed. This is mainly due to the merger by incorporation of TIM Italia into Telecom Italia S.p.A. (+11,618 employees).

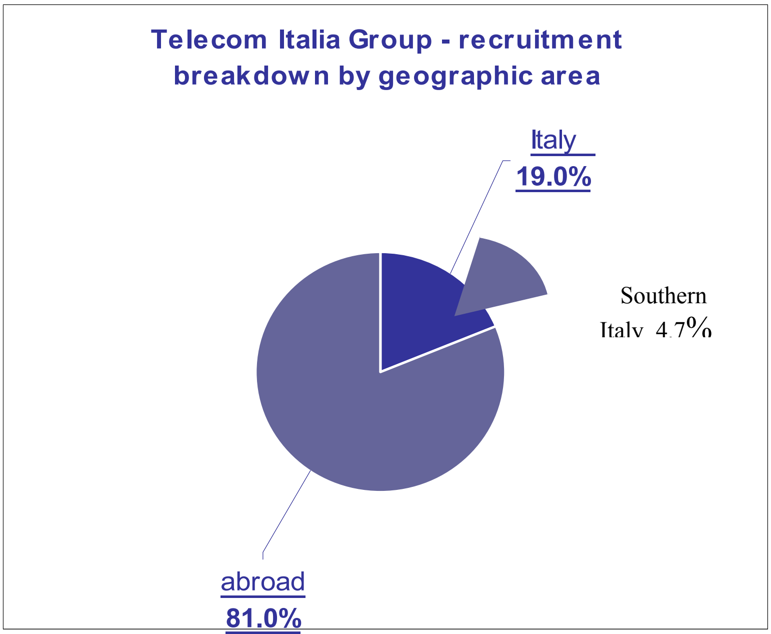
The sale of the "Radio-maritime services " (-72 employees) occurred in September 2006.

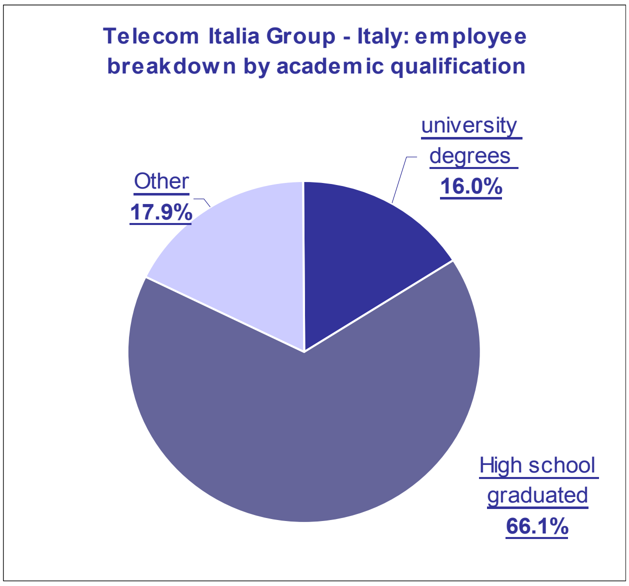
In Italy the Group's payroll headcount is equal to 83.4% of the total with the following characteristics:



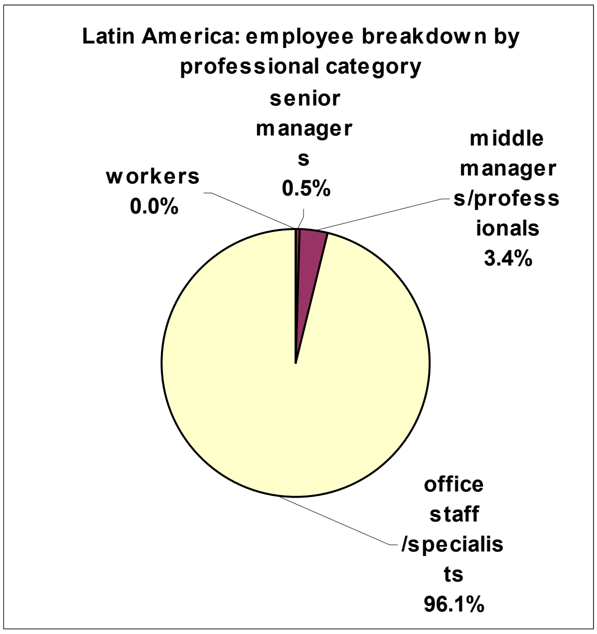


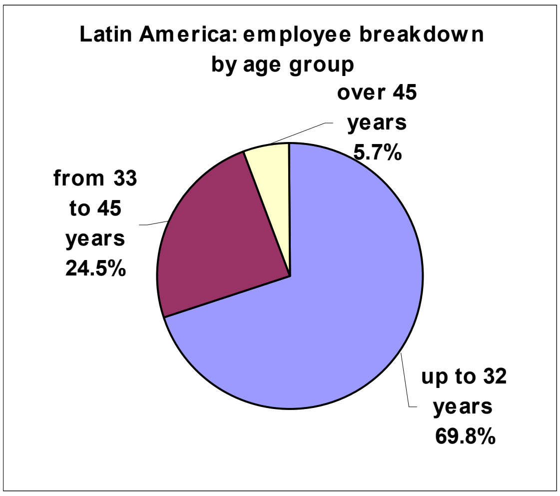

Telecom Italia Group - employee breakdown by geographic area
abroad 16.6%
Southern Italy 21.4%
Italy 83.4%

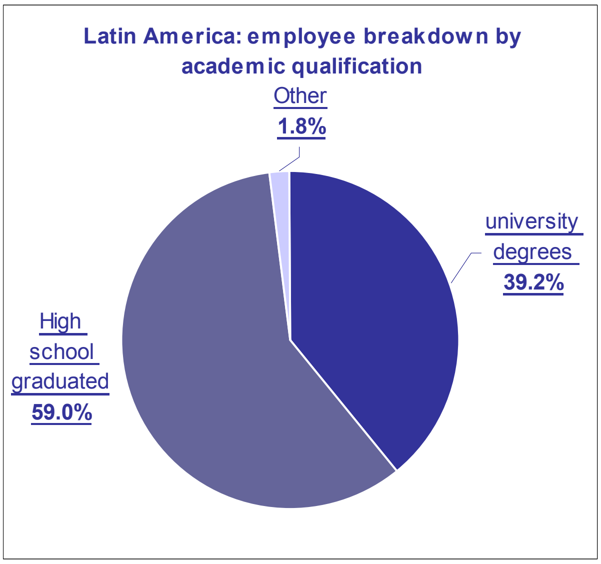

Telecom Italia Group - recruitment breakdown by geographic area
Italy 19.0%
Southern Italy 4.7%
abroad 81.0%


Telecom Italia Group - Italy: employee breakdown by academic qualification
university degrees 16.0%
Other 17.9%
High school graduated 66.1%

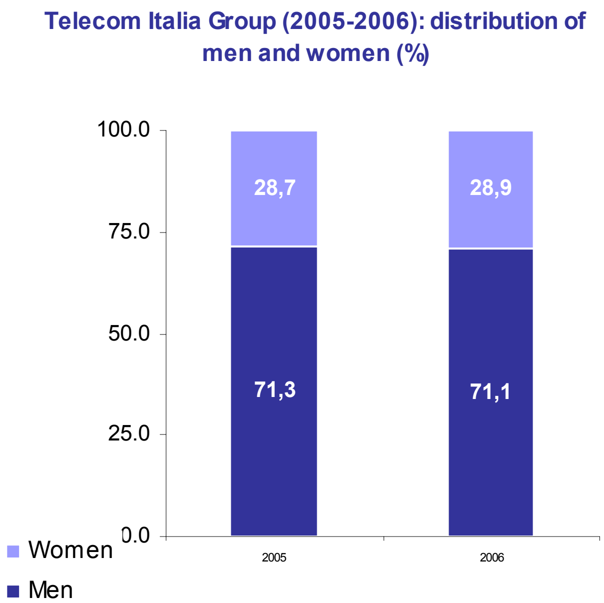
Focus on Latin America







Gender balance



In 2006 the percentage of women holding senior management positions in the Group (in Italy) was approximately 15%; at middle management level it was about 24%.

Equal opportunities

Initiatives in favour of women professional growth and of the diffusion of equal opportunities have been launched, developing and consolidating issues included in the Woman Project of 2003.

The following activities have been developed in particular in 2006:

- Childcare centres: a new childcare has been inaugurated in Milan. Others have already been open in Rivoli (TO), Palermo, Naples and Rome (Parco dei Medici and Via Faustiniana).
- Loans for mothers: 147 loans have been granted to new mothers with children up to three years of age.
- Children day: on May 26, 2006, the “working mother’s and father’s day”, the employees’ children had access to all Telecom Italia offices to visit their parents’ workplace. Seventeen offices organised entertainments with snacks and gadget distribution.
- Christmas day: visit of the offices in 5 corporate premises with entertainment and small gift for employees’ children up to 12 years of age.
- Time off for mothers and fathers: “time chequebooks” with 150 hours of time off every year to be repaid with overtime. For employees up to the fifth level (according to the Italian labour contract) and children up to 8 years of age.
- Time off to attend predelivery courses: paid time off up to 12 monthly hours to be recuperated, granted to pregnant employees and fathers.
- Development of management policies: (training courses, training on the job, coaching, working time flexibility, etc.) to help women employees resume their jobs after maternity leave (i.e. temporary renewable part-time for a year, granted to mothers with children up to 8 years).

Development

Several projects concerning the valorisation and development of specific position at the various organisational levels have been launched in the year. In particular specific initiatives have been designed in order to define medium-term Individual Development Plans for key resources to our business in several segments of corporate staff: managers, middle managers, high-potential young employees.

Upon conclusion of the two-year Competence mapping process we continued in 2006 to identify the Key Professional Roles for business development within the various organisational profiles mapped in the corporate Professional System. On the basis of the single gap analyses specific action plans have been defined, aimed at competence development through training programs, job rotation and recruitment initiatives.

Concerning in particular job rotations, in 2006 our policy meant to valorise competences through intra-group mobility continued, thus favouring resource development and allowing to meet staff requirements using skills available within the Group. During the year 137 announces have been posted on the Group Job Posting (as compared to 80 in 2005) and 1,084 curricula have been collected (as compared to 500 in 2005).

In 2006 a new system (System for Performance Evaluation & Development) was designed and its implementation started. The basic idea was to simplify human resources assessment processes and to promote a more integrated assessment of individual performances. The project thus merges the yearly process of Performance Assessment and the biennial process of Competence Mapping in a single logic and computerised work flow. This new work flow integrates in the process the existing stand alone procedures, introducing the paperless processing.

Also in 2006 the "Management Review" allowed the analyse of the qualitative profiles of the whole management, assessing about 1,600 senior and middle managers. The process, through a new methodology using a specific leadership model, made it possible to elaborate more complete and richer assessment profiles. This helps to increasingly steer assessments on a succession management basis and to plan actions for organisational and managerial development.

In this regard, on the basis of the Management Review, a new initiative called "Individual Leadership Center" started. It refers to a part of senior managers and aims at analysing, with the support of external professionals and the co-operation of the concerned managers, single managerial profiles in view of specific development and training programs.

Recruiting

In 2006 the "University Tour" project, aimed at presenting our company in the main Italian universities, continued as well as the selection and recruiting plan concerning university graduates, mostly in Engineering. Within the initiatives promoted by the Group and involving student grants, the Master "Innovation" started, devoted to the placement of young engineers in study and training stages in technologically innovating sectors, in co-operation with the Polytechnic (Technical University) of Turin.

Training

In 2006 training activities implemented for Telecom Italia Group's staff in Italy have involved approximately about 1.9 million hours (class sessions, on-line, training on the job) and about euro 21.8 million of outlay costs (excluding the cost of labour and logistic expenses).
In the same period the 83% of the Group's staff has at least been involved in one training initiative. These activities can be traced back to two essential themes: the overall Group projects and training as a tool to safeguard the business competences.

Overall Group Projects

In 2006 the basic theme of training activities has been the improvement of leadership abilities and the management and development of innovation.
We also supported the wide diffusion of operational aspects associated to the project "Sarbanes Oxley (404)" through a "cascade" approach (567 people trained on the overall).
In order to expand the Group training an e-learning project, "Formimpres@", involving about 200 resources and offering 52 on-line courses, has been realized.

Training as a safeguard of business competences

Operations

Specific projects and trainings for the various organisational structures have been developed with the view to favouring more business-oriented skills:

- convergence of fixed/mobile networks and relative technological developments with respect to Added Value Services and Multimedia services for network staff;
- improvement of management competence, valorisation and development of team working;

- focus on Customer Satisfaction and improvement of competences on advanced technological services for Sales staff;
- consultancy skills for staff operating in the Large Business Customers segment.

With regard to technical assistance management, the activities related to the CISCO certification program started some years ago, have been continued with the aim of improving the process management level.

Media
In line with 2005, training initiatives have concerned the “People enhancement” theme. Programs have been realised on “Management of complexity”, involving senior and middle managers, and on “Self Empowerment,” meant to develop individual attitudes and abilities of MTV middle management. Furthermore, training courses on Terrestrial Digital and specific software for the management of the TV process have been organised for technical and specialist staff.

Olivetti
The Olivetti Business Unit has addressed training activities to managerial skills for middle managers, to the culture of business economic value for managers with higher seniority and on updating professional competences for the technical sector staff.

A training project on Leadership concerning the Central Departments has been realized. The project is meant for a limited number of middle managers for which a career development is foreseen and aims at reinforcing – through the application of an innovative outdoor, indoor and sailing methodology – those managerial behaviours that can be related to the Leadership model based on the System of Values.

The monitoring of the training activities for the Telecom Italia Group staff abroad refers to 95% of people operating in Brazil, Bolivia and Europe. For the first time the subsidiaries operating in France and Germany have been included in the analysis.
Training hours were approximately 830,000 and the overall cost about euro 3.3 million.
More specifically, TIM Brasil implemented a very intensive training plan for Customer Care and Information Technology staff for the new Sant’André technological centre.

Internal communication

In 2006 an extensive internal communication program in support of the change process towards the One Company has been launched.

Conventions and meetings
- Annual Convention (March 16, 2006) with the participation of about 6,000 senior and middle managers of the Telecom Italia Group in Italy, Europe and Latin America. The event was also broadcast both live and “on demand” through video streaming on the Intranet.
- Business Reviews on the territory (March-April 2006): with the participation of the Chief Executive Officer Riccardo Ruggiero in Rome, Milan, Naples and Bologna.
- Other meetings: several other meetings have been organised at the main business departments to spread information on specific corporate issues (Privacy, Safety, Environment) as well as events supporting the corporate welfare system.

Corporate Press

Three more issues of the corporate publication *noi.magazine* have been distributed to all employees both in Italy and abroad, besides to over 30,000 senior ex-employees of Telecom Italia. These three issues, among which a special double one at the end of the year, focused on themes such as customer service, integration and innovation.
Again in 2006 we launched the Portuguese edition of *noi.magazine* for TIM Brasil employees.

On-line communication

Several improvements were achieved as far as the Intranet, such as:
- stabilisation and consolidation of the new Group Intranet on SAP platform;
- harmonisation of TIM and Wireline Intranet with a new Intranet Operations;
- expansion of the community with new features devoted to leisure time and culture.

On the overall over 1 million visits have been recorded per month with an average of single visitors exceeding 20,000.
A new tool, *noi.flash,* devoted to monographic issues having special corporate impact has been realized. The paper version of the newsletter has been created for network technical staff.
Concerning audiovisual communication, the experimental diffusion of short corporate news items on service mobiles, palmtops (Blackberry and Q-Tech), over the Intranet and IP-TV has been successfully implemented.

We also expanded and consolidated the plasma screen network installed in the communal areas of the main office buildings, transmitting information and corporate life programs; the initiative has been named “Scoop” and is also accessible through the Intranet where it is regularly broadcasted.

Video-streaming is now a consolidated practice in the occurrence of special corporate events (ranging from meetings with the Financial Community, broadcast both live and in the recorded version, to the Group convention and top management video-messages).

Survey on staff attitude

The fifth edition of the staff attitude survey “Group photograph” has been realized. The online questionnaire, presented to the Group employees in Italy, Germany and Brazil, saw a 73% participation (on the overall 57,000 questionnaires were completed). The analysis confirmed the satisfactory attitude level of last year: in Italy the performance is 6.21 on a 10-point scale, in Brazil 4.17 on a 5-point scale and in Germany 6.64 on a 10-point scale. Results have been posted on the Group Intranet portal and are also being circulated through ad hoc meetings.

Special initiatives for employees

Among these activities, the following projects have been carried out:
- *noi.shop* project, an on-line window containing Group products and services offered to employees.
- Photographic contest involving all the Group’s employees. The 12 best images have been used to realize the *noi.2007* calendar.
- Telecom Italia “100 torch-bearers” Project at the Winter Olympic Games in Turin.
- Participation and involvement of employees in the main Brand Enrichment initiatives carried out by Progetto Italia, such as the “2006 Telecomcert” at the Fori Imperiali, sport events (Golf Open and Sailing together), literary (Lifetime classics) and musical events (Story Tellers), the Science Festival in Genoa.
- EmotionArt Project, art at the service of integration and change through film projections in Operations offices, to discuss and meet.

- The Lighthouse Project, an internal feedback initiative meant to define action plans to improve staff attitude, develop internal loyalty indicators and start actions favouring corporate business development.
  It articulates into three subprojects:
  - "Foreground", itinerant *focus* on the territory to establish close relationships with employees, analyse their needs and expectations.
  - "Viewpoint and service experimentation club", a panel including 2,000 employees that are periodically consulted to assess their acceptance, receive suggestions and feelings on various corporate issues (such as innovation, internal communication, corporate life issues). They are also asked to test product/services to perfect our offer to customers.
  - "Reporter", an electronic suggestion box, allowing collecting and valorising employees' suggestions on various corporate issues (137 new proposals on the theme "Innovation of products/services".

The "Values" Project
In July 2006 the first phase of the "Values in Progress" Project, aimed at spreading behaviours in line with corporate values, ended. The project saw the participation of about 2,200 Group's resources among which senior managers, middle managers and office staff.
Behaviours improving practices such as transparency, customer-orientation and integration have been defined; further actions will be carried out in order to facilitate the practice of such values in the second phase of the project

Remuneration policies

In 2006 the management of the fixed–compensation policy, inspired by equity and selectivity principles, has ensured market competitiveness management and valorisation of excellence in individual performances.

The "variable" component of compensation, correlated to company/individual performance, is confirmed as the distinctive element of the compensation package; to short-term formalised incentive tools – for managers (Management By Objectives) and professionals (Performance Bonus Program) –in 2006 a new three-year incentive plan (LTI 2006-2008 cash), involving a wide range of management on the Group's strategic goals: creation of value and Customer Satisfaction, was added.

The commitment to harmonize policies on benefits has been continued, as well as to increase the population receiving benefits; within such framework the "Cellular for us" is worth mentioning. The project is a significant working tool and a daily benefit for all employees as it consolidates a feeling of identity and belonging to the Group.

Stock option

Stock options have been used over the years within the Telecom Italia Group for retention purposes and as a long-term incentive for managers.
In 2006 no new stock option plans have been launched.
At the end of 2006 the stock option plans existing in the Group are related to options granted in preceding years and entitling to the subscription of Telecom Italia S.p.A. and Telecom Italia Media S.p.A. shares.
Information requested by Consob with Communication no. 11508 of February 15, 2000 relative to Telecom Italia Stock Option Plans (including those formerly assigned by Tim SpA) as

well as to Telecom Italia Media Stock Option Plans, is summarized in the Notes "Stock option Plans". They are included respectively in Telecom Italia S.p.A. annual report and in Telecom Italia Group annual report.

Industrial relations

Collective Group bargaining mainly concerned the activities reported below.

Consistently with the agreement reached with trade unions in the 2005-2007 Industrial Plan (One Company Model) on February 27, 2006, the industrial procedure related to the merger by incorporation of TIM Italia S.p.A. into Telecom Italia S.p.A. has been accomplished.
The integrated business model, representing a significant innovation in the TLC market and consisting in joint management of the fixed and mobile businesses, is based on technological infrastructure optimisation, on integrated offer to customers and on the unification of processes and resources. At the same date an agreement has been subscribed with Unions in order to harmonise different treatments for employees of the above mentioned companies.

Within the framework of the Group focus on core business activities, on July , 2006, Telecom Italia sold the 100% share capital of Telecom Italia Learning Services S.p.A. (TILS) to a newly established company (TILS HOLDING S.p.A.) jointly owned by Cegos and Camporlecchio Educational. In line with the Industrial Relations Department participatory model, the company has organized meetings with Trade Unions to provide information.

Within the framework of rationalisation activity, the sale of the branch Radiomaritime Customers Services by Telecom Italia S.p.A to ITS Servizi Marittimi e Satellitari S.p.A. has occurred, as of September 16, 2006. The meetings with Trade Unions for the relative labour procedure also saw the participation of the company buyer.

As far as reorganization within the Group, on October 1, 2006 the Nuova Tin.it S.r.l has been merged by incorporation into Telecom Italia S.p.A.. The related labour procedure was carried out after due consultation with Trade Unions as provided by the law and Industrial Relations Protocol.

On March 20, 2006 an agreement with Unions has been signed on the use of Intranet, Internet and e-mail. In compliance with art. 4 of law no. 300 of May 20, 1970, (workers Statute of rights), the agreement reconciles the respect of employee dignity and privacy with corporate authority to monitor the correct use of these tools should any hypothesis of illicit conduct by employees arise.
Following the agreements signed on December 20, 2005 with Trade Unions, in 2006 the Group enrolled on mobility lists 1,246 resources (using as a priority identification criterion the early retirement option during mobility).
Consistently with agreements signed with Trade Unions, mobility *ex lege* 223/91 has been implemented on the basis of voluntary assent by the involved resources. These have been granted, upon termination of employment, an addition to TFR (end of employment settlement) such as to ensure appropriate income for the time to retirement pension. More generally, the management of resources in view of staff reduction has been implemented aiming at mutually agreed employment termination and, whenever possible, through professional re-employment solutions.
The Group also signed agreements with the manager's bargaining Group on supplementary health assistance and complementary security for managers: on March 6, 2006 an agreement has been signed to redefine contributions to ASSIDA (Supplementary Health

Assistance Fund for Group companies senior managers), in order to oppose the growing unbalance between operating managers and associated retired managers; on July 19, 2006 and November 9, 2006 agreements have been signed to define contributions to Fontedir (Supplementary Pension Fund for Telecom Italia managers), consistently with similar solutions adopted by Confindustria and Federmanager for the National Fund of the category.

Health and safety

In 2006 the realization of some important projects continued, at Group level:

- the survey on wellbeing in call-centres has been expanded to a sample of structures all over the national territory, using a special computerised questionnaire prepared by the University of Turin, that involves approximately 3,000 employees;
- the assessment of concentration levels of radon gas in some workplaces, by means of scientific collaboration with the Superior Health Institute continued, in order to develop a working methodology and an accredited laboratory;
- concerning the assessment of the biological risk occurring in underground plants, operated by Telecom Italia technical staff, the phase involving environmental and haematic sample collection as required by the Superior Health Institute has been concluded.

Furthermore, in order to ensure and promote health and safety on the job, several interventions have been implemented, the most significant of which are:

- updating of the Group Risk Assessment documentation;
- training on health and safety in the workplace – approximately 35,000 hours directly provided by the Prevention, Protection and Environment Service – devoted in particular to employees in charge of emergency management, to newly hired employees and to workers exposed to specific risk;
- preparatory activities related to an important project on information, education and training on "safe driving", which will involve in the two-year span 2007-2008 the appropriate corporate staff with diversified modes;
- health surveillance and inspections of video terminal workstations carried out by competent physicians;
- preparatory activities in view of the application of the Safety Management System;
- controls and monitoring on buildings, plants, equipment and processes;
- evacuation tests to verify the efficiency of the Emergency Plans;
- updating of First Aid Operative Plans.

.

Accidents

Data on accidents occurred in Telecom Italia S.p.A. are shown in comparison with last year data. These have been recalculated considering changes in the report scope.

		Telecom Italia S.p.A.	Value aggregation for TI S.p.A. and TIM S.p.A.
		2006	2005
Total accidents	no.	973	943
Accident severity index (*)	%	0.25	0.30
Frequency rate (*)	%	10.97	9.34
Average duration	days	125.2	108.50
Unproductiveness rate (*)	%	1.37	1.02
% workers on total	%	1.67	1.51

(*)The severity, frequency and unproductiveness indexes represent respectively:
– the number of conventional days lost per year per thousand hours worked;
– the number of accidents per million hours worked;

– the number of hours lost due to accidents per thousand hours worked.

Initiatives for employees

Welfare

In 2006 the **Welfare** Department ensured the operation of the Group Recreational and Welfare Organisations through the provision of social services for the improvement of employees wellbeing, the implementation of health assistance/prevention and medicine in the workplace initiatives, and solutions for leisure time.

The following projects and initiatives have been carried out for employees:

- **Personal affairs service:** twenty-one corporate offices feature a permanent counter for the management of errands (administration, post office, etc.).
- **Wellness/Laundry/On-line shopping**: within the corporate offices of Turin, Padua, Rome and Palermo an area has been equipped for fitness purposes (mild exercise, postural, shiatsu massage, etc.). An office in Rome offers a laundry service (with collection and delivery) and an on-line shopping service.
- **Price agreements:** national and/or territorial agreement for purchase/use of goods and services at reduced cost (hotel chains, tourist packages, car rent, event booking); agreements with finance companies for personal loans at special conditions.
- **Company loans:** the Group granted 380 loans, of which 55 to buy house and 60 for renovating houses.
- **Corporate loyalty:** in the year approximately 3,600 employees were rewarded for 25, 30 and 35 years seniority.
- **Intranet and Internet websites:** information/communication with the Group's employees, access to Social Services.
- **Health information:** dedicated interactive section via Intranet.

The following initiatives are devoted to employee's children:

- **Traditional summer holiday camps:** 15-day camps for Group company employees' children aged 6-12. Participants in 2006: 4,747 children;
- **Thematic summer holidays:** 14-day holiday devoted to learning English and sport practice for Group company employees' children aged 7-15. In 2006, thanks to a higher availability of dedicated structures, 1,051 participations have been recorded. A thematic linguistic holiday has been also experimentally organised in England (Eastbourne). Twenty-nine children took part in it.
- **Scholarships:** 60 scholarships abroad devoted to the English language. Four weeks for boys and girls aged 15-16 (30 in Ireland and 30 in Finland); 20 one-year study stays for boys and girls aged 16-17 (Europe, United States and Canada).
- **Refund of university fees:** refund of first-year enrolment fee for Group employees' children with high school degree mark at least 90/100.

ALATEL

Association for the Elderly (ALATEL and Gold Pins)

The Senior Worker's Association of the Telecom Italia Group (23,000 members, of which 4,500 are working employees) continued the realization of its institutional activities, confirming the co-operation with the Olivetti Gold Pins Association (4,161 members).

ASSILT

At December 31, 2006 over 208,500 people were enrolled in the Association for Integrative Healthcare for Telecom Italia Group workers: 66,700 employees, 38,200 retirees, 103,600 employees' family members.
Besides reimbursing healthcare expenses to integrate the National Healthcare Service (551,000 cases in 2006 totalling over euro 58.9 million), the association conducts campaigns for preventive medicine and healthcare education, using its mobile diagnostic units and support from public healthcare facilities.

Also in 2006 the programs for multidisciplinary Oncological Prevention to discover breast and skin pathologies continued (Lombardia, Campania, Lazio and Piemonte), as well as the program for the prevention of respiratory allergies (Toscana, Sardegna, Calabria, Marche, Emilia Romagna and Basilicata).

CRALT

The Workers Recreational Club of the Telecom Italia Group organizes, in favour of employees and retirees, tourist initiatives (collective and individual tours with a 15% indicative saving as compared to market prices), sport initiatives (participation in the main national and regional sport meetings), cultural and recreational events (guided tours, music courses, painting, photography, theatre and cinema).
The contribution in favour of members may reach 40% and dues for all initiatives may be paid in instalments deducted from salary/wages.
At December 31, 2006 about 55,000 members has joined the club (47,800 employees and 7,200 retirees).

Labour and human rights in Latin America

The following shows the main actions undertaken by the Group in Latin American countries– Brazil and Bolivia – to implement the principles of the Global Compact regarding human rights and safeguard of labour standards.

Human Rights

In TIM Partecipaçoes the company kept strictly to the specific protection rules against discrimination provided by the Federal Constitution, in line with the ILO principles (International Labour Organization) and the Universal Declaration of Human Rights.

The Human Resources department, through their holding and territorial structures, monitors the essential processes related to human resources (recruitment, management and development). Following the introduction of the first corporate Code of Ethics (inspired by the general principles of the Group's code and in line with the Global Compact principles), an Intranet interactive application (quiz on the Code content) was developed in 2006 in view of favouring its spread among employees.

Entel Bolivia adopted a Code of Ethics whose mandatory rules gained a good acceptance within the company and have been approved by the Ministry of Labour and Microenterprise.
The employer/employee relationships are defined by a Collective Labour Contract, approved by the Ministry of Labour and Microenterprise, subject to periodical mandatory review by the parties. The Contract reaffirms and boosts equal opportunities and defines the mechanisms regulating rights and obligations of the parties, not only in view of regulating contractual issues, but to valorise diversity as well.

Entel Bolivia adopts moreover the ILO recommendations, in the observance of all regulations provided by Bolivian law and in particular the Labour Code.

Safeguards for labour

Concerning freedom to associate, the Group's companies operating in Latin America ensure the observance of the general rules in force in each country.

In 2006 TIM Partecipaçoes renewed the Collective Contracts of all operating companies.

Entel Bolivia recognizes and actively cooperates with Trade Unions representing the workers (FESENTEL), ensuring freedom to associate, and is compliant to Constitutional provisions concerning employee remuneration.

Some data concerning Unions:

- TIM Brasil: approximately 5.37% of workers are members of Trade Unions Organizations;
- Entel Bolivia: 59% of workers are members of Union Associations.

In both countries the results of negotiations affect all employees, including non Union members.

In TIM Brasil the company agrees with trade unions the reorganisation processes, though no mandatory requirement is provided by legislation, and discharges its legal duties towards institutional bodies such as ANATEL (regulatory) and CADE (antitrust).

On the subject of regulations protecting child labour, all Group companies conform to national and international regulations.

In order to fight exploitation and disadvantaged socio-economic conditions some specific social initiatives have been launched at national level:

- TIM Partecipaçoes supports project of social inclusion and fight against discriminations through the teaching of music (e.g., TIM Music in the school, benefiting 15,000 children, TIM Arteducação, benefiting 10,000 children, etc.) and alphabetization projects (e.g. Alfa 100, Pastoral da Criança, benefiting 28,000 people). In June 2006 a healthcare project, named "Adopt a community", has been launched benefiting 56 communities (approximately 15,000 people).
- Entel Bolivia favours and supports socio-economic development projects, as well as education and sport projects, with its own initiatives or through agreements with both public and private institutions. In 2006 a voluntary program based on the Christmas campaign achieved its goal to give a Christmas present to more than 1,500 children.

  In 2006, in order to support and promote the professional development of the Country's university students, Entel signed agreements for stages at national level with 17 public and private universities, offering an opportunity to put knowledge into practice and to complete the learning process.

  Entel has moreover defined a series of agreements with Public and Private Institutions to improve the life standard of children and youngsters in disadvantaged conditions. Some of the most important projects implemented in 2006 to help children in their education are described in the "Community" chapter.

In 2006 TIM Brasil started the implementation of the private Security Plan for all employees. At the end of October 90% of employees had adhered, thus confirming the validity of the initiative.

Training and development

To create a shared-values base and raise employee involvement on corporate management-related issues, the Group launched initiatives to spread the Group's values and to communicate the corporate strategic plans.

The results of such actions have been monitored through the "Group photo" survey.

In TIM Partecipaçoes talent enhancement programs are active, such as the enrolment of employees to University post-graduate masters with company contributions to expenses. An internal job-posting system allows to fill vacancies through intranet or posting on company notice boards.

Entel Bolivia promotes personal, professional and social development through training programmes. At the end of 2006, 81% of employees had achieved a professional education certificate. A Safe Driving program has moreover been launched whose goal is employee safeguard.

Shareholders

Strategy

The Group's companies are well aware of the significance of correct information on their activities with respect to the market, investors and the Community. Aside from the necessary confidentiality in business management, the Group's companies set transparency as their goal in relationships with all the stakeholders. In particular, Telecom Italia communicates with market and investors adopting correctness, clearness and equal access to information criteria.
Outward communication is regulated – in compliance with regulations in force – by appropriate internal procedures.
The Investor Relations department is in charge for the relation between financial markets and the company, and it represents the information contact for Telecom Italia investors.

Financial communication

Efficient, fast and transparent financial communication with shareholders is a strategic element for the Group.

In 2006 the most significant financial communication event has been the annual meeting with the Financial Community, held in Milan on March 8. During such meeting Telecom Italia presented its targets for the three-year period 2006-2008 and the strategies to achieve them.
The new organisational model of the Group, finalised in the second half of 2006, is consistent with the choice of a functional structure capable of efficiently implementing the strategic goals involved in the convergence between fixed mobile telecommunications, broadband Internet and media content, already presented to the market on October 25, 2006. Such organisational model involves four business units (fixed, mobile, network and Top Client/ICT), directly reporting to Chief Executive Officer Riccardo Ruggiero, who reports to the Executive Vice President Carlo Buora.
In 2006 the company has organised over 200 formal meetings with the market (financial analysts, institutional and individual investors) involving quarterly conference calls, road shows, attendance at conferences, as well as daily contacts with financial analysts and investors both one-to-one and by telephone.

Particularly important is financial communication with investors, specifically focused on Socially Responsible Investing (SRI), in co-operation with the Group Sustainability Department. These financial operators favour investment in companies respecting ethical, social and environmental issues without neglecting economics. A specific road show has been devoted to SRI investors.

Concerning relations with individual shareholders (retail), today approximately 770,000, Telecom Italia has launched in 2006 a new financial communication channel to efficiently meet the growing demand for information and timely updating on the Group.
The main tool of such channel is the shareholder Club "TI Alw@ys ON" (http://ticlub.telecomitalia.it). Created in March 2006, the Club helps individual shareholders to establish lasting relations with the company both receiving and exchanging information

(Newsletter, Faxletter, Stock weekly Report and alerts via e-mail and/or SMS) not only related to the Telecom Italia Group, but to the overall TLC world.
As far as on-line financial communication, the institutional website of Telecom Italia (http://www.telecomitalia.it) has been completely renewed, thus gaining the Group an excellent position in the classification of Hallvarsson & Halvarsson, a Sweedish company leader in financial communication.
Further information on this significant result are available in the "Results" paragraph of the Introduction.

Safeguarding privacy and protecting data

The Telecom Italia Group, in compliance with regulations in force and consistently with the Group's Code of Ethics, is strongly committed to ensure the observance of the laws in force concerning the protection of personal data (Legislative Decree 196/03, the so-called "Privacy Code").

Significant initiatives are being in particular implemented on the technical side, also on the basis of analyses and audits conducted by KPMG Advisory, leading international consultants. These huge investments aim at establishing a stricter control on the most important IT systems handling personal data, with special focus on telephone and telematic data traffic and mandatory obligations by judicial authorities.

Telecom Italia has already set up a specific "Privacy" department which is entrusted with the correct application of sector regulations at Group level. The implementation of these regulations is monitored in Telecom Italia through an audit system based on periodical self-assessment procedures of managers in charge of data handling and on periodical audits by the Privacy and Information Security departments, according to criteria and methodologies defined under the guidance of the Group's auditing company. In 2006, in particular, audits concerned the privacy requirements related to personnel management, the privacy role in contracts with suppliers, video-surveillance and data safety measures. At Group level, some subsidiaries underwent audits on the status of implementation of privacy rules. Audits also involved third parties, in particular customer data handling and the adoption of the safety measures provided by the law at dealers, partners and software service suppliers.
Superior Health Institute
Among other initiatives undertaken to improve the data safety level, it is worth to be mentioned, from the organizational point of view, the updating of Group policies regulating access to corporate IT resources, the management of requests for personal data extraction from the systems, the classification and safeguard of corporate information as well as the tracking of individual access to traffic data.

Furthermore the spreading of privacy culture at company level has been boosted, also by implementing a training and awareness plan on the application of rules on the protection of employees and customers' personal data. This involved, among else, 691 department managers and key professionals of Marketing, Sales, Customer assistance and caring, Human Resources departments.

Lastly, in compliance with provision 26 of attachment B (Technical Manual on Minimal Required Security Measures) of the Privacy Code, Telecom Italia confirms of having drawn up the Personal Data Security document for 2006. This document describes the technical and organizational criteria adopted to protect common, sensitive and judicial personal data handled with information technology tools, as well as the training plan designed for people responsible of handling personal data.

Please note that for 2006 the first edition of Personal Data Security document has been issued within the March 31 deadline and has then been updated in September, to incorporate the organisational, procedural and operational changes in the personal data handling reference framework, consequent to the merger by incorporation of TIM Italia into Telecom Italia and to the new organisation of Operations.

Risk Management

The Telecom Italia Group has set up in 2006, within the corporate governance system, the Risk Management Committee, in charge of managing risks and to ensure business operational continuity. It also set up a Group Risk Officer office, in charge of implementing the Enterprise Risk Management system, spreading the related methodologies and tools and coordinating the risk assessment process.

ERM - Enterprise Risk Management – is the method and the set of tools available to support the organisation, whose goal is coordinating the risk assessment processes. This is a framework adopted at international level to assess the development of risk management processes and correctly identify the acceptable risk level. CRSA (Control & Risk Self Assessment), operating within this framework, is the governance tool on corporate risk, already in place for more then three years, through which the identification, assessment and management of operational risk is carried out.

CRSA is based on risk self-assessment by the management, with the help of quali-quantitative measures and parameters, followed by surveys on existing audits and improvement proposals. The yearly CRSA cycle of risk identification and management involves the following operational phases:

- definition of Group's targets by Top Management. For 2007 the following have been defined: Focus on customers, Market Leadership and Competitiveness, Image and Reputation, Reliability and Transparency of Information, Cash generation and Operational efficiency, Integration, Implementation of the new Organisational structure;
- implementation of Group's targets by corporate departments with reference to their organisational context;
- identification and consolidation of risks possibly jeopardising the achievement of targets;
- assessment of identified risks in terms of impact and probability of occurrence and "weighing" of the same through the assignment of a quali-quantitative coefficient of relevance;
- identification of acceptable risks and of those involving special protective measures;
- development of action plans including protective measures;
- update of the internal control system and follow up if required.

The CRSA cycle for 2006 led to the identification of 218 actions related to the Consolidated Risk Portfolio at Central Department/Operations/Business Unit level (180 identified risks) and 14 actions related to Group Risk Portfolio (6 identified risks).

The management of the subsequent steps is supported by a web-based application integrating the CRSA and APM (Action Plan Monitoring) systems. It allows the automatic management and monitoring of Action Plans deadlines defined by CRSA, as well as it has been done for action plans deriving from audits. All employee involved in the various CRSA steps, both in Italy and abroad, underwent specific training.

The integrated APM and CRSA systems are currently managing approximately 1,750 users, 2,600 actions from Audit action plans and 550 actions from CRSA action plans.

INVESTMENTS HELD BY DIRECTORS, STATUTORY AUDITORS, GENERAL MANAGERS AND KEY MANAGERS

In accordance with article 79 of the regulation for the introduction of Legislative Decree 58 dated February 24, 1998, adopted by Consob under Resolution 11971 dated May 14, 1999, the following tables present the investments held in Telecom Italia S.p.A. and in the companies which it controls by individuals who, during 2006 or a part of that year, have held the post of director, statutory auditor, general manager and key manager in Telecom Italia S.p.A..

BOARD OF DIRECTORS AND BOARD OF STATUTORY AUDITORS OF TELECOM ITALIA S.P.A.

Name	Company	Class of shares	Number of shares held at the end of 2005 (or at the date of appointment)	Number of shares purchased in 2006	Number of shares sold in 2006	Number of shares held at the end of 2006 (or as of the date on which individual left post if before)
Guido ROSSI			185,000(1)	=	=	185,000
Gilberto BENETTON	Telecom Italia S.p.A.	Ordinary Savings	1,946,250 990,000	= =	= =	1,946,250 990,000
Carlo Orazio BUORA	=	=	=	=	=	=
Riccardo RUGGIERO General Manager			=			
Paolo BARATTA			=			
John Robert SOTHEBY BOAS	=	=	=	=	=	=
Diana BRACCO	Telecom Italia S.p.A. Telecom Italia Media S.p.A.	Savings Ordinary	29,805 594	=	=	29,805 594
Francesco DENOZZA			=	=	=	=
Domenico DE SOLE	=	=	=	=	=	=
Luigi FAUSTI	Telecom Italia S.p.A.	Ordinary	5,985	50,000(1)	=	55,985
Guido FERRARINI	Telecom Italia S.p.A.	Ordinary	=	50,000	=	50,000
Jean Paul FITOUSSI	=	=	=	=	=	=
Vittorio MERLONI	=	=	=	=	=	=
Gianni MION	Telecom Italia S.p.A.	Ordinary Savings	27,000(1) 35,000(1)	= =	= =	27,000 35,000
Massimo MORATTI	=	=	=	=	=	=
Marco ONADO	Telecom Italia S.p.A.	Ordinary Savings	17,000 11,092	30,000 =	= =	47,000 11,092
Renato PAGLIARO	Telecom Italia S.p.A.	Savings	45,000	15,000	=	60,000
Pasquale PISTORIO	Telecom Italia S.p.A.	Ordinary	1,549,000(2)	=	=	1,549,000
Carlo A. PURI NEGRI	=	=	=	=	=	=
Luigi ROTH	Telecom Italia S.p.A. Telecom Italia Media S.p.A.	Ordinary Ordinary	36,292(1) 726(1)	=	=	36,292 726
Marco TRONCHETTI PROVERA	Telecom Italia S.p.A.	Ordinary Savings	2,000,000 1,000,000	= =	= =	2,000,000 1,000,000
Giovanni CONSORTE	=	=	=	=	=	=
Enzo GRILLI	=	=	=	=	=	=
Giuseppe SALA	=	=	=	=	=	=
Paolo GOLIA	Telecom Italia S.p.A.	Ordinary	1,437	=	=	1,437
Enrico Maria BIGNAMI	=	=	=	=	=	=
Salvatore SPINIELLO	=	=	=	=	=	=
Ferdinando SUPERTI FURGA	=	=	=	=	=	=

Gianfranco ZANDA	=	=	=	=	=	=
Rosalba CASIRAGHI	=	=	=	=	=	=
Stefano MEROI	=	=	=	=	=	=

(1) Shares held indirectly.
(2) Including 660,000 shares held indirectly.

The following table provides the required disclosure, in aggregate form, of the investments held by key managers of Telecom Italia S.p.A..

Company	Class of shares	Number of shares held at 3/7/2006 (or at the date of appointment)	Number of shares purchased in the period 3/7 – 12/31/2006	Number of shares sold in the period 3/7 – 12/31/2006	Number of shares held at the end of 2006 (or as of the date on which individual left post if before)
Telecom Italia S.p.A.	Ordinary Savings	15,336 (1) 74,834(2)	279 =	1,591 10,000	14,024 64,834
TI Media S.p.A.	Ordinary	687	=	=	687

(1) Including 3,429 held indirectly.
(2) Including 25,000 shares held indirectly.

GLOSSARIO

2G (second-generation Mobile System): second-generation protocols using digital encoding and including GSM, D-AMPS (TDMA) and CDMA. 2G networks are in current use all over Europe and other parts of the world. These protocols support high bit rate voice and limited data communications. 2G networks technology offer auxiliary services such as data, fax and SMS. Most 2G protocols offer different levels of encryption.

3G (third-generation Mobile System): third-generation wireless service, designed to provide high data speeds, always-on data access, and greater voice capacity.
3G networks technology provide to transfer both voice data services (telephony, messaging) and non-voice data (such as downloading Internet information, exchanging email, and instant messaging). The high data speeds, measured in Mbps, are significantly higher than 2G and, 3G networks technology enable full motion video, high-speed internet access and video-conferencing. 3G technology standards include UMTS, based on WCDMA technology (quite often the two terms are used interchangeably) and CDMA2000.

Access charge: amount charged per minute by national operators for the use of their network by operators of other networks. Also known as an “interconnection charge”.

ADS (American Depositary shares): used for the listing of Telecom Italia ordinary and savings shares on the NYSE (New York Stock Exchange). The ordinary and savings ADS (American Depositary Shares) representing, respectively, 10 ordinary shares and 10 savings shares of Telecom Italia.

ADSL (Asymmetric Digital Subscriber Line): a modem technology which converts existing twisted-pair telephone lines into access paths for multimedia and high-speed data communications. ADSL can transmit up to 6 Mbps to a subscriber, and as much as 832 Kbps or more in both directions. Such rates expand existing access capacity by a factor of 50 or more without new cabling.

Analog: Trasmission of video signals, voice or other not in digital form.

Analog network: network using analog technology capable of connecting one user with all the others, but with limited transmission capacity.

ASTN (Automatically Switched Transport Network): Emerging architectural standard for switched intelligent optical network for the management of the automatic signaling and routing of connection, auto-discovery and meshed optical network protection.

ATM (Asynchronous Transfer Mode): A broadband switching technology that permits the use of one network for different kinds of information (e.g., voice, data and video).

BroadBand services: Services characterized by a transmission speed of 2 Mbit/s or more. According to international standards, these services are divided into two categories: (i) Interactive services, including videotelephone/videoconferencing (both point-to-point and multipoint); videomonitoring; interconnection of local networks; file transfer; CAD; highspeed fax; e-mail for moving images or mixed documents; broadband videotex; Video on demand; retrieval of sound programs or fixed and moving images; and (ii) Broadcast services, such as sound programs, television programs (including high-definition TV and pay TV) and selective document acquisition.

Backbone: network portion with the highest traffic intensity and from which the connections for services in the local areas depart.

Broadcast: Simultaneous transmission of information to all nodes and terminal equipment of a network.

BSC (Base Station Controller): interface with the MSC switching exchange. Has the task of supervising and controlling radio resources, both during the phase when a call is being set up and during the maintenance phase.

BSS (Business Support System): The system used by network operators to manage business operations such as billing, sales management, customer-service management and customer databases. A type of Operations Support System (OSS).

BTS (Base Transceiver Station): radio base station which sends the GSM radio signal via the antenna to cover an area (cell) and coordinates one or more radio transceivers (TRX).

BWA (Broadband Wireless Access): technology aimed at providing wireless access to data networks, with high data rates and providing data transmission up to a theoretical limit of 52 Mbit/s downstream and 12 Mbit/s upstream over a single twisted pair of wires. VDSL is capable of supporting high bandwidth applications such as HDTV. From the point of view of connectivity, broadband wireless access is equivalent to broadband wired access, such as ADSL or cable modems. One particular broadband wireless access technology is being standardized by IEEE 802.16 also known as WiMAX.

Carrier: company that makes available the physical telecommunication network.

CATV (Cable television): cable or fiber-based distribution of TV programs.

Cells: geographical portion of the territory illuminated by a BTS: 900MHz / 1800MHz.

Cellular: a technique used in mobile radio technology to use the same spectrum of frequencies in one network multiple times. Low power radio transmitters are used to cover a "cell" (i.e., a limited area) so that the frequencies in use can be reused without interference for other parts of the network.

Channel: portion of a communications system that connects a source to one or more destinations. Also called circuit, line, link or path.

Client – server : software programme that is used to contact and obtain data from a Server software programme on another computer. Each Client programme is designed to work with one or more specific kinds of Server programmes, and each Server requires a specific kind of Client. This configuration model is opposed to a Peer-to-Peer configuration, where the contact is performed on the same level.

Coaxial cable: tool for data and information transmission through broadband connection.

CPS (Carrier Pre-selection): permits a customer to pre-select another operator as an alternative to Telecom Italia without dialing an identifying code.

Digital: a mode of representing a physical variable such as speech using digits 0 and 1 only. The digits are transmitted in binary form as a series of pulses. Digital networks are rapidly replacing the older analog ones. They allow for higher capacity and higher flexibility through the use of computer-related technology for the transmission and manipulation of telephone calls. Digital systems offer lower noise interference and can incorporate encryption as a protection from external interference.

Digital Terrestrial TV: Digital Terrestrial Television Broadcasting is a new type of broadcasting technology that provides a more effective way of transmitting television services using a digital system instead of the existing analogue system.

District traffic: Long distance telephone calls within the same area code.

DNC (Direct Numerical Circuit/Control): dedicated digital line allowing point-to-point, or point-to-multipoint connections through digital technology. It can be used for example for a web server connection to the Internet.

DSL Network (Digital Subscriber Line Network): a network built on existing telephone lines with DSL technology devices which use sophisticated modulation schemes to pack data onto copper wires for connections from a telephone switching station to a home or office.

DVB - H (Digital Video Broadcasting - Handheld)
DVB - H technology combines digital video with the Internet Protocol (IP): contents are subdivided into packets using the same basic technology employed by the Internet. The use of IP technology allows the transmission of TV and radio programmes, web pages, music and video games to smartphones/PDA's.

DWDM (Dense Wavelength Division Multiplexing): this is a technology for multipling and transmitting different wavelengths along a single optical fibre contemporaneously.

EDGE (Enhanced Data for GSM Evolution)
This is a powerful technology that increases the data transmission rate of the GPRS standard from rates of 30-40 kbit/s to more than 100 kbit/s and even up to 200 kbit/s with optimal radio conditions.

Exchange: see Switch.

Flat rate: the rate applied by providers to users surfing the web. It is usually a fixed monthly rate for a subscription to a specific Internet Service Provider, aside from the number of connection hours to the Net.

Frame Relay: a data transmission service using fast protocols based on direct use of transmission lines.

Gateway: a connection between the LANs and WANs of one or more suppliers. Can also mean the access nodes to international networks of various kinds.

GSM (Global System for Mobile Communication): a standard for digital cellular telephony used in the world and working on 900MHz and 1800MHz band.

GPRS (General Packet Radio Service)
Packet-switched based system of transmitting data over the GSM network that increases and optimises the sending and receipt of data on the mobile network.

HDSL (High – bit- rate – Digital Subscriber Line): technology for business customers which allows the provision of local loop circuits at higher speeds and lower cost than through conventional means. It’s principally dedicated to business customers.

HSDPA (High-Speed Downlink Packet Access/UMTS Hi Speed – Universal Mobile Telecommunications System): UMTS evolution allows broadband connections up to 3.6 Mbps.

ICT (Information and communication(s) technology): broad area concerned with information technology, telecommunications networking and services and other aspects of managing and processing information, especially in large organizations.

Interactive: allowing the user to change some aspect of the program.

Internet: the world's best-known data network. Initially used by the U.S. Department of Defense, the Internet now provides an interface for networks based on different technologies (LANs, WANs, data networks, etc.), but which use the TCP/IP protocol platform.

IP (Internet Protocol): A set of communications protocols for exchanging data over the Internet.

IPTV (Internet Protocol Television): A system that utilises the Internet Protocol infrastructure to transmit digital television content over a network and deliver it via a broadband Internet connection.

ISDN (Integrated Services Digital Network)
Is a circuit-switched telephone network system, designed to allow digital transmission of voice and data over ordinary telephone copper wires, resulting in better quality and higher speeds than that available with the PSTN system.

ISPs (Internet Service Provider): a vendor who provides access to the Internet and World Wide Web.

LAN (Local Area Network): private network that covers a local geographic area and provides public telecommunications services as well as interconnection between personal computers.

Local Loop (Doppino Telefonico): copper wire-couple, through which the telephone connection reaches users; it is the foundation of traditional telephone lines and it is often called "last mile".

MEMS (Micro-Electro-Mechanical Systems): MEMS are miniaturized devices ranging in size from a few micrometers to a few millimeters, which execute one or more monitoring, processing or actuation functions by deploying a combination of electronic, mechanical, optical, chemical or biological components integrated on a usually silicon hybrid circuit.

MGW (Media GateWay): junction for the connections which carry user traffic.

MMS (Mobile Multimedia Services): represent an evolution of the SMS and the EMS service using various mono-medial elements (text, design, photos, video-clips and audio), which are synchronized and combined allowing them to be packed together and sent to GSM-GPRS platforms.

Modem: modulator/Demodulator. A device that modulates digital data to allow their transmission on analog channels, generally consisting of telephone lines.

MPLS (Multi Protocol Label Switching)
A data-carrying mechanism which emulates some properties of a circuit-switched network over a packet-switched network permitting different types of traffic (data, voice and video) over the same channel.

MSC (Mobile Switching Center): executes functions such as controlling calls, switching traffic, taxation, controlling network interfaces and acts as an interface with other networks.

MS SPRING: a form of traffic protection mechanism for the equipment.

MSP: it’s the name of a general purpose programmable switch made by Redcom Laboratories.

Multimedia: a service involving two or more communications media (e.g., voice, video, text, etc.) and hybrid products created through their interaction.

Network: an interconnected collection of elements. In a telephone network, these consist of switches connected to each other and to customer equipment. The transmission equipment may be based on fibre optic or metallic cable or point to point radio connections.

NGN (Non-Geographic Number): the non-geographic numbers are unique as they are by definition not associated with any particular geographic location (*e.g.* premium rate services, toll free, directory assistance services).

NNI Agreements (Network Node Interface Agreements): Contractual agreements for the interface between two public network pieces of equipment.

Node: Topological network junction, commonly a switching center or station.

Nodo B: (counterpart of BTS in GSM): this is the Radio Base Station in UMTS technology which, via an antenna, sends the UMTS radio signal which creates the coverage of the cell (typically 3 for Node B). It also performs functions which are strictly associated with managing the radio connection

OLOs (Other Licensed Operators): companies other than the incumbent operator which operate telecommunications systems in a national market.

ONP (Open Network Provision): Principles and conditions laid down by the EU for access to and usage of public telecommunications networks and services. A network architecture that permits telecommunications services to be offered on facilities of public operators and for equipment to be connected to such networks.

Optical fiber: thin glass, silicia or plastic wires, building the interstructure base for data transmission. An optical fiber cable contains several individual fibers, and each of them is capable of driving a signal (light impulse) at illimited bandwidth. Optical fibers are usually employed for long-distance communication: they can transfer "heavy" data loads, and the signal reaches the recipient, protected from possible disturbances along the way. The driving capacity of optical fibers is higher than the traditional cable ones.

OSS (Operations Support System): Methods and procedures (whether mechanized or not) which directly support the daily operation of the telecommunications infrastructure.

Outsourcing: Hiring outsiders to perform various telecommunications services, which may include planning, construction, or hosting of a network or specific equipment belonging to a company, and, ultimately, the management of entire telecommunications systems. Value-added applications may also be provided in various sectors.

PABX (Private Automatic Branch Exchange): Telephone switchboard for private use, but linked to the national telephone network.

Packet Switching: Method of transmitting information that maximises the use of the channel capacity by routing data through nodes: each message is divided into different packets that are then sent to their specified destination, some even by different routes.

Pard CDN: points of access to a data network realized by direct digital circuits.

Pard CDA: points of access to a data network realized by direct analog circuits.

Pay-Per-View or PPV: a system by which the viewer pays to see a single program (such as a sporting event, film or concert) at the moment at which it is transmitted or broadcast.

Pay TV: paid-for TV channels. To receive Pay TV or Pay-Per-View programs, a decoder must be connected to the television set, and a conditional access system.

PCS: personal communications services.

PDA (Personal Digital Assistant): a handheld computer with a memory size up to several megabytes and a touch-sensitive screen, often using a stylus to input data. The PDA is mainly used for calendar, address book and memoranda functions, but can incorporate advanced office or multimedia functions such as voice calls, messaging, video, mp3 player, etc..

Penetration: the measurement of the take-up of services. As of any date, the penetration is calculated by dividing the number of subscribers by the population to which the service is available and multiplying the quotient by 100.

Platform: the total input, including hardware, software, operating equipment and procedures, for producing (production platform) or managing (management platform) a particular service (service platform).

Pop (Point of presence): internet provider locations fo network connection, often through dial-up phone lines. When a Pop is within a specific local area, users can connect to the Internet by dialing a local phone number.

POTS (Plain Old Telephone Service): refers to the basic telephony service (homes use) supplying standard, single-line telephones, fixed-line services and access to public voice telephony network. In contrast, telephone services based on digital communications lines, such as ISDN, are not POTS. The main distinctions between POTS and non-POTS services are speed and bandwidth. POTS is generally restricted to about 52 Kbps.

PSTN (Public Switched Telephone Network): the public telephone network delivering the basic telephone service and, in certain circumstances, more advanced services.

RNC (Radio Network Controller – counterpart of BSC in GSM): supervises and controls radio resources, both during the phase of setting up the call, and during the maintenance phase (for example, handover between different cells). Furthermore, it handles connectivity from and towards: Node B, MSC*, and other RNC.

Roaming: a function that enables wireless subscribers to use the service on networks of operators other than the one with which they signed their initial contract. The roaming service is active when wireless is used in a foreign country (included in GSM network).

RoF (Radio over Fiber): a technology to feed antennas with digital/analogue signals over optical fiber.

RTG (Rete telefonica generale or the equivalent of PSTN in English): is the network of the world's public circuit-switched telephone networks in much the same way that the Internet is the network of the world's public IP-based packet-switched networks.

Satellite services: satellites are used, among other things, for links with countries that cannot be reached by cable or as an alternative to cable and to form closed user networks.

SDH Standard (Synchronous Digital Hierarchy): the European standard for high-speed digital transmission.

SDSL (Symmetrical Digital Subscriber Line): also known as HDSL.

Service Provider: the party that provides end users and content providers with a range of services, including a proprietary, exclusive or third-party service center.

Universal service: the obligation to supply basic service to all users throughout the national territory at reasonable prices.

SGT (Transit exchange interconnection level for telephone traffic): transit exchange for telephone traffic carriage, routing and transmission.

SGU (Local exchange interconnection level for telephone traffic): local exchange for telephone traffic carriage, routing and transmission.

SME: the small- and medium-size enterprise market which consists of businesses having between 3 and 50 employees.

SMS (Short Message Service): short text messages than can be received and sent through GSM-network connected cellular phones. The maximum text length is 160 alpha-numerical characters.

SNCP: a form of traffic protection mechanism for the equipment.

SOHO: the small office/home office market which consists of businesses that use telephone lines to connect to the Internet, as opposed to dedicated lines, and is made up of small businesses, generally with one or two employees, and businesses conducted out of the home.

SPP (Service Provider Portability): allows an end user to retain the same directory number after changing from one service provider to another.

Switch: these are used to set up and route telephone calls either to the number called or to the next switch among the path. They may also record information for billing and control purposes.

Switched Transit Traffic: calls placed between two other countries that are routed through the Italian fixed network.

Synchronous: type of data transmission in which there is permanent synchronization between the transmitter and the receiver.

TACS (Total Access Communication System): an analog cellular network using the 900 MHz band based on a European standard also used in the UK, Ireland, Austria and Spain. Features include handover and available add-on services include answering, call notification, call transfer, differentiation of business and private calls, authorization code for outgoing international calls and itemized billing.

TDMA (Time Division Multiple Access): a technology for digital transmission of radio signals between, for example, a mobile phone and a radio base station. TDMA breaks signals into sequential pieces of defined length, places each piece into an information conduit at specific intervals and then reconstructs the pieces at the end of the conduit.

UMA (Unlicensed Mobile Access): A technology that makes communication protocols for GSM and GPRS mobile phones compatible with wireless communications protocols like WiFi.

UMTS (Universal Mobile Telecommunications System) : Third-generation mobile communication standard. It's constituted by a broadband system in which data travel at 2Mb-per-second, communication is faster, quality is better and multimedia contents can travel trough the Net.

UMTS Cells: (Geographical portion of the territory illuminated by a Node B).

UMTS Channels: These enable all the customers of the cell to access both the CS (Circuit Switched) services and the PS (Packet Switched) services of UMTS technology.

Unbundling: a process which allows telephone carriers (other than Telecom Italia) to lease the last part of the telephone loop, that is to say, the copper wire-cable, connecting Telecom Italia central station to the user's home, disconnecting the user from Telecom terminals and connecting him/her to the telephone carrier's terminals.
VAN (Value-added Network): a type of public network that leases basic transmission facilities from a common carrier, adds features that enhance the service and provides the improved communications capability to end users. Automatic alternate routing network management and error correction are examples of the value added.

VAS (Value Added Services): Value Added Services provide a higher level of functionality than the basic transmission services offered by a telecommunications network for the transfer of information among its terminals, which include wired or wireless switched-circuit analog voice communications; direct "unrestricted" digital point-to-point service at 9,600 bit/s; packet switching (virtual call); direct broadband analog transmission of TV signals, and supplementary services, such as closed user groups; call waiting; collect calls; call forwarding, and identification of number called. Value Added Services performed by the network, the terminals or the specialized centers include message handling services (MHS) (which can be used, among other things, for commercial documents in predetermined formats); electronic directories listing users, network addressees and terminals; e-mail; fax; teletex; videotex and videotelephone. Value Added Services could include also value added voice telephony services such as Freephone or Premium Rate Services.

VDSL (Very - high – data – rate Digital Subscriber Line): Access technology that allows providers to give clients, by means of an apparatus installed in their homes, access to voice and TV services on the traditional telephone line with a speeds of up to 100 Mbps in downstream (VDSL2).

Videotex: a service pursuant to an ITU standard, permitting remote access to a database by telephone.

VoIP (Voice Over IP): transmission of voice communications over Internet Protocol (IP) data networks, such as IP-based LANs, intranets or the Internet.

VPN (Virtual Private Network): a network designed for a business or government agency, using the infrastructures of a carrier and providing customized services, and which operates in such a manner as to appear dedicated to the user thereof.

WAN (Wide Area Network): a private network that covers a wide geographic area using public telecommunications services.

WAP (Wireless Application Protocol): a technology which allows access to the Internet using mobile sets, even without the use of a computer.

WI-FI: A service for wireless Internet connection and high speed access.

XDSL (Digital Subscriber Line): It is a technology that makes use of standard telephone lines and it includes different categories including: ADSL Asymmetric DSL, HDSL High-data-rate DSL and VDSL, Very high bit rate DSL. This technology uses a digital signal with a very high frequency in order to increase the data transfer rate.

ANNUAL REPORT ON CORPORATE GOVERNANCE

FOREWORD

This report on corporate governance in 2006 is divided into two parts.

The first part describes the "architecture" of the Company's system of corporate governance and the practical application of the various mechanisms making up the system as it came to be configured during the year, partly in response to innovations in the relevant legislation and self-regulation. In the first place the reference here is to the changes made in implementing new legislation, such as that on the protection of savings (Law 262/2005 and Legislative Decree 303/2006) and the transposition of the so-called Market Abuse Directive. In the second place it is to the adjustments made in light of the recommendations contained in the latest version of Borsa Italiana's Corporate Governance Code (March 2006). In this connection it should be noted that the Company has invoked the right to refer to the 2002 version of the Code for the report on corporate governance to be published in its Annual Report for 2006, while also indicating the steps taken to comply with the new prescriptions of the 2006 version.

The second part contains the report prepared by the Company's Internal Control and Corporate Governance Committee with an account of the activities performed and the checks made in 2006 and through to the middle of February 2007 as regards the events involving the former head of the Security Function, Giuliano Tavaroli, the security of the network and questions concerning the handling of traffic data.

PART ONE: THE SYSTEM OF CORPORATE GOVERNANCE

INTRODUCTION

The Company's system of corporate governance is made up of a series of principles, rules and procedures that are updated constantly and, where necessary, adapted to legislative and regulatory developments and to changes in international best practice. In particular, the revision of the Company's corporate governance mechanisms in 2006 involved incorporating the changes made necessary and/or desirable by the legislation on the protection of savings (Law 262/2005 and Legislative Decree 303/2006) and the transposition of the so-called Market Abuse Directive. As part of the overall revision, the Company also took steps to comply with the recommendations contained in the March 2006 version of Borsa Italiana's Code of Corporate Governance (to which Telecom Italia first adhered in 1999).

As indicated in the foreword, this report has been prepared with reference to the 2002 version of the Code of Corporate Governance but also contains an account of the steps taken to comply with the 2006 version.

For the purpose of revising its corporate governance mechanisms, the Company set up an internal working group supported by consultants of high standing; the results of the group's activity were regularly examined by the Internal Control and Corporate Governance Committee and the Board of Auditors. On the basis of the group's work the Committee submitted its own proposals for changes to the Company's system of corporate governance to the Board of Directors, which approved them and resolved that the amendments to the bylaws and the Meeting Regulations should be submitted to the shareholders' meeting called to approve the financial statements for 2006.

Very briefly and before the detailed analysis of the individual changes, it needs to be stressed that the revision activity referred to above did not significantly alter the Company's system of corporate governance, which was already broadly in line with the substance, if not the letter, of the new reference framework.

BOARD OF DIRECTORS

As indicated in earlier annual reports, the Company's system of corporate governance hinges on the central role of the Board of Directors in providing guidance and on the transparency of operational decisions, both within the Company and in relation to the market.

Role and tasks

Effective and correct corporate governance requires the Board to play an active role both in the strategic guidance of the Company and in the control of operations, with powers to direct the business as a whole and to intervene in a series of decisions necessary or serving to promote the Company's purpose.

In the first place Telecom Italia has embraced the principle that the Board of Directors has the right (and the duty) to direct the Company's activity with the ultimate objective of creating value for its shareholders. To that end, among the tasks reserved exclusively to the Board under the Company's Self-Regulatory Code, the following are especially noteworthy:

- examining and approving the strategic, business and financial plans of the Company and the Group;
- reviewing and approving the budget of the Company and the Group;
- examining and approving transactions – including investments and disinvestments – with a significant impact on the Company's or the Group's activity in view of their nature, strategic importance or size. As part of the revision of the corporate governance mechanisms, express provision has been made in the Company's Self-Regulatory Code for the Board of Directors to establish general criteria for identifying such transactions;
- verifying the adequacy of the organizational, administrative and accounting structure of the Company and the Group, with special reference to the internal control system;
- preparing and adopting the Company's corporate governance rules and drawing up the Group's governance guidelines;
- appointing the Supervisory Panel set up under Legislative Decree 231/2001;
- nominating the persons who are to hold the offices of Chairman and Managing Director in strategic subsidiaries;
- assessing the overall performance of operations and periodically comparing the results achieved with those planned. In addition, the Board of Directors carefully examines transactions in which one or more directors have an interest, directly or on behalf of third parties, with special account taken of the reports received from the Managing Directors, the Internal Control and Corporate Governance Committee and the person responsible for internal control;
- examining and approving the periodic financial reports.
- exercising the powers and performing the tasks entrusted to it by law and the bylaws.

Meetings

In 2006 the Board of Directors met eight times. the meetings were always well attended, with more than 92% of the directors present on average (the independent directors also recorded an attendance rate of more than 92%).

When board meetings were to be held, documentation permitting effective participation in the proceedings was normally provided well in advance. In this respect it should be noted that as part of the revision of the corporate governance mechanisms the Company has adopted a new procedure governing the flow of information to the members of the Board of Directors and the Board of Auditors. The new procedure incorporates that introduced in the past to fulfill the information requirements laid down by Article 150 of the Consolidated Law on Finance. The aim of the new procedure is to regulate and coordinate all the mechanisms serving the common purpose of providing directors and members of the board of auditors with the information they need on a continuous basis, so that they can perform their management and control functions properly.

On 6 November 2006 the Company released a calendar showing the meetings scheduled for the Board of Directors in 2007. It should also be noted that in 2007 Telecom Italia has again opted to publish its annual financial statements and half-yearly report respectively within 90 days of the close of the fiscal year and 75 days of the close of the half year (which allows it to benefit from the exemption from the obligation to prepare the last quarterly report for 2006 and the second quarterly report for 2007).

Election of directors

Article 9 of the Company's bylaws already provided for the members of the Board of Directors to be elected using the slate system, which the legislation on the protection of savings subsequently made mandatory as of 2006. Under this system the directors are elected on the basis of slates presented by shareholders at the Company's registered office and published in a national newspaper at least ten days before the date of the shareholders' meeting. A proposal to increase this time limit to fifteen days will be submitted to the shareholders' meeting as part of the revision of the bylaws.

Individual candidates are required to file acceptances of their candidacy and declarations in which they attest that there are no grounds for ineligibility or incompatibility; they are also required to submit curricula vitae setting out their main personal and professional data with an indication of the grounds, if any, for their qualifying as independent. The shareholders' meeting called to approve the financial statements for 2006 will be invited to approve an amendment to the bylaws requiring the above-mentioned CVs to show the positions held in management and control bodies of companies not belonging to the Telecom Italia Group. The proposed amendment is also in relation to the introduction in the Company's Self-Regulatory Code of a cap, discussed below, on the number of positions that may be held in management and control bodies.

The CVs of the directors in office are available in the Governance section of the Company's website, www.telecomitalia.it.

The slate voting system is intended to ensure the presence on the Board of Directors of persons elected from slates submitted by minority shareholders. Pending the issue of the relevant Consob regulation, which may establish a different value, the minimum holding for the presentation of a slate is fixed by the bylaws at 1% of the share capital entitled to vote at the ordinary shareholders' meeting.

The Company took the view that using the slate voting system met the needs otherwise served by the creation of a nominations committee. Moreover, following the recent revision, the Company's Self-Regulatory Code entrusts the Internal Control and Corporate Governance Committee with special powers when it is necessary to co-opt an independent director. In fact in such cases it is the Committee that proposes candidates for the Board to make the replacement.

Composition

Telecom Italia's bylaws provide for the Board of Directors to have not less than 7 and not more than 23 members. The shareholders' meeting of 7 April 2005 fixed the number at 21.

The present Board of Directors was elected for three years starting from the shareholders' meeting held on 6 May 2004 on the basis of two slates, one presented by the largest shareholder, Olimpia S.p.A., and the other by a group of Italian institutional investors. Consequently, the Board's term of office ends with the shareholders' meeting called to approve the financial statements for 2006.

During 2006 there were some changes in the composition of the Board. On 13 April the ordinary shareholders' meeting appointed Diana Bracco and Vittorio Merloni in place of Marco De Benedetti and Giovanni Consorte, who had resigned on 5 October 2005 and 23 January 2006 respectively. The slate voting system is envisaged by the Company's bylaws only for the complete renewal of the Board and therefore did not apply to the appointments in question, which increased the number of independent directors from 11 to 13 since both Diana Bracco and Vittorio Merloni were classified as independent on the basis of their declarations.

Following the resignation of the Chairman, Marco Tronchetti Provera, on 15 September 2006, the Board co-opted a new Chairman in the person of Guido Rossi. Lastly, the death of Enzo Grilli on 29 October 2006 resulted in the membership of the Board falling from 21 to 20 and the number of independent directors from 13 to 12, though they remained the majority.

On 8 March 2007 Telecom Italia's Board of Directors consisted of 20 directors, of whom 3 were executive and 17 non-executive; of the latter 12 were classified as independent.

Guido Rossi	Chairman and Member of the Strategy Committee
Gilberto Benetton	Deputy Chairman
Carlo Buora	Executive Deputy Chairman and Member of the Strategy Committee
Riccardo Ruggiero	Managing Director and General Manager
Paolo Baratta	Member of the Remuneration Committee
John Robert Sotheby Boas	
Diana Bracco	
Domenico De Sole	Member of the Internal Control and Corporate Governance Committee and of the Strategy Committee
Francesco Denozza	Member of the Internal Control and Corporate Governance Committee
Luigi Fausti	Chairman of the Remuneration Committee
Guido Ferrarini	Chairman of the Internal Control and Corporate Governance Committee (Lead Independent Director)
Jean Paul Fitoussi	
Vittorio Merloni	
Gianni Mion	
Massimo Moratti	
Marco Onado	Member of the Internal Control and Corporate Governance Committee and of the Strategy Committee
Renato Pagliaro	
Pasquale Pistorio	Member of the Remuneration Committee and of the Strategy Committee
Carlo Alessandro Puri Negri	
Luigi Roth	

The positions held by the directors in other listed companies and other large financial, banking and insurance companies are shown below:

Guido Rossi	- - -
Gilberto Benetton	Chairman of Autogrill S.p.A. and Edizione Holding S.p.A.; Deputy Chairman of Olimpia S.p.A.; Director of Autostrade S.p.A., Benetton Group S.p.A., Lloyd Adriatico S.p.A., Mediobanca S.p.A., Pirelli & C. S.p.A. and Schemaventotto S.p.A.
Carlo Buora	Director of Mediobanca S.p.A..
Riccardo Ruggiero	Director of Safilo Group S.p.A.
Paolo Baratta	Director of Edizione Holding S.p.A.

John Robert Sotheby Boas	- - -
Diana Bracco	- - -
Domenico De Sole	Director of Delta Airlines and Bausch & Lomb.
Francesco Denozza	Chairman of the Board of Auditors of Siemens S.p.A. and of Siemens Holding
Luigi Fausti	Chairman of Patrimonio Immobiliare dello Stato S.p.A.; Director of Monrif S.p.A.
Guido Ferrarini	Chairman of TLX S.p.A.; Independent Director of Autostrade S.p.A.
Jean Paul Fitoussi	- - -
Vittorio Merloni	Chairman of Indesit Company S.p.A.
Gianni Mion	Managing Director of Edizione Holding S.p.A and of Sintonia S.p.A.; Director of Autogrill S.p.A., Autostrade S.p.A., Benetton Group S.p.A., Cartiere Burgo S.p.A., Luxottica Group S.p.A., Olimpia S.p.A. and 21Investimenti S.p.A.
Massimo Moratti	Managing Director of Saras S.p.A.; Director of Interbanca S.p.A. and Pirelli & C. S.p.A.
Marco Onado	Independent Chairman of Pioneer Global Asset Management S.p.A. (Unicredito Group)
Renato Pagliaro	Director of Cartiere Burgo S.p.A., Compass S.p.A., SelmaBipiemme Leasing S.p.A., Cofactor S.p.A. and RCS Mediagroup S.p.A.; Co-General Manager of Mediobanca S.p.A.
Pasquale Pistorio	Honorary Chairman of STMicroelectronics S.p.A.; Independent Director of Fiat S.p.A.
Carlo Alessandro Puri Negri	Deputy Chairman and Managing Director of Pirelli & C. Real Estate S.p.A.; Deputy Chairman of Camfin S.p.A. and Pirelli & C. S.p.A.; Director of Olimpia S.p.A.
Luigi Roth	Chairman of Fondazione Fiera di Milano and Terna S.p.A.; Deputy Chairman of Cassa Depositi e Prestiti S.p.A.

The Directors Francesco Denozza, Guido Ferrarini, Jean Paul Fitoussi and Pasquale Pistorio were elected from the slate presented by the group of institutional investors and the others (except for Diana Bracco and Vittorio Merloni) from the slate presented by Olimpia S.p.A., the holder of approximately 18% of the ordinary share capital at 8 March 2007. Neither Diana Bracco nor Vittorio Merloni, whose names were put forward by Olimpia S.p.A., were appointed using the slate voting system since this is envisaged by the Company's bylaws only for the complete renewal of the Board.

As part of the revision of the Company's corporate governance mechanisms based on the recommendations of Borsa Italiana's 2006 Corporate Governance Code, provision has been made, as was already the case for the members of the Board of Auditors, for restrictions on the number of management and control positions that Directors may hold outside the Group. On a general basis the limit has been set at five positions on the board of directors/auditors of: (i) listed companies included in the S&P/MIB index; (ii) financial companies operating on a public basis; (iii) companies engaged in banking or insurance. In addition, not more than three executive positions may be held in non-Group companies of the types specified above. Such number may be increased or decreased by a reasoned decision of the Board of Directors based on the companies' size and organization and interlocking equity interests. The decision shall be made public in the annual report on corporate governance.

Board performance evaluation

In 2005, before it was recommended by Borsa Italiana's new Corporate Governance Code (2006), Telecom Italia's directors had carried out a Board performance evaluation, in line with international best practice. The evaluation was concerned with the size, composition and working of the Board and its committees.

That exercise permitted two objectives to be achieved: on the one hand to monitor and verify the performance of the Board and on the other to create awareness of the improvements to be made in the coming years.

For the second Board evaluation the Directors felt the need to call on an outside consultant specialized in this field to work alongside the independent Director chosen to act as the internal facilitator, both in preparing and performing the self-evaluation methodologies and in processing the results obtained. The first part of the evaluation was paper based and consisted of responding to questionnaires that differed according to individual directors' membership of the various board committees, while the second part consisted of an interview with the outside consultant, Egon Zehnder International. On the basis of checks and assessments made using techniques and standards developed in its international experience, this firm issued a professional opinion.

The factors considered in the evaluation were the independence, size and composition of the Board and the role and functioning of the Board and the Board Committees, with special reference to matters such as the flow of information, decision-making procedures, and relations with the shareholders and other stakeholders. The Board of Directors examined and assessed the outside consultant's activity and conclusions.

Attention was focused on the areas offering room for improvement and on the initiatives most likely to increase the effectiveness of the Board's activity, with a view to passing on the experience gained in the Board's three years in office to the new body that will be elected by the shareholders' meeting in April 2007.

Independent Directors

In compliance with international best practice and the indications of Borsa Italiana's 2002 Corporate Governance Code, the Company had already established a set of principles by means of which to determine whether Directors qualified as independent.

On the basis of the information provided by the Directors and of that in the Company's possession, the Board of Directors verified, both at the time of the appointment of self-declared independent Directors' and subsequently once a year that each one satisfied the independence requirements referred to in the Corporate Governance Code. The market was duly informed of the results of these verifications, which were supervised by the Board of Auditors.

According to the declarations made by the parties concerned, at present 12 of the 20 members of the Board qualify as independent, namely: Paolo Baratta, John Robert Sotheby Boas, Diana Bracco, Domenico De Sole, Francesco Denozza, Luigi Fausti, Guido Ferrarini, Jean Paul Fitoussi, Vittorio Merloni, Marco Onado, Pasquale Pistorio and Luigi Roth.

The Company's Self-Regulatory Code provides for directors to be deemed independent who neither have nor have recently had business dealings with Group companies or executive directors or members of their families on a scale able to influence their judgement and who are not in a position to exercise a significant influence over the Company as a consequence of the shares they hold or their participation in shareholders' agreements. This requirement is interpreted extensively, in order to assess "substantial" independence; accordingly, directors who have material dealings with natural or legal persons who are parties to a shareholders' agreement do not qualify as independent.

Following the adoption of Borsa Italiana's new Corporate Governance Code in March 2006, the Company decided it would be preferable to rely exclusively on the independence criteria set out therein.

Since 2004 Telecom Italia's Board of Directors has had a Lead Independent Director. As part of the revision of the Company's corporate governance mechanisms referred to above, it was considered desirable to formalize this position, which is intended to provide a point of reference and coordination for the needs and inputs of the independent directors and which is held at present by Guido Ferrarini, who is also Chairman of the Internal Control and Corporate Governance Committee and a member of the Supervisory Panel. The Lead Independent Director may use the Company's structures in performing his tasks and call special meetings of the independent directors to discuss issues related to the working of the Board or the management of the business. It should also be noted that the Chairman of the Board of Directors avails himself of the collaboration of the Lead Independent Director to improve the working of the Board.

In 2006 a total of five Independent Directors' Executive Sessions were held; the subjects discussed included strategic scenarios and the possible reorganization of the Group.

Executive directors

The authority to grant delegated powers to directors and revoke such mandates is reserved to the Board of Directors, which also establishes their objects, limits, manner of exercise and the intervals – of not more than three months – at which persons with delegated powers must report to the Board on their activity, the general results of operations, and the transactions of greatest economic, financial or balance sheet significance concluded by the Company or its subsidiaries.

In 2004 the Board of Directors appointed Marco Tronchetti Provera as Chairman and Carlo Orazio Buora and Riccardo Ruggiero as Managing Directors; Gilberto Benetton was made Deputy Chairman. Following the resignation of the Chairman, Marco Tronchetti Provera, on 15 September 2006, the Board of Directors appointed Guido Rossi as Chairman and Carlo Orazio Buora as Executive Deputy Chairman entrusted with the powers and responsibilities previously assigned to Marco Tronchetti Provera. At the same time the Board confirmed Gilberto Benetton in the position of Deputy Chairman and Riccardo Ruggiero in that of Managing Director.

Despite the broad scope of the mandates granted to the executive directors, the power to take decisions on transactions of particular significance continues to be exercised by the Board as a whole, even when such decisions theoretically fall within the limits of the executive directors' mandates. This is because such mandates are not considered a way of attributing exclusive competences but as a means of ensuring, from the standpoint of organizing the management function, the greatest possible operational flexibility, both within the Company and in relation to third parties. In 2005, moreover, executive directors' powers were reclassified as internal limits to the relationship of trust between the Board that delegates the powers and the persons who exercise them. In fact the Chairman and the Managing Directors are all legal representatives of the Company and they are individually authorized to carry out any transaction relating to the Company's activity.

It is worth remembering that on 5 October 2005, consistently with the adoption of the One Company Model, responsibility for the development of fixed, mobile and Internet services was assigned to the same person. This provides for the unitary direction of the business in addition to the unitary direction of corporate affairs. The original allocation of functions and related organizational responsibilities remained in force until 15 September 2006 and is summarized below:

- Riccardo Ruggiero, Managing Director, responsible for operations from the standpoint of the management and development of the business;
- Carlo Buora, Managing Director, responsible for the guidance and control of the business and for matters of a transversal nature affecting the entire business;
- Marco Tronchetti Provera, Chairman, entrusted (until his resignation on 15 September 2006) with coordinating the activity of the two Managing Directors and with establishing, together with them, the strategic guidelines for the Group and its development, with direct responsibility for the following areas: institutional affairs, communications and image, and investor relations.

As reported above, on 15 September 2006 the Board assigned the Executive Deputy Chairman, Carlo Buora, the organizational responsibilities and powers previously assigned to Marco Tronchetti Provera, except for the general counsel functions and the management of institutional affairs, which are assigned to the Chairman, Guido Rossi.

Following the adoption of the new organizational arrangements on 22 January 2007, the Managing Director, Riccardo Ruggiero, heads the four business areas: Domestic Fixed Services, Domestic Mobile Services, Top Clients & ICT Services and Technology. This organizational structure was completed on 16 February 2007 with the appointment of four General Managers: Massimo Castelli (Domestic Fixed Services), Luca Luciani (Domestic Mobile Services), Stefano Pileri (Technology) and Enrico Parazzini (Finance, Administration and Control).

As for the ways in which the Chairman, the Executive Deputy Chairman and the Managing Director report to the Board of Directors and the Board of Auditors, the general procedure governing the flow of information to the members of the two Boards lays down rules and methods for gathering and transmitting information on their activity, transactions with major implications for the profitability, financial position and/or assets and liabilities of the Company and the Group, transactions with related parties (including intra-group business) and atypical or unusual transactions.

Directors' remuneration

As approved by the shareholders' meeting of 7 April 2005 and in accordance with the first paragraph of Article 2389 of the Civil Code, the maximum total annual remuneration of the Board for 2006 was €3,000,000, allocated as follows:

- €114,000 to be paid to each director in office;
- an additional €63,000 to be paid to each of the four members of the Internal Control and Corporate Governance Committee (Guido Ferrarini, Francesco Denozza, Domenico De Sole and Marco Onado);
- an additional €52,000 to be paid to each of the three members of the Remuneration Committee (Luigi Fausti, Paolo Baratta and Pasquale Pistorio);
- an additional €20,000 to be paid to each of the three members of the Strategy Committee other than the Chairman of the Board and the Managing Director (now Executive Deputy Chairman) Carlo Buora (i.e. Domenico De Sole, Marco Onado and Pasquale Pistorio);
- an additional €20,000 to be paid to the director appointed to the Supervisory Panel set up under Legislative Decree 231/2001 (Guido Ferrarini).

The current remuneration system for the executive directors provides for them to receive a fixed component and an additional payment subject to the achievement of the objective for consolidated EBIT with positive Delta EVA, in other words when value is created for all investors. In the same way as for the incentive schemes for managers, there is a margin of tolerance of up to 10%, with a corresponding progressive reduction to 10% of the additional amount.

This form of remuneration applies to the Executive Directors with operational responsibilities (until September 2006, the Chairman and the Managing Directors; with the present configuration, the Executive Deputy Chairman and the Managing Director). In view of the responsibilities assigned to the current Chairman, which exclude his direct involvement in the running of the business, Guido Rossi's remuneration does not include a component based on the financial condition and operating results of the business.

There is no provision for directors to receive stock options.[1]

Further information on the compensation paid to the executive directors (including benefits) can be found in the relevant table in the Notes to the financial statements of Telecom Italia S.p.A..

As of 2000 proposals for the remuneration of the directors who hold particular offices are prepared by a Remuneration Committee made up exclusively of independent directors, which is also charged with proposing the criteria for the remuneration of the Company's senior management. In this connection the Committee has prepared the proposal for the award of shares to the top management to be approved by the shareholders' meeting called to approved the financial statements for 2006.

The new version of the Company's Self-Regulatory Code formally authorizes the Remuneration Committee's practice of having recourse to outside consultants. At the same time it confirms the Committee's power with respect to the remuneration of the directors who hold particular offices and specifies that the related proposals must be compatible with the objective of creating value for shareholders over time. As regards the remuneration of the senior management, the new Code

[1] The Managing Director Riccardo Ruggiero is an exception in this respect since, prior to his being co-opted to the Board of Directors, as General Manager he was among the beneficiaries of a stock-option plan.

provides for the Committee to assess the criteria periodically and to perform a monitoring function.

Since 6 May 2004 the membership of the Remuneration Committee has been as follows: Paolo Baratta, Pasquale Pistorio and Luigi Fausti, chairman. In 2006 the Committee met five times; the average attendance rate was more than 93%.

THE INTERNAL CONTROL SYSTEM

The effectiveness and efficiency of the internal control system are key aspects of Telecom Italia's corporate governance. Following the recommendations put forward in the 2006 version of Borsa Italiana's Corporate Governance Code, the Company revised its own Self-Regulatory Code. It should be noted, however, that the nature of the adjustments and amendments introduced was more formal than substantial because operational practices were often more advanced than the Company's official declarations.

The internal control system is a process made up of rules, procedures and organizational structures and designed to pursue substantial and procedural fairness, transparency and accountability, values that are considered fundamental for Telecom Italia's business dealings, as laid down in the Group Code of Ethics. The aim of the process is to ensure that the management of the business is efficient and can be known and verified, that accounting and operational data are reliable, that applicable laws and regulations are complied with, and that the assets of the business are safeguarded, not least with a view to preventing fraud against the Company and financial markets.

The cardinal rules of the Company's internal control system concern:

- the separation of roles in the performance of the principal activities involved in each operating process;
- the traceability and constant visibility of decisions;
- the management of decision-making processes on the basis of objective criteria.

As the body responsible for the internal control system, the Board of Directors lays down the guidelines for the system and verifies its adequacy, efficacy and proper functioning, while making sure that the main operational, compliance, economic and financial risks are appropriately identified and managed. To this end the Board uses the Internal Control and Corporate Governance Committee and a suitably independent person from the internal audit function appointed to be responsible for internal control and endowed with the resources needed to perform the task.

The Executive Deputy Chairman, Carlo Buora, is charged with the task of determining the mechanisms of the system and the manner in which it is to be implemented in accordance with the guidelines established by the Board; he is also responsible for ensuring the system's overall adequacy, its effectiveness and its adaptation to changes in operating conditions and the legislative and regulatory framework. In particular, he is responsible for the identification, monitoring and management of corporate risks, which he submits for examination by the Board of Directors.

The functions assigned to the person responsible for internal control are to verify the adequacy and effectiveness of the system and, where anomalies are found, to propose appropriate remedies. The Board has appointed the Company's internal auditor (the consortium company Telecom Italia Audit & Compliance Services), in the person of the director of the consortium company designated by Telecom Italia, to be responsible for its internal control system. This company reports on its activity to the Internal Control and Corporate Governance Committee, the Board of Auditors and the Managing Director in charge of the internal control system. The aim of entrusting internal auditing to the consortium company Telecom Italia Audit & Compliance Services, in which TI Media also holds an interest, is to maximize the independence of the person responsible for internal control from Telecom Italia's corporate structures, with respect to which the audit function is completely autonomous.

The Managing Director in charge of the internal control system is entrusted with the implementation of any maintenance work on the system found to be necessary on the basis of the checks performed and for this purpose appoints one or more persons responsible for implementation. In 2005 the position of Group Compliance Officer was created with a view to better coordinating implementation of the Group's internal control system. The Group Compliance Officer performs a role of liaison and coordination among the various plans for the improvement of the Group's internal control system and is responsible for monitoring and facilitating the relationship between management and the internal control system, so as to guarantee, with the assistance of Telecom Italia Audit & Compliance Services, methodological correctness in the management of risk. Furthermore, to further strengthen the system, the persons responsible for implementation were flanked by compliance managers coordinated by the Group Compliance Officer. The position of Group Compliance Officer was also formalized and the related tasks and duties specified. In addition, to ensure coordination of risk management at the top level, in 2006 a Risk Management Committee, chaired by the Executive Deputy Chairman and composed of the heads of the Head Office departments, was established and, within Telecom Italia Audit & Compliance Services, the position of Group Risk Officer created.

As regards compliance with the provisions implementing the Sarbanes-Oxley Act, last year saw further progress in carrying out Project 404, which involves the whole Group and, under the guidance of the related Steering Committee, is intended to ensure the traceability, documentation and adaptation of the controls used in the gathering and processing of administrative and accounting information so as to permit the efficacy of internal controls safeguarding the reliability of financial reporting to be assessed, in compliance with the applicable accounting standards, as required by Section 404 of the Act. Telecom Italia is subject to these requirements starting with its Annual Report for 2006, which therefore contains the first management's report on internal control over financial reporting, on which the external auditor will be called upon to express an opinion.

In addition, following the insertion by the Law on the Protection for Savings of Article 154-*bis* into the Consolidated Law on Finance, the shareholders' meeting called to approve the Annual Report for 2006 will introduce the position of "person responsible for preparing the Company's financial reports" into the Company's bylaws. The bylaws will specify the experience requirements (in the fields of administration, finance and auditing) for this new position, which is treated in a special report to the shareholders' meeting. The Board of Directors will appoint (and remove) this officer after consulting the Board of Auditors and will also determine the powers and duties of the office.

The Company's internal control system is completed by the so-called 231 Organizational Model, which goes beyond the mere application of the provisions of Legislative Decree 231/2001, since it provides a paradigm for the conduct of all those who act in the Company's name and on its behalf. More specifically, the model comprises "principles for dealings with governmental bodies" (elaborated as a set of rules for relations with representatives of such bodies) and "internal control checklists" listing (i) the main stages of every process, (ii) the offences that may be committed in relation to individual processes, and (iii) the control activities to prevent the related risks from arising.

The organizational model is reviewed periodically. In 2006 some modifications were necessary in order to adapt the model to changes in legislation, others were deemed appropriate in the light of the results of the model's application (for the changes made in connection with the judicial problems involving the Company's former Head of Security, see Part Two of this Governance Report). In addition, through the 231 Steering Committee the Company checked the adequacy of the internal control system with respect to the new types of offence considered, with special reference to crimes of market abuse.

Monitoring of the functioning and compliance with the model is performed by a Supervisory Panel made up of a member of the Board of Auditors (Ferdinando Superti Furga, chairman), an independent director on the Internal Control and Corporate Governance Committee (Guido Ferrarini) and the person responsible for the internal control system. This composition ensures that the Panel is completely autonomous and independent and that it embodies all the professional skills involved, in different capacities, in the control of the Company's operations. The Panel reports to the Board of Directors, the Internal Control and Corporate Governance Committee and the Board of Auditors on the checks performed and their results. Lastly, it should be noted that a special unit (the Compliance Support Group) has been created within Telecom Italia Audit & Compliance Services to provide operational support to the Supervisory Panels of Group companies by handling reports of violations of the organizational model and conducting compliance audits on the basis of the data received by way of the information flows that have been put in place.

The Internal Control and Corporate Governance Committee

Since 2000 the Board of Directors of Telecom Italia has had an Internal Control and Corporate Governance Committee, charged with advisory functions and the formulation of proposals.

In particular, with the assistance of outside consultants where this is deemed desirable, the Committee:

- evaluates the adequacy of the internal control system;
- evaluates the work plan prepared by the person responsible for internal control, from whom it receives periodic reports;
- assesses, together with the heads of the Company's administrative departments and the external auditors, whether the accounting policies have been correctly applied and are homogeneous for the purpose of preparing the consolidated financial statements;
- evaluates the proposals made by the external auditors in order to be awarded the appointment, the audit plan and the results set out in any letter of suggestions;
- reports to the Board of Directors on the activity performed from time to time and in any case on the adequacy of the internal control system on the occasion of the meetings held to approve the annual financial statements and the half-yearly report.;
- performs the additional tasks that may be assigned to it by the Board of Directors, particularly as regards relations with the external auditors; and;
- monitors compliance with the rules of corporate governance and their periodic updating.

In response to the recommendations of the 2006 version of Borsa Italiana's Corporate Governance Code, the Company has made some amendments to its own Self-Regulatory Code on the basis of which the Internal Control and Corporate Governance Committee, in addition to the tasks described above, is also called upon to:

- express its opinion on the proposals for appointing, removing and assigning duties to the person responsible for internal control and the person responsible for preparing the Company's financial reports;
- assesses, together with the person responsible for preparing the Company's financial reports, whether the accounting policies have been correctly applied for the purpose of preparing the consolidated financial statements;
- in cases of substitution of an independent director, proposes the candidates for co-optation to the Board of Directors; and
- defines the procedures and time limits for conducting the "board performance evaluation".

The Committee is composed entirely of independent directors. In its meeting of 6 May 2004 the Board of Directors appointed Francesco Denozza, Domenico De Sole, Marco Onado and Guido Ferrarini (chairman).

In 2006 the Committee met 15 times and the attendance rate was 95%. Committee meetings were also attended by the Chairman of the Board of Auditors or by the auditor he designated. Where it was deemed desirable in the light of the issues on the agenda, the Committee and the Board of Auditors held joint meetings (this refers, in particular, to the issues that will be dealt with in Part Two of this Governance Report).

During the year the Committee contributed to the implementation and updating of the Company's instruments of corporate governance. In particular, following the transposition of the Market Abuse Directive into Italian law, the enactment of the law on the protection of savings and the issue of Borsa Italiana's "new" Corporate Governance Code (March 2006), the Internal Control and Corporate Governance Committee monitored the activity of the offices of the Company. This activity led, in 2006, to the preparation of procedures for the disclosure of inside information and for transactions with related parties and, in 2007, to the approval of the Company's new Self-Regulatory Code, a procedure governing the flow of information to directors and members of the Board of Auditors and the new Rules of the Disclosure Committee, as well as to the formulation of proposed amendments to the Company's bylaws and shareholders' meeting regulations submitted to the shareholders' meeting called to approve the financial statements for 2006.

On another front, the Committee monitored the introduction and application of IAS/IFRS, first to the Group's consolidated financial statements (for 2005) and then to the parent company's financial statements (for 2006) and kept abreast of the progress made by Project 404.

As well as monitoring transactions that the Board deemed to be especially delicate, the Committee examined the quarterly plans of the person responsible for internal control, from whom it received periodic reports on the results of the audits performed and the progress made by the projects known as Control Risk Self-Assessment and Check-Up of Administrative Systems.

In addition, the Committee and representatives of the external auditors, Reconta Ernst & Young, discussed the external audit plan and the proposals for the appointment of the external auditors for 2007-2009.

Lastly, during the Board meeting of 8 March 2007 the Committee reported on the state of the internal control system, expressing a positive opinion on the ability to respond that the system demonstrated in relation to the ascertainment of anomalies and irregularities (non-compliance with the legislation on privacy) and episodes of fraud (the Security Function affair; see Part Two of this Governance Report). The Committee observed that in these circumstances of objective difficulty, aggravated by strong outside pressure, the Company's reaction was prompt and adequate, inasmuch as it first identified the irregularities and anomalies, and then corrected and reported them to the competent authorities, confirming the overall soundness and efficiency of a system which nevertheless can be improved.

THE STRATEGY COMMITTEE

Since 2004 the Board of Directors of Telecom Italia has had a Strategy Committee to increase the involvement of the Board in the Company's strategic decision-making, especially as regards guiding the evolutionary processes under way in the Group's business in the light of the rapid transformation of technologies and markets.

The Committee is entrusted with the task of assisting the Board of Directors in making strategic choices, in particular in the fields of technology, organizational strategies and corporate finance. As part of the revision of the mechanisms of corporate governance, in its Self-Regulatory Code the Company has formally established the required composition of the Committee as well as its tasks and functions.

The Strategy Committee consists of the Chairman of the Board, the Executive Deputy Chairman and three independent directors (Domenico De Sole, Marco Onado and Pasquale Pistorio) specialized in the fields of technology, organizational strategies and corporate finance.

The Committee met three times in 2006, with an attendance rate of 93%. The meetings were also attended by managers of the Group, invited according to their specific expertise to provide inputs with regard to the matters on the agenda. The Committee examined and offered its assessments of the evolution of Group's strategies and the development of the One Company Model against the background of the national and European scenario, analyzing technological, competitive and regulatory contexts, opportunities and risks. It also examined the strategic prospects and opportunities for enhancing the value of the Group's activities outside Europe.

BOARD OF AUDITORS

The shareholders' meeting of 13 April 2006 appointed the current Board of Auditors. The election, held using the slate voting system under procedures exactly equivalent to those adopted for the Board of Directors, resulted in the appointment of a Board of Auditors for the three years 2006-08, consisting of Paolo Golia and Stefano Meroi (elected from the slate presented by minority shareholders) and Salvatore Spiniello, Ferdinando Superti Furga and Gianfranco Zanda (elected from the slate presented by the largest shareholder, Olimpia). The Company immediately applied the provision of the law on the protection of savings regarding the appointment of the chairman of the Board of Auditors by the shareholders' meeting, which duly elected Paolo Golia from among the members who had been presented by the minority slate.

The original composition of the Board of Auditors subsequently changed owing to the resignation of a "minority" member, Stefano Meroi, on 20 October 2006, who was replaced by the alternate member elected from the same slate, Enrico Maria Bignami.

The offices held by members of the Board of Auditors are shown below. It should be noted that, pending the issue of the relevant Consob regulation, the limit set by the Company's bylaws to the number of offices the members of the Board of Auditors may hold remains applicable. The bylaws provide that persons who are members of the boards of auditors of more than five companies listed on Italian regulated markets, excluding Group companies, shall forfeit their post.

Paolo Golia	- - -
Enrico Maria Bignami	Chairman of the Board of Auditors of Biancamano S.p.A.
Salvatore Spiniello	Director of Fondiaria Sai S.p.A. and Immobiliare Lombarda S.p.A.; member of the board of auditors of Edison S.p.A. and of Telecom Italia Media S.p.A. [Telecom Italia Group].
Ferdinando Superti Furga	Independent director of Parmalat S.p.A.; chairman of the board of auditors of Arnoldo Mondadori Editore S.p.A.; member of the board of auditors of Edison S.p.A.
Gianfranco Zanda	- - -

The shareholders' meeting of 13 April 2006 set the gross annual remuneration of each member of the Board of Auditors at €128,000 and the gross annual remuneration of the Chairman of the Board of Auditors at €171,000. It also decided to award an additional €20,000 to the member of the Board of Auditors appointed to the Supervisory Panel set up under Legislative Decree 231/2001 (Ferdinando Superti Furga).

In 2006 the Board of Auditors met 32 times, in numerous cases jointly with the Internal Control and Corporate Governance Committee and with the an attendance rate of 92%. Its members participated in the meetings of the Board of Directors and periodically received the reports from the bodies with delegated powers, as provided for in the reporting procedure mentioned earlier.

The Board of Auditors plays a key role in the Company's system of corporate governance. Its importance is confirmed by the fact that in 2003, in advance of the requirements introduced by the law on the protection of savings concerning the appointment of external auditors, the Telecom Italia Group adopted a procedure that makes the choices of the Board of Directors subject to the corroborating opinion of the Board of Auditors (the procedure is available on the Company's website, under Governance). Under the law now in force the Board of Auditors is called upon to submit the proposals directly to the shareholders' meeting for the appointment of the external auditors.

Telecom Italia has determined that the Board of Auditors meets the requirements laid down by US law (to which it is subject as a company registered with the Securities and Exchange Commission) and, availing itself of the general exemption provided for therein, has therefore assigned the responsibilities and tasks of the Audit Committee to the Board of Auditors. This role has been formalized within the Company's new Self-Regulatory Code.

In its Audit Committee capacity, the Board of Auditors, under the above-mentioned procedure for the appointment of external auditors, is at the centre of the mechanism governing the services supplied by the auditing firm within the Group. In addition, in 2005 the Board of Auditors adopted a procedure for receiving, retaining and handling the reports it receives. Such reports can be of the following kinds:

- statements of violations submitted by shareholders concerning matters deemed to be censurable;

- complaints by any person, thus including non-shareholders, concerning alleged irregularities, censurable facts or, more generally, any problem or issue deemed to merit investigation by the control body;
- complaints by any person specifically regarding accounting, internal accounting controls or auditing matters.
- confidential, possibly anonymous submissions of "concerns" by employees of the Company or the Group regarding questionable accounting or auditing matters.

A short description of how such reports are to be submitted to the Board of Auditors /Audit Committee is available on the Company's website, under Governance.

In addition to the tasks performed in its Audit Committee capacity, the Board of Auditors carried out supervisory functions provided for under Italian law: verifying that the transactions of greatest significance for the Company's profitability, financial position and assets and liabilities conformed with the law, the bylaws and the principles of correct management; checking that transactions with related parties complied with the self-regulatory principles and procedures adopted by the Company and that they were in its interest; and checking the adequacy of the organizational structure. The Board of Auditors also monitored the adequacy of the internal control system and that of the administrative and accounting system and the latter's reliability in correctly representing transactions.

During 2006, in connection with specific problems regarding the Group's Security Function, network security and the handling of traffic data that will be discussed in Part Two of this Governance Report, the Board of Auditors took a series of steps to evaluate the adequacy of the Company's organizational structure and internal control system, holding numerous joint meetings with the Internal Control and Corporate Governance Committee. More detailed information on the activity of the Board of Auditors can be found in its report pursuant to Article 153 of Legislative Decree 58/1998.

SHAREHOLDERS' MEETINGS

The annual meeting was held on 13 April 2006 and the shareholders approved the financial statements for 2005. In addition, as discussed in greater detail in the section on the Board of Directors, the shareholders' meeting brought the Board up to full strength by appointing Diana Bracco and Vittorio Merloni as directors. This was done without applying the slate voting system, which the Company's bylaws requires only for the renewal of the entire Board.

As reported above, during the same meeting the shareholders appointed the new Board of Auditors for the three years 2006-08, consisting of Paolo Golia and Stefano Meroi (elected from a slate presented by minority shareholders pursuant to Article 17.11 of the bylaws) and Salvatore Spiniello, Ferdinando Superti Furga and Gianfranco Zanda (presented by Olimpia). As already mentioned, the Company immediately applied the provision of the law on the protection of savings regarding the appointment of the chairman of the Board of Auditors by the shareholders' meeting, which elected Paolo Golia to that office.

In addition, the shareholders' meeting authorized the purchase of treasury shares within the legal limits and in any case with a maximum outlay of €1 billion. The Board of Directors was empowered to make disposals of the treasury shares purchased or already held by the Company, whose cancellation is not currently foreseen.

As usual, the Company sought to increase shareholders' attendance at the meetings by providing the documents needed for informed participation to all those who requested them and, as provided for in the bylaws, ordinary shareholders were able to vote by mail.

For the matters that will be submitted to the shareholders' meeting called to approved the financial statements for 2006, information is to be found in the relevant reports.

CODE OF ETHICS

The Code of Ethics of the Telecom Italia Group enshrines the Group's fundamental values and establishes the principal ethical rules that must guide the Group in carrying on its activity, as well as the ethical and social responsibility of each member of the corporate organization. It can be considered as lying upstream of the whole corporate governance system, since every instrument of corporate governance is based on the principles of transparency, fairness and loyalty specified in the Code. With the adoption of the Code of Ethics the Telecom Italia Group is committed to ethically-oriented conduct in relations with all the main internal and external stakeholders the member companies interact with every day (shareholders, financial markets, customers, local communities and employees), in the belief that ethical conduct is essential to the success of the business.

The Group Code of Ethics was drawn up on the basis of generally accepted ethical principles and in accordance with the highest international standards for the conduct of business with transparency, fairness and loyalty. In addition, it takes account of US requirements, primarily as regards the Code of Ethics referred to in the Sarbanes-Oxley Act and the Code of Conduct required by the listing standards of the New York Stock Exchange, which make it mandatory to have a code of conduct for certain categories of officers (executives and financial and accounting officers).

Like all the other corporate governance mechanisms adopted by the Company and the Group, the Code of Ethics is periodically evaluated and checked for the purpose of adapting it to the applicable laws and regulations, practical experience with its application and the most advanced national and international practices. Some suggestions received from institutional investors concerning, in particular, the desirability of publishing a summary of the ascertained cases of violation of the Code of Ethics and the Organizational Model, are currently being evaluated.

The document is available on the Company's website, under Governance.

RULES OF CONDUCT FOR TRANSACTIONS WITH RELATED PARTIES

In 2002 the Company adopted guidelines for carrying out transactions with related parties, including intra-group transactions.

The rules are intended to ensure both procedural and substantial fairness and transparency in transactions of transactions carried out by Telecom Italia, directly or through subsidiaries, with parties related to the Company. In particular, the Board of Directors is required to give advance approval to transactions with related parties, including intra-group transactions, apart from those of a customary nature to be concluded at standard conditions. To this end, provision is made for the Board to be adequately informed of all the relevant aspects: the nature of the relationship, the manner of carrying out the transaction, the economic and other conditions, the evaluation procedures used, the rationale for the transaction, the Company's interest in its implementation and the associated risks. Moreover, if the related party is a director or a party related via a director, he or she may only provide clarifications and must leave the meeting when the motion is examined and put to a vote. Depending on the nature, value and other aspects of related-party transactions, the Board may be assisted by outside experts in order to prevent contracts being concluded at inappropriate conditions

The rules are accompanied by a specific procedure serving to ensure: (i) the standardized treatment of concrete situations; (ii) the identification of the decision-making responsibilities by explicitly stating the related criteria and competences; and (iii) the traceability of the operational processes.

The procedure provides for the existence of a relationship with Telecom Italia to be checked in advance by consulting an expert system, which uses a database of the parties related to Telecom Italia. The expert system is able to provide automatic indications concerning decision-making powers (the Board or management), internal information flows for reporting purposes, and the need for an outside opinion in evaluating the fairness of transactions.

More detailed information on transactions with related parties can be found in the Notes to the consolidated financial statements of the Telecom Italia Group and in the Notes to the financial statements of Telecom Italia S.p.A.

Lastly, as also indicated by Consob, with a view to defining the notion of related party the Company has adopted the notion found in IAS/IFRS (specifically IAS 24).

INFORMATION MANAGEMENT

Transparent relations with the market and the provision of accurate, clear and complete information are standards for the conduct of the members of the governing bodies, the management and all the employees of the Telecom Italia Group. Specific procedures are used for classifying and managing information from the standpoint of confidentiality.

The role and procedures of the Disclosure Committee (a managerial body that provides assistance to the Board of Directors and top management in disclosures to the market) have been revised as part of the adaptation and revision of the Company's different mechanisms of corporate governance, so that the Disclosure Committee is now responsible for validating, monitoring and checking the effectiveness of the procedures and controls used for gathering, analyzing, retaining and processing the data and information to be transmitted to the members of the Boards of Directors and Auditors on the one hand and to be disclosed to the market on the other.

The Disclosure Committee Rules are available on the Company's website, under Governance.

The 2002 procedure for disclosing price-sensitive information was replaced in 2006 by a more general procedure for the disclosure of inside information, prepared by a working group set up at the initiative of the Disclosure Committee to evaluate the impact of the transposition of the Market Abuse Directive into Italian law.

The procedure governs the management of inside information concerning Telecom Italia, its unlisted subsidiaries and listed financial instruments of the Group and is addressed to all the members of the governing bodies, employees and outside collaborators of Group companies who have access to potentially inside information. It also applies as an instruction to all subsidiaries for the purpose of promptly obtaining the necessary information for timely and correct compliance with public disclosure requirements. The procedure also governs the register of persons with access to inside information, which has been operational since 1 April 2006.

RULES ON INSIDER DEALING

The transparency of transactions involving Telecom Italia shares or financial instruments linked thereto carried out directly or through a nominee by relevant persons or persons closely associated with relevant persons is currently governed by Consob Regulation 11971/1999 on Issuers (Articles 152-*sexies* et seq.), which supersedes the Code of Conduct on Insider Dealing that the Company adopted in December 2002.

The law imposes a disclosure obligation on the directors and members of the board of auditors of a listed company and "persons performing administrative, supervisory and management functions in a listed issuer and managers who have regular access to inside information and the power to make managerial decisions affecting the future development and prospects of the issuer" for so-called insider-dealing transactions involving shares of the company or financial instruments linked thereto amounting to more than €5,000 per year.

Telecom Italia has chosen to identify "[managers] who have the power to make managerial decisions affecting the future development and prospects of the issuer" in the key managers referred to in IAS/IFRS 24 and in executive officers for the purposes of US law

In 2006 the Company and persons defined as relevant made three filings in accordance with Article 152-*octies* of Consob Regulation 11971/1999 on issuers. These filings can be found on the Company's website, under Governance.

As part of the more general revision of the mechanisms of corporate governance, even in the absence of regulatory requirements it was decided to introduce an obligation into the Company's Self-Regulatory Code requiring abstention from carrying out transactions involving Telecom Italia shares or financial instruments linked thereto in specific periods of the year (so-called blackout periods). In extraordinary circumstances the Board of Directors may extend or suspend these periods.

MEETING REGULATIONS

As provided for in the bylaws, the shareholders have approved a set of regulations for their meetings. The document also contains the procedure for ordinary shareholders to vote by mail, as provided for in the bylaws, so as to ensure the fullest possible guidance on the organizational and procedural aspects of this important moment in shareholders' participation in the life of the Company.

The Meeting Regulations are available on the Company's webside, under Governance.

As a consequence of the issue of the law on the protection of savings, proposed amendments to the Meeting Regulations will be submitted to the shareholders' meeting called to approve the 2006 financial statements. The changes concern additions to the agenda at the request of shareholders and provisions intended to simplify voting by mail.

INVESTOR RELATIONS

A special unit, headed by the Executive Deputy Chairman, is responsible for handling relations with the financial community in Italy and abroad. In 2006 the scope of the unit's activity was extended to include retail investors.

Details are given in the Sustainability section of the Annual Report under Shareholders/Financial Communication.

Additional information can be obtained from the following addresses:

Institutional investors:
Telecom Italia S.p.A.
Investor Relations
Piazza degli Affari, 2
20123 Milan
Tel.: +39 02 8595 4131
E-mail: investor_relations@telecomitalia.it

Retail investors:
Telecom Italia S.p.A.
Investor Relations
Piazza degli Affari, 2
20123 Milan
Tel.: +39 02 8595 4131
E-mail: investitori.individuali@telecomitalia.it

SHAREHOLDERS' AGREEMENTS

Relations between the shareholders of Olimpia (on 8 March 2007 Telecom Italia's largest shareholder with an interest of approximately 18% in the Company's ordinary share capital) are governed by an agreement that was concluded on 7 August 2001, and subsequently amended on 14 September 2001 and 13 February 2002, with clauses of relevance to Telecom Italia pursuant to Article 122 of Legislative Decree 58/1998. As of 2 March 2007 Edizione Holding S.p.A. has been replaced by Sintonia S.p.A., while Edizione Finance International S.A. has changed its name to Sintonia S.A.

Under the agreement (which is due to expire on 4 October 2007) Pirelli & C. S.p.A. on the one hand and Edizione Holding S.p.A. and Edizione Finance International S.A. (now respectively Sintonia S.p.A. and Sintonia S.A. and jointly: Sintonia) on the other undertook to do everything in their power to ensure, within the limits allowed by law, that in Telecom Italia's Board of Directors:

- one fifth of the directors (rounded up to the nearest whole number up to two) whose appointment is not reserved by law, regulation or the bylaws to the market or other persons are appointed as indicated by Sintonia;
- the Deputy Chairman is appointed with powers of legal representation from among the directors designated by Sintonia;
- if an Executive Committee is set up, one of its members is appointed from among the directors designated by Sintonia.

In addition, Pirelli & C. undertook to ensure, within the limits allowed by law, that no resolution is adopted by Telecom Italia's Board of Directors without the favourable vote of at least one of the directors designated by Sintonia, if such are present, on the following matters:

- individual investments in excess of €250 million;
- the purchase, sale or disposal in any other manner of controlling interests or interests in affiliates in excess of €250 million on an individual basis;
- the disposal in any way of businesses or business units in excess of €250 million on an individual basis;

– proposals to call an extraordinary shareholders' meeting;
– transactions between the Telecom Italia Group and the Pirelli Group in excess of €250 million on an individual basis;
– transactions with related parties.

On 12 July 2006 Olimpia concluded an agreement with Holinvest S.p.A. governing the former's right of pre-emption with regard to some (specifically 320,253,610) of the Telecom Italia ordinary shares held by the latter, which simultaneously undertook, both on its own behalf and on behalf of its subsidiary Hopa S.p.A., not to increase the above-mentioned holding without Olimpia's prior consent. This agreement expires on 12 July 2008.

Lastly, notices were published in the Italian press containing an extract of the agreement concluded on 18 October 2006 between Pirelli & C. S.p.A., Edizione Holding S.p.A. (now Sintonia S.p.A.), Edizione Finance International S.A. (now Sintonia S.A.), Olimpia S.p.A., Mediobanca S.p.A. and Assicurazioni Generali S.p.A., with clauses of relevance to Telecom Italia pursuant to Article 122 of Legislative Decree 58/1998. The agreement is managed by a committee made up of an even number of members. half of whom are appointed by Olimpia (currently Marco Tronchetti Provera – Chairman and Gilberto Benetton) and of the remainder one each by the other participants except Pirelli and Sintonia (currently Renato Pagliaro for Mediobanca and Giovanni Perissinotto for Generali). The agreement requires consultation among the participants before each Telecom Italia shareholders' meeting on the manner of casting the votes covered by the agreement, without prejudice to the right of each party to cast its votes as it deems fit if the committee fails to resolve unanimously. The following Telecom Italia ordinary shares were initially committed to the agreement, which is due to last for three years.

Participant	Number of ordinary shares	% of ordinary share capital
Olimpia S.p.A.	2,407,345,359	17.99%
Gruppo Generali	490,580,064	3.67%
Mediobanca S.p.A.	206,464,069	1.54%
Total	**3,104,389,492**	**23.20%**

The above-mentioned shares are the subject of lock-up and standstill agreements with provision made for a series of exceptions. In particular, by way of derogation from the commitment not to transfer the Telecom Italia shares it committed, Olimpia has the right to dispose of its entire holding, provided it gives Generali and Mediobanca a right of pre-emption, which would not be exercisable if the acquirer undertook to acquire the shares committed to the agreement by Generali and Mediobanca at the same conditions. The same mechanism also applies in the event of Pirelli, on its own or jointly with Sintonia, disposing of an interest of more than 50% of Olimpia's capital.

PART TWO: THE SECURITY FUNCTION, THE SECURITY OF THE NETWORK AND TRAFFIC DATA

During 2006 the Company's corporate governance arrangements and in particular its internal control system were subjected to a sort of "field-test" in connection with the well-known judicial events involving the former head of the Group Security Function, which led in turn to questions regarding the security of the network and the handling of traffic data.

The checking and analysis activities aimed at identifying the problems and related causes and the remedies adopted and to be adopted to cope with the facts and situations that gradually emerged required the intervention of all the Company structures and bodies forming part of the internal control system, from the Internal Control and Corporate Governance Committee to the Board of Auditors, from the Internal Audit Function to the Supervisory Panel.

It is sufficient to recall that the Board of Directors intervened 6 times in the matters referred to above, while they were addressed in 12 meetings of the Internal Control and Corporate Governance Committee and in 13 meetings of the Board of Auditors.

The results of the above-mentioned checking and analysis activities are set out in full in the report submitted to the Board of Directors by the Internal Control and Corporate Governance Committee, which was approved by the Board in its meeting on 16 February 2007 and is reproduced below.

Without assessing circumstances that are still being investigated by the judicial authorities (with which the Company has collaborated actively, as is confirmed by all the reports and documentation transmitted during the year), what needs to be stressed here is the ability to react shown by the Company, which put in place a series of defences and remedies that included changes to existing organizational procedures and arrangements, whose significance, not to mention other measures, is testified to, albeit implicitly, by the resolution adopted by the Italian privacy regulator in December extending the deadline for compliance with the requirements set forth in the order of 1 June 2006. (see infra in the report of the Internal Control and Corporate Governance Committee referred to above).

REPORT OF THE INTERNAL CONTROL AND CORPORATE GOVERNANCE COMMITTEE TO THE BOARD OF DIRECTORS

1. Introduction

1.1. This report has been prepared by the INTERNAL CONTROL AND CORPORATE GOVERNANCE COMMITTEE and sets forth the outcome of the activities performed and the investigations undertaken by the COMMITTEE during 2006 and through the middle of February of the current year with reference to the following matters:

- events related to the ex Head of the Security Function, Giuliano Tavaroli;
- network security and services to the Judicial Authorities;
- traffic data, privacy and collection of information on employees.

1.2. It should be noted that, pursuant to art. 12 of the Self-Regulatory Code of the Company, the COMMITTEE acts as advisor and makes proposals to the Board of Directors. In particular (and insofar as the goals of this report are concerned) the COMMITTEE assists the Board in the execution of its responsibilities for the internal control system, evaluates the work plan prepared by the staff responsible for internal control, receives periodic reports from such staff and reports to the Board at least every six months on its activity and on the adequacy of the internal control system.

1.3. The COMMITTEE is composed entirely of independent Directors (Guido Ferrarini, Francesco Denozza, Domenico De Sole and Marco Onado). The Chairman of the Board of Auditors, or another auditor as designated by him, attends the meetings of the COMMITTEE. When deemed appropriate, depending on the topics to be dealt with, the COMMITTEE and the Board of Auditors meet in joint session.

1.4. It should also be noted that, pursuant to art. 11 of the Self-Regulatory Code of the Company, the Board of Directors is responsible for designing the internal control system and monitors its proper functioning with respect to the management of business risks. The Director delegated for that purpose (currently the Executive Vice Chairman, Carlo Buora) defines the tools and methods for implementing the system of internal control, in execution of the policies established by the Board of Directors, ensures the overall adequacy and effectiveness of the system and its adaptation to changes in the operating conditions and in the legislative and regulatory environment.

1.5. To monitor the correct functioning of the internal control system, the Board of Directors also has access, in addition to the COMMITTEE, to an independent appointee that is endowed with the necessary resources to perform such task. Such appointee, currently the consortium company TELECOM ITALIA AUDIT & COMPLIANCE SERVICES, which for this purpose appointed its Chairman, Armando

Focaroli, reports on its work to the Executive Vice Chairman, the COMMITTEE and the Board of Auditors.

1.6. The Executive Vice Chairman implements the changes to the internal control system that are prompted by the checks carried out, appointing one or more persons for the purpose of implementing such changes. To improve implementation of the internal control system, the role of Group Compliance Officer was created in 2005. To ensure that risk management is coordinated at a senior level a Risk Management Committee was also created in 2006, chaired by Carlo Buora and made up of the managers of the Central Functions involved; in addition, within TELECOM ITALIA AUDIT & COMPLIANCE SERVICES, the office of Group Risk Officer was established.

1.7. The principles of the system of internal control are set forth in art. 11, subsection 6 of the Self-Regulatory Code and also specified in the Organisational Model 231. This Model, adopted pursuant to Italian legislative decree no. 231/2001 (which deals with the liabilities of a company for certain crimes, when committed by its directors, managers or employees in the company's interest or to the company's benefit), consists of "principles of behaviour with Government bodies" and "internal control schemes" in which the principal phases of each process are listed, highlighting corresponding risks, in terms of possible criminal behaviour in connection with the relevant process, and setting out measures designed to avoid such risks. Organisational Model 231 is subject to periodic revision as a result of experience in its application and of the extension of the relevant regulations to new events. A specific "Organismo di Vigilanza", or Supervisory Board, consisting of a Statutory Auditor (Ferdinando Superti Furga, who acts as Chairman), an independent Director (Guido Ferrarini) and the Head of internal audit (Armando Focaroli), monitors – with the support of a specific work group called the 231 Support Group – compliance with the Model and – in collaboration with a Steering Committee consisting of the Senior Executives responsible for the functions involved – proposes any necessary modifications thereof.

1.8. The element of the internal control system that is concerned with financial reporting also relates to the application of the Sarbanes-Oxley Act, which requires certification of the relevant internal controls over financial reporting by the CEO and the CFO, and attestation by the auditors about the adequacy of the controls on this matter, pursuant to Section 404. The Company is currently engaged in an important project designed to ensure the full and correct application of these regulations and thus to improve the internal controls over financial reporting (404 Project). The auditors' attestation will be issued, for the first time, on the financial statements for 2006.

2. The activities performed by the Committee

2.1. Initially, the investigations with respect to the Security issue involved only the Internal Audit function and the Supervisory Board (see 3.1, below). However, in the Committee's meeting held on May 4, 2005, as part of the quarterly Report of internal audit, the COMMITTEE was provided initial general information on the internal audit addressing the Security function; a confidential report on the notice of investigation issued to Giuliano Tavaroli was also provided.

On July 15, 2005, the COMMITTEE received a report on Giuliano Tavaroli's decision to voluntarily relinquish his managerial activities as the Head of the Security function as from May 4, 2005 and on the Company's intention to appoint him as a consultant on antiterrorism. .

The Board of Directors received a similar report on July 26, 2005, when it was also informed of the appointment of Giovanni Penna as interim manager of the Security Function.

2.2. The COMMITTEE directly addressed the three topics that are the subject of this report from 2006 onwards, in the meetings specified below:

2.2.1. Meeting on March 30, 2006: examination of press coverage of alleged irregular phone tapping and improper use of customer traffic data, with respect to the Tavaroli issue; notification by the Head of internal audit of (i) the audit operation carried out in February/March 2005, (ii) the acquisition of the results of such audit by the Judicial Authorities, and (iii) the subsequent organisational changes which had been put in place and declared to be suitable. These issues were reported to the Board of Directors on May 8, 2006;

2.2.2. Meeting (together with the Board of Statutory Auditors) on June 12, 2006: examination of compliance issues (network, IT systems, services for the Judicial Authorities), with respect to the Tavaroli issues; the COMMITTEE was informed that a memorandum had been filed with the Judicial Authorities; all of this was reported to the Board of Directors on July 5, 2006, when a document concerning the matters discussed in this Report was also examined;

2.2.3. Meeting (together with the Board of Statutory Auditors) on September 29, 2006: analysis of the arrest warrant issued by the Magistrate responsible for the preliminary investigations by the Milan Court against Giuliano Tavaroli (a warrant that became public knowledge following its publication on the Internet at www.ilvelino.it; hereinafter "the Warrant"); examination of the alleged violations of privacy rules in handling traffic data and the activities performed by the Company to comply with an Order issued by the Privacy Authority on June 1, 2006;

2.2.4. Meeting (together with the Board of Statutory Auditors) on October 3, 2006: continuing examination of the aforementioned privacy issues;

2.2.5. Meeting (together with the Board of Statutory Auditors) on October 12, 2006: presentations by the Executive Vice Chairman, representatives of KPMG Advisory, representatives of Reconta Ernst & Young (who described the additional audit activities to be performed concerning the Security issue) and by Davis Polk & Wardwell, the Company's U.S. legal advisors with respect to the applicable issues to be considered from the perspective of United States law (applicable to the company since it is listed on the NYSE); report on the legal opinions sought from external legal advisors on various aspects of Italian law relating to the object of this Report;

2.2.6. Meeting (together with the Board of Statutory Auditors) on October 24, 2006: review of the legal opinion by Professor Mucciarelli on the relevant issues with respect to the Tavaroli matter, in the light of Italian legislative decree no. 231/2001 (see paragraph 3.5 below); meeting with KPMG Advisory and with senior management for an update on the topics that are the subject of this report;

2.2.7. Meeting (together with the Board of Statutory Auditors) on October 31, 2006: presentation by the Executive Vice Chairman on the actions of the Risk Management Committee he chairs, and on the coordination of the work of the Risk Management Committee and the COMMITTEE for better management of risks in general, and for an adequate response to the recent events reviewed in the meetings described above in particular, as well as on the present organisation of the Security function and other organisational issues involved in such events.

2.2.8. Meeting (together with the Board of Statutory Auditors) on December 12, 2006: check on the progress of IT compliance initiatives, and update on the Tavaroli matter.

2.2.9. Meeting (together with the Board of Statutory Auditors) on January 31, 2007: receipt of the first results of the additional audit activities performed by the audit firm Reconta Ernst & Young with regard to the Security issue, discussion with the Executive Vice Chairman of the events relating to Fabio Ghioni (a former employee of Telecom Italia) and the so-called “Tiger Team” (the office within the Security function of Telecom Italia in charge of technical security issues, acting under the responsibility of the aforementioned Ghioni);

2.2.10. Meeting on February 16, 2007: update on the Company’s activities regarding IT compliance, communications by the audit firm Reconta Ernst & Young on the continuation of its work programme relating to the abovementioned additional audit activities; clarifications on methods and timeliness of the Company in addressing the requests by the Judicial Authorities with reference to the unauthorized access to the computer network of RCS (one of the most important Italian publishing companies, with a presence both in Italy and abroad) widely commented upon by the Italian press.

3. Information received and activities performed by the Committee

During the meetings listed above, representatives from the applicable offices of the Company have informed the COMMITTEE of the facts of, and expressed their opinions on, the matters at stake.

3.1. *The Security issue*

3.1.1. *Audit and reorganisation*

3.1.1.1. A review by internal audit of expenses for professional and consultancy services rendered to the Security Function – Intelligence department was carried out in February/March 2005. The purpose of the audit (not included in the 2005 Audit Plan, but performed at the request of CEO Carlo Buora, in part as a result of the increase in the expenses of this Function) was to evaluate the relevant internal control system through remote (computerised) access to documentation and subsequent interviews with the head of the office.

3.1.1.2. The final report did not identify specific concerns, although it highlighted that the internal control system of the Security function allowed regular recourse to purchases of professional and consultancy services outside the ordinary procedure (so-called purchases "in derogation" accounted for 60% of the overall amount of this kind of services) and the head of the Security function to determine the choice of supplier, to approve the service provided, and to authorise invoices for payment.

In the introduction to the executive summary, it was emphasised that the period under consideration was "characterised by intense activity to counteract threats by third parties which certainly influenced the modus operandi of the entire structure" (with implied reference to the well known events in Brazil). The conclusions of this report acknowledged the "objective difficulties (involved in) creating a 'traditional' control system given the sensitivity of the activities concerned" .

The Head of internal audit, Armando Focaroli, informed the senior management of the Company of the outcome of the audit, and also informed the members of the Supervisory Board, on an informal basis. The latter agreed that the control system of the Security function needed strengthening.

The Supervisory Board formally considered the issue in a meeting on May 31, 2005, when Armando Focaroli presented a summary of the result of the audit over professional services and consultancy procurement by the Security Function. The Supervisory Board agreed upon the need for a control system based on the separation of operational and supervisory roles, and requested that they be kept constantly updated.

3.1.1.3. In the meantime, on May 3, 2005, Giuliano Tavaroli received a notice of investigation indicating that investigations were pending against him for violation of official secrecy and conspiracy. His office in Telecom Italia was searched, and the Polizia Giudiziaria (Criminal Police) acquired the report of the aforementioned audit of the Security Function.

On May 12, 2006 the Judicial Authorities requested that the Company provide invoices issued by some suppliers to the Security Function.

A task force including representatives of various departments within the Company was established for the purpose of verifying, for payment purposes, the invoices received from the suppliers indicated. The commissioning of services from these suppliers ceased.

3.1.1.4. As soon as Tavaroli received the notice of investigation, he asked to be relieved of his work responsibilities with immediate effect for a period of three months. On July 5, 2005 the employment relationship with Tavaroli was terminated, with effect from July 31, with customary financial settlement.

Giovanni Penna was appointed as interim manager of the Security Function with effect from August 1, 2005.

On July 19, after the terrorist attack in London, and with the agreement of the governmental authorities, Tavaroli was appointed as a consultant on antiterrorism issues on a one year contract at a fee of 50,000 Euros (as reported by the Chairman of the Board, Mr. Tronchetti Provera, in the meeting of the Board of Directors on July 26, 2005 and by Mr. Chiappetta, General Counsel of the Company, in the meeting of the COMMITTEE on July 15, 2005). On September 23, 2005 a power of attorney was conferred on Tavaroli in relation to the aforementioned appointment, but it excluded the authority to make purchases. The appointment as a consultant – subsequently extended to business continuity issues, without change of fees or duration – was terminated in March 2006, and the power of attorney was cancelled on June 19, 2006.

3.1.1.5. The reorganisation of the Security Function as indicated above continued.

Initially the creation of a consortium company similar to TELECOM ITALIA AUDIT & COMPLIANCE SERVICES was considered; instead the Company opted for restructuring the Function internally, by separating operational and control roles.

After the changes, the Head of the Security Function (identified as Gustavo Bracco, the Director of the Human Resources and Organisation Function, in January 2006) does not have a direct operational function, but supervises and directs; he is supported by a staff for planning and control, which ensures correct application of administrative procedures, documentary support for operations, and that expenses are pertinent to the objectives attained.

The reorganisation was reported to the Supervisory Board on February 28, 2006. Mr. Focaroli declared that the need to strengthen the internal control system in the intelligence sector of the Security Function had been satisfied by the actions taken. The same meeting approved the report of the Supervisory Board for 2005, containing information on the results of the audit and on the organisational remedies for the shortcomings encountered.

Similarly, in the meeting of the COMMITTEE on March 30, 2006 Mr. Focaroli explained that – as previously reported to the Supervisory Board in April/May 2005 (see 3.1.1.2 above) – “early in 2005 TI Audit reviewed the consultancy and professional services expenses of the structure (Security), in the light of a significant and rapid rise in expenditure, for which there were also objective reasons. The audit highlighted some critical aspects, not in terms of irregularities, but because of inadequacies in the control system resulting from the number of tasks directly performed by the head of the office. [...] The comments of the internal auditor were followed by organisational changes, without affecting the special aspects of the specific type of services".

3.1.1.6. The issue raised by the internal audit report was presented by management as principally organisational in nature, and the Company took action to provide a suitable response in organisational terms.
It was not considered necessary to take further action, given:

a. the special nature of the sector (and the very sensitive situation in terms of international, in addition to Company, security). This gave credibility to avoiding the storage on Company premises of documents and other results of investigations for certain sensitive activities;
b. the excellent results achieved by Tavaroli in recent events (such as the Kroll business in Brazil, in which a formal apology letter was actually presented to Telecom Italia); and
c. the fact that the amounts in question were not material in terms of their possible impacts on the company financial statements, and on the overall assessment of the Company's internal controls.

3.1.2. *Emergence of new information*

3.1.2.1. The issue assumed a different character at the end of 2005, when the defence counsel of Emanuele Cipriani (one of the most significant providers of outside services to the Security Function – Intelligence department of both Telecom Italia and Pirelli) forwarded a request (to be specific, only to Pirelli) that raised doubts about whether or not the services invoiced to Telecom Italia had actually been provided. The Company (just as Pirelli) engaged an outside attorney as legal advisor to investigate the invoices paid in the past to companies linked with Cipriani.

3.1.2.2. In the previously mentioned meeting of the COMMITTEE on March 30, 2006, director Francesco Denozza "demanded clarification of the news that had appeared in the daily press about alleged irregular payments made by the Security function". Management affirmed that, in the light of the investigations undertaken so far and still underway at that time, the payments made by the Company appeared justified by the services actually rendered.

3.1.2.3. The investigation by the outside legal advisor was completed on April 21, 2006, and emphasised that in many cases it had not been possible to reconstruct the purpose of the services rendered. However, the sums involved (an estimated 8.5 million Euros for the period between May 30, 2002 and November 3, 2004) were not such as to reach a negative conclusion about the quality of internal controls (and certainly did not constitute a material weakness under US criteria), and in any event the issue had been tackled through the procedural changes made over a year earlier. The Company gave a detailed account of this matter in the memorandum filed with the Judicial Authorities on June 8, 2006.

3.1.2.4. In its meeting of October 3, 2006, the COMMITTEE requested that Mr. Focaroli question the top management of the Company in place at the time of the events under consideration (Tronchetti Provera, Buora and Ruggiero) and their direct reports (a total of 17 senior managers) to check if services had been commissioned to Tavaroli between March 2003 and May 2005, and, if that was the case, what they were, how they were assigned, and how the results were obtained.
Of the 20 people to whom the request was made, 10 responded affirmatively, and supplied information about content of the tasks, how they were assigned, and how the results were obtained; such information did not provide any problematic evidence.

3.1.2.5. From the Warrant, the COMMITTEE learnt that certain administrative documents had been destroyed by employees of Pirelli and Telecom Italia. The Board of Statutory Auditors requested internal audit to investigate whether possible further similar episodes might have occurred in the Company. The outcome of this investigation was negative.

3.1.2.6. Ad hoc audit procedures are being carried out by the audit firm Reconta Ernst & Young, in relation to the acquisition of services provided to the Security function during the period 2001-2006, with the primary objective of evaluating possible impacts on the financial statements of Telecom Italia. In the meetings of January 31 and February 16, 2007 the COMMITTEE was updated on the progress of the work programme which, as agreed with the Company, was conducted according to the applicable auditing standards and Consob guidelines. The review completed to date, which covered all the suppliers cited in the aforementioned Warrant, do not evidence a "material" impact on the balance sheet.

3.1.2.7. The Company has cooperated with the Judicial Authorities, presenting further memoranda on October 19, December 6 and December 14, 2006.

3.1.2.8. The "maintenance" work on Organisational Model 231 has continued, and has in fact been accelerated by the matters examined here.
In particular:

- The Group 231 Steering Committee approved an addition to the control scheme for "Agents and Intermediaries": the change (which is included in the corresponding standard contract form) prohibits the agent or intermediary from transferring a credit and/or giving mandate for payment, so as to ensure that only the agent or intermediary can be the actual recipient of the payment. Any derogations from this provision are to be highlighted in the quarterly information flows to the Supervisory Board, and payments made somewhere other than the residence/domicile/registered offices of the agent or intermediary are also to be highlighted.

- This amendment was extended to other control schemes within the Organizational Model with the approval of a similar modification to the control schemes relating to "Consultancy and Professional Services", "Sponsorships" and "Acquisitions of goods and services".
- With respect to "Consultancy and professional services", the Company is checking, at the specific request of the Board of Statutory Auditors, the efficacy and efficiency of the current procedure, paying particular attention to operations performed "in derogation". Previously, on this same matter, the Executive Vice Chairman issued an order stating that recourse to derogations of the procedures envisaged in the Organisational Model 231 and, more general, in the internal control system, were prohibited – unless explicitly authorised by the Executive Vice Chairman himself. Subsequently, in January 2007, a special procedure for the management and payment of "non-system" invoices became operative, which provides for invoices relating to amounts exceeding a determined threshold, and in any cases where is deemed appropriate, regardless of the amount of the invoice, requiring the authorization by the Executive Vice Chairman. In addition a specific report is to be issued periodically checking and monitoring this issue.

3.1.2.9. As referred to in the COMMITTEE meeting of February 16, 2007, the re-organisation of the Security function has continued with the transfer of the IT Security technical activities to the technical auditing unit of TELECOM ITALIA AUDIT & COMPLIANCE SERVICES, concentrating the activities of Security on security and management of information (such as defining policies with respect to protection of information, identification of the owner of the process/system, etc.).

Revision of the qualification system for suppliers of "Investigation Services" is under way, and a corresponding review is under way for the qualification system of suppliers of "Executive Protection", while the definition of a vendor rating procedure is under consideration, with the goal of evaluating the services of suppliers. Monitoring will be carried out in accordance with criteria established in the general procedures used by the Company in other areas, and will be based on the evaluations of technical, administrative and commercial quality.

3.2. *Network security and services to the Judicial Authorities*

"Judicial systems" are a combination of systems designed to deliver services to the Judicial Authorities pursuant to statutory provisions applying to all telecommunications operators. It should be noted that tapping activities pursuant to an order by Judicial Authorities take place outside of Company premises. The Company does not participate in tenders for the organization of monitoring centres, and only fulfils its legal obligations, imposed on all operators, to route the lines that competent Judicial Authorities have arranged to be monitored, to the pre-selected numbers indicated by the same Judicial Authorities.

3.2.1. The COMMITTEE examined this subject several times during 2006. In particular, during the meetings of March 30 and June 12, 2006, reference was made that:

a. the Company, after a significant reorganization in 2003, carried out a series of changes to its organisational structure in 2005 so as to offer a united, centralised interface with the Judicial Authorities, and to improve quality and timeliness of the service;

b. the relevant organization was rationalised with the creation of the JUDICIAL AUTHORITIES SERVICES Office (Funzione SERVIZI AUTORITÀ GIUDIZIARIA - otherwise named SAG), through the integration in a unique centre of certain offices of the Company (already operating in the NATIONAL JUDICIAL AUTHORITY CENTRE, CENTRO NAZIONALE AUTORITÀ GIUDIZIARIA - CNAG, within the Security function) and TIM (Telecom Italia's subsidiary focused on mobile services, which had been merged with and into Telecom Italia), dedicated to mandatory services for Judicial Authorities. SAG's responsibility was placed under the responsibility of the Legal Affairs Manager (organisational measures of November 25, 2005);

c. the adopted procedures protect Telecom Italia, as the actual tapping takes place in premises controlled by the Judicial Authorities. In particular, management confirmed that "the tapping issue is fully under control, and does not represent a problem" (COMMITTEE meeting of June 12, 2006);

d. the support systems for the activity of intercepting mobile lines were granted certification by the company CSQ, applying standards defined by the BSI - British Standard Institute (standard ex BS7799, equivalent to ISO 27001).

3.2.2. In conclusion, the "tapping" issue, in the strictest sense, has never been a critical problem according to the information supplied to the COMMITTEE.

3.2.3. There is a more general problem of protection of privacy with reference to the treatment of judicial data and the management of the flow of information relating to mandatory services supplied to the Judicial Authorities; on December 15, 2005 the Privacy Authority addressed a specific ruling to all operators, and prescribed the adoption, within 180 days, of specific measures designed to guarantee and increase protection of managed data. The requirements (concerning organisational aspects; the security of the flow of information to and from the Judicial Authorities; and the protection of data used for judicial purposes) relate to the form and authenticity of the Judicial Decrees to commence activities, the methods of transmission of the corresponding documentation, the management of the authorisation profiles and the attribution of access rights to the IT resources. Issues which, at least with respect to the first two topics, require cooperation with the Judicial Administration.

On June 20, 2006 Telecom Italia responded to the ruling of December 15, 2005, submitting a report on compliance with the requirements (which were only partially met, as some of them required, for their implementation, the Judicial Authorities' offices also to meet suitable technical requirements).

On September 20, 2006 the Privacy Authority issued a new ruling regarding services provided to the Judicial Authorities, ordering all telephone operators to complete the implementation, within 90 days, of the directions under the aforementioned ruling of December 15, 2005, and aimed at safeguarding data and flow of information relating to activities connected with the services supplied to the Judicial Authorities.

3.2.4. The Company requested the advice of KPMG Advisory on services to the Judicial Authorities. In the meeting of October 31, 2006 KPMG Advisory reported their findings to the COMMITTEE:

a. the lack of an overall plan, complete and updated, of the IT applications within the area of SAG;
b. that the Circe system (i.e. the software for the execution of mandatory services to be supplied to the Judiciary in the mobile sector) evidenced some weaknesses, which could cause potential security risks, as well as difficulty in the ex-post verification of consistency of activities carried out with the competent authorities' requests;
c. there was a lack of continuity in the integration process between the systems for wired network and those applying to the mobile services.

However, in the meeting of February 16, 2007, management reported to the COMMITTEE the results of the review that had been carried out since October 31, 2006. Based on the assessment performed to date, 23 systems were identified that are used exclusively to comply with Judicial Authorities' requests, and 14 systems were identified that support the supply of mandatory services to the Judicial Authorities on a non exclusive basis. In the meantime, the project aimed at compliance with the ruling by the Privacy Authority of September 20, 2006 was substantially concluded within the prescribed deadline. Such compliance was confirmed to the Authority in a special document filed on December 22, 2006. Such report indicated that the correct operation of the implemented solutions depends on the adoption by the Judicial Authorities' offices of suitable equipment for the reception and sending of communications in accordance with the secure protocols that have been defined.

3.2.5. In addition, assessment activities over the medium term continue in order to rationalise and integrate the various current structures and procedures. Both the systems used for mandatory services and the support systems are undergoing analysis and evaluation of the IT applications used and the relative processes that are managed, in order to determine, with the advice of KPMG Advisory, possible risks and areas for improvement.

3.3. *Traffic data, privacy and information on employees*

3.3.1. This subject came to the attention of the COMMITTEE at the beginning of 2006, when an increase of improper dissemination of clients' personal data (traffic data) by disloyal employees occurred. A new case, in particular, presented a significant difference to past cases. Until that time, each time these events occurred, the person responsible was quickly identified and subjected to disciplinary actions, including dismissal. In the new case, however, the Company was unable to identify the person responsible.

Taking this into account, in March 2006 the CEO, Carlo Buora, held a managerial work team on the subject of security and protection of traffic data. The analyses by this group concluded that, in particular, the planning of the systems that manage the traffic data was incomplete, with consequential unavailability of information on the number of individuals authorised to access such data.

3.3.2. During the COMMITTEE meeting of June 12, 2006 management indicated its confidence in the quality of the relevant controls. (As pointed out in the memo distributed during the meeting, "It is, however, important to highlight how the control systems are correct in the sense that, in retrospect, the extracted log files have allowed for the certain identification of the perpetrators of offences, both in the cases of violations carried out by personnel from offices servicing the Judicial Authorities, and in the cases of personnel from other offices").

3.3.3. However during the aforementioned meeting, the COMMITTEE was informed that, during inspections by officers of the Privacy Authority, it emerged that an existing system (Radar) did not comply with company security standards, nor to legal requirements. The Company, however, had immediately arranged to block the Radar system from further use and reported the occurrence to the Judicial Authorities.

3.3.4. On June 1, 2006, after an appeal by a client, the Privacy Authority ordered the Company to adopt, within 120 days, a set of protective measures for traffic data, in the absence of which the Company should stop handling the data.

3.3.5. The Company's response, with respect to a situation that proved to be different and more worrisome than had been previously understood, took the form of:

a. a mandate to KPMG Advisory for the independent audit and analysis of the security of the processes and the IT systems of the Company, with particular reference to traffic data;
b. the definition of a project with a more general scope, addressing the entire company organisation, dealing with the three levels of strategy, coordination and operation, which focused on 132 company applications. According to technological suppliers, Telecom Italia's initiative was likely to be unprecedented on a worldwide basis, and certainly it was a first for Italy, as far as dealing with these kinds of issues in a large scale operational context;
c. an undertaking (already carried out) representing Company internal resources of 2 million man/hours, with an estimated investment of over 30 million Euros for 2006 (7 million Euros for the years 2007-08).

On September 29, 2006 a document was filed with the Privacy Authority, describing the activities completed, the initiatives that were on-going and relevant technical problems (due in part to Italian legal requirements with respect to digital signatures that are particularly burdensome). On October 30, 2006 an update document was likewise submitted describing the activities carried out to date.

In the COMMITTEE meeting of December 12, 2006, Management reported that the activities completed to date to address compliance with the Authority ruling dated June 1, 2006 had made the applicable systems fully compliant with relevant privacy requirements which - according to management's evaluation - were relevant to allow the Company to continue the effective operation of its business.

3.3.6. At the COMMITTEE meeting of December 12, both KPMG Advisory and the Company's IT Governance manager presented a further update on the actions taken since October 31, 2006, and on the timing of those still in progress.

3.3.7. With a measure dated December 7, 2006 the Privacy Authority resolved to extend, until March 31, 2007, the deadline for completing the requirements set forth in the order of June 1, 2006. The corrective work carried out by the Company has thus been positively appreciated.

3.3.8. In the meeting of February 16, 2007, with reference to systems which deal with traffic data, the COMMITTEE was informed that, with respect to the 35 applications that were still critical at September 30, 2006, required remedies have now been carried out for 31 applications. The correction of the remaining 4 applications (systems that supply added-value services, that are complex but of low importance) will be completed well before the deadline provided by the extension order of December 7, 2006. As required by the above-mentioned extension order, an update document on the status of these activities was submitted to the Authority on January 31, 2007.

3.3.9 The COMMITTEE, on reading the Warrant, also learned about collection of information on employees. In particular, according to the Warrant (which contains very harsh words in this respect), the Security department had collected information on a certain number of employees during the period February – August 2004.

3.3.10 The enquiry carried out by the Human Resources Management showed that:

a. the controls were arranged at the initiative of Tavaroli, who asked the Wireline Human Resources Department for lists of candidates for employment in order to allegedly counter the risk of terrorist infiltration.
b. in two cases indication of non-suitability were notified to the Wireline Human Resources Department (verbally). The two candidates were not hired;
c. Human Resources Management declared it ignored the enquiry methods used by Tavaroli.

3.3.11 In the report by Gustavo Bracco, Head of the Group's Human Resources function, it was specified that "there is no policy on the subject, nor any instruction was given to this end by those in charge of human resources management".

3.4. Recently, the press reported some criticism regarding the way the Company met requests from the Judicial Authorities with reference to the episode of unauthorized access to the RCS computer network: the enquiries carried out by the management concluded that there have not been delays, but evidenced that some of the responses to the Judicial Authorities were provided by Mr. Ghioni, who is currently under arrest for alleged crimes committed in relation to the unauthorized access to RCS's computer network.

3.5 Professor Avv. Francesco Mucciarelli, an expert in criminal law, expressed his opinion on the possibility of Telecom Italia being held responsible under Italian Legislative Decree 231/01 for the facts under the Warrant.
Professor Avv. Mucciarelli gave a negative reply to this question.

As among the alleged offences in the Warrant, only the episodes of corruption are covered by Legislative Decree 231/01, and Mr. Tavaroli, sole ex-employee of Telecom Italia under investigation for corruption, is to be considered (by way of a conservative interpretation) a top manager ("apical subject" as per Legislative Decree 231), the alleged corruption, according to current knowledge, only refers to the giving of a sum of money to public officials by Mr. Cipriani, through Italian and foreign companies reporting to him, for the acquisition of information not legitimately available to third parties.
Professor Mucciarelli observed that no notification has been given to Telecom Italia under d.lgs. 231/01, in that the illegal actions performed appear to have been committed to the detriment of the Company and not to its advantage or in its interests; in this consideration it is apparent that the illegal conduct has occurred without the knowledge of the company management.
On the other hand, the offences alleged, and in particular the offence of association and fraud, conflict with the interests of the Company, and would give basis to the hypothesis that they were carried out through methods aimed at concealing their true nature. This latter consideration seems to Professor Mucciarelli particularly significant, in that one of the requirements for exclusion of direct responsibility of the corporation, when the deed is committed by a top manager, consists in the fraudulent evasion of existing organisational models.
Obviously the opinion of the Professor is based on publicly available information and certain Judicial Authority's evaluations of the relevant facts and their qualification as criminal acts, which have yet to be declared final and proven in court.

4. Proposals

4.1. The COMMITTEE, on the basis of the information received from Management and advisors, as well as considering the measures taken by the Judicial Authority and the Privacy Authority, believes it necessary that the actions already in progress be integrated and strengthened in order to ensure confidence in the organization and the correctness of the Company's behaviour.
In this respect it is necessary to start and/or finalize the following initiatives as soon as practicable:

4.1.1. full compliance with the Privacy Authority's requirements under the measure of June 1, 2006 (deadline extended to March 31, 2007), by performing the plan of actions already initiated;

4.1.2. immediate implementation of the measures identified by the management with the support of KPMG Advisory, as per their advisory report on the state of Company IT procedures and systems with respect to security (under §3.3.6);

4.1.3. ascertaining the reasons that prevented suitable perception of the risks connected to compliance with privacy regulation, and proposal for subsequent measures;

4.1.4. completion of the enquiry by Reconta Ernst & Young on how (if at all) the findings in the Security sector affect the Company's financial statements;

4.1.5. assessment of the organization of the Security function being adequate, taking into account the remedies already implemented, with particular attention to the respect of operational correctness and the efficiency of controls;

4.1.6. evaluation of the efficiency level of the solutions set forth by the Organizational Model 231 on the subject of consultancy;

4.1.7. determination if the Tavaroli issue may still affect the Company. And in particular: (i) understand the references in the Warrant to Tavaroli's position after May 2005 ("according to documents, it results that for a certain period, even after his distancing from the management of the Security sector, he maintained an active role in Telecom, operating, in particular, from Romania") [page 337]", and (ii) verify if, subsequent to May 2005, Company employees or officials have, no matter what the responsibilities of Tavaroli as a consultant were, allowed Tavaroli to access company data; and

4.1.8. determination if any office or any individual employee / consultant of the Company in any way facilitated the acquisition and treatment of confidential data, or data however unrelated to the professional aptitude, of perspective employees; adoption of procedures to ensure respect of applicable security regulations.

TELECOM ITALIA GROUP
CONSOLIDATED FINANCIAL STATEMENTS

Contents

CONSOLIDATED BALANCE SHEETS

ASSETS

(millions of euro)	note	12/31/2006	*of which related parties*	12/31/2005	*of which related parties*
NON-CURRENT ASSETS					
Intangible assets					
Goodwill	5)	43,739		43,980	
Intangible assets with a finite life	6)	6,740		6,810	
		50,479		50,790	
Tangible assets					
Property, plant and equipment owned		15,690		16,443	
Assets held under finance leases		1,525		1,598	
	7)	17,215		18,041	
Other non-current assets					
Investments in associates and joint ventures accounted for using the equity method	8)	488	-	781	-
Other investments	8)	776	-	561	-
Securities, financial receivables and other non-current financial assets	8)	691	24	996	24
Miscellaneous receivables and other non-current assets	8)	871	10	825	15
Deferred tax assets	9)	912	-	2,793	-
		3,738		5,956	
TOTAL NON-CURRENT ASSETS (A)		71,432		74,787	
CURRENT ASSETS					
Inventories	10)	291	-	294	-
Trade and miscellaneous receivables and other current assets	11)	8,748	220	8,856	228
Current income tax receivables	12)	287	-	335	-
Securities	13)	812	-	378	-
Financial receivables and other current financial assets	14)	433	1	509	-
Cash and cash equivalents	15)	7,219	1	10,323	14
Current assets sub-total		17,790	222	20,695	242
Discontinued operations/assets held for sale					
of a financial nature		-		37	
of a non-financial nature		235		491	
	16)	235		528	
TOTAL CURRENT ASSETS (B)		18,025		21,223	
TOTAL ASSETS (A+B)		89,457		96,010	

EQUITY AND LIABILITIES

(millions of euro)	note	12/31/2006		12/31/2005	
EQUITY					
Share capital issued		10.674		10.668	
Less: Treasury shares		(69)		(69)	
Share Capital		10.605		10.599	
Reserves for additional paid-in capital		1.689		6.465	
Other reserves and retained earnings (accumulated losses), including net income for the year		13.724		8.598	
Equity attributable to equity holders of the Parent		26.018		25.662	
Equity attributable to Minority interests		1.080		1.323	
TOTAL EQUITY (A)	17)	27.098		26.985	
NON-CURRENT LIABILITIES					
Non-current financial liabilities	18)	40.803	239	42.146	279
Employee severance indemnities and other employee-related provisions	20)	1.262		1.351	
Deferred tax liabilities	9)	194		137	
Provisions for risks and charges	21)	775		797	
Miscellaneous payables and other non-current liabilities	22)	1.857	23	2.113	10
TOTAL NON-CURRENT LIABILITIES (B)		44.891		46.544	
CURRENT LIABILITIES					
Current financial liabilities	18)	5.653	148	9.812	124
Trade and miscellaneous payables and other current liabilities	23)	11.596	204	12.157	281
Current income tax payables	24)	219		227	
Current liabilities sub-total		17.468		22.196	
Liabilities relating to discontinued operations/assets held for sale					
of a financial nature		-		143	
of a non-financial nature		-		142	
	16)	-		285	
TOTAL CURRENT LIABILITIES (C)		17.468		22.481	
TOTAL LIABILITIES (D=B+C)		62.359		69.025	
TOTAL EQUITY AND LIABILITIES (A+D)		89.457		96.010	

CONSOLIDATED STATEMENTS OF INCOME

(millions of euro)	note	Year 2006	*of which related parties*	Year 2005	*of which related parties*
Revenues	28)	31,275	*464*	29,919	*463*
Other income	29)	606	*7*	678	*6*
Total operating revenues and other income		**31,881**		**30,597**	
Purchases of materials and external services	30)	(14,191)	*(257)*	(12,937)	*(409)*
Personnel costs	31)	(3,801)	*(58)*	(4,142)	*(48)*
Other operating expenses	32)	(1,543)	*(6)*	(1,468)	-
Changes in inventories	10)	8		(4)	
Capitalized internal construction costs	33)	496		471	
OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) OF NON-CURRENT ASSETS (EBITDA)		12,850		12,517	
of which net impact of non-recurring items	44)	*(28)*		*(290)*	
				-	
Depreciation and amortization	34)	(5,487)		(5,232)	
Gains (losses) on disposals of non-current assets (1)	35)	95		242	
Impairment reversals (losses) on non-current assets	36)	(21)		(28)	
OPERATING INCOME (EBIT)		7,437		7,499	
of which net impact of non-recurring items	44)	*92*		*(26)*	
Share of profits (losses) of associates and joint ventures accounted for using the equity method	8)	51		23	
Financial income	37)	3,041	*1*	3,144	*2*
Financial expenses	38)	(5,014)	*(27)*	(5,131)	*(32)*
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES		5,515		5,535	
of which net impact of non-recurring items	44)	*431*		*483*	
Income taxes	39)	(2,519)		(2,395)	
NET INCOME FROM CONTINUING OPERATIONS		2,996		3,140	
Net income from discontinued operations/assets held for sale	16)	7		550	
NET INCOME FOR THE YEAR		3,003		3,690	
of which net impact of non-recurring items	44)	*351*		*949*	
of which:					
· **Net income attributable to equity holders of the Parent**		**3,014**		**3,216**	
· Net income (loss) attributable to Minority interests		(11)		474	

(1) Excludes capital gains/losses realized on disposals of investments classified as discontinued operations/assets held for sale and investments other than in subsidiaries.

Basic and Diluted Earnings Per Share (EPS) (*) (euro)	note	2006	2005
Basic and Diluted EPS per:	40)		
· Ordinary Share		0.15	0.17
· Savings Share		0.16	0.18
Of which:			
- From continuing operations			
· Ordinary Share		0.15	0.14
· Savings Share		0.16	0.15
- From discontinued operations/assets held for sale			
· Ordinary Share		-	0.03
· Savings Share		-	0.03

(**) Basic EPS is equal to Diluted EPS.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

CHANGES IN EQUITY IN 2005

(millions of euro)

	Equity attributable to equity holders of the Parent						
	Share capital	Reserve for additional paid-in capital	Reserve for net translation differences	Other reserves and retained earnings (accumulated losses), including net income(loss) for the year	Total	Equity attributable to Minority Interests	Total equity
Balance at December 31, 2004 - in accrodance with Italian GAAP	8,865	120		6,187	15,172	4,689	19,861
Adoption of IFRS	(56)	(55)	(50)	1,237	1,076	(139)	937
Balance at December 31, 2004 - in accordance with IFRS	8,809	65	(50)	7,424	16,248	4,550	20,798
Changes in equity in 2005							
Fair value adjustments of available-for-sale financial assets:							
Unrealized gains (losses) from fair value adjustments				57	57		57
Gains/losses transferred to the statement of income				(11)	(11)		(11)
Fair value adjustments of hedging instruments :							
Unrealized gains (losses) from fair value adjustments of cash flow hedging derivatives				(122)	(122)		(122)
Gains/losses transferred to the statement of income				75	75		75
Translation differences			848		848	357	1,205
Income taxes				(1)	(1)		(1)
Income (loss) recognized directly in equity - Other Comprehensive Income (loss)			848	(2)	846	357	1,203
Net income for the year				3,216	3,216	474	3,690
Total comprehensive income (loss) for the year			848	3,214	4,062	831	4,893
Dividends approved				(1,912)	(1,912)	(430)	(2,342)
Conversion of bonds	488	1,640		(315)	1,813		1,813
Exercise of stock options	6	23			29		29
Cash-tender offer and purchase of shares						(2,124)	(2,124)
Telecom Italia/TIM merger	1,309	4,768		(64)	6,013	(1,102)	4,911
Transfer of TIN.IT from Telecom Italia Media to Telecom Italia				(364)	(364)	364	
Tender offer on Telecom Italia Media shares						(134)	(134)
Reorganization of mobile business segment in Brazil				(14)	(14)	40	26
Reimbursement of Entel Bolivia capital						(160)	(160)
Changes in the scope of consolidation			(5)		(5)	(577)	(582)
Telecom Italia shares held by Telecom Italia Finance	(13)				(13)		(13)
Other changes		(31)		(164)	(195)	65	(130)
Balance at December 31, 2005 - in accordance with IFRS	10,599	6,465	793	7,805	25,662	1,323	26,985

CHANGES IN EQUITY IN 2006

(millions of euro)

	Equity attributable to equity holders of the Parent						
	Share capital	Reserve for additional paid-in capital	Reserve for net translation differences	Other reserves and retained earnings (accumulated losses), including net income(loss) for the year	Total	Equity attributable to Minority Interests	Total equity
Balance at December 31, 2005 - in accordance with IFRS	10,599	6,465	793	7,805	25,662	1,323	26,985
Application of Leg. Decree No.38/2005		(4,796)		4,796			
Balance at December 31, 2005 - in accordance with IFRS, adjusted	10,599	1,669	793	12,601	25,662	1,323	26,985
Changes in equity in 2006							
Fair value adjustments of available-for-sale financial assets:							
Unrealized gains (losses) from fair value adjustments				68	68		68
Gains/losses transferred to the statement of income							
Fair value adjustments of hedging instruments :							
Unrealized gains (losses) from fair value adjustments of cash flow hedging derivatives				(48)	(48)		(48)
Gains/losses transferred to the statement of income				290	290		290
Translation differences			(119)		(119)	(44)	(163)
Income taxes				(83)	(83)		(83)
Income (loss) recognized directly in equity - Other Comprehensive Income (loss)			(119)	227	108	(44)	64
Net income for the year				3,014	3,014	(11)	3,003
Total comprehensive income (loss) for the year			(119)	3,241	3,122	(55)	3,067
Dividends approved				(2,766)	(2,766)	(236)	(3,002)
Conversion of bonds	6	20		(4)	22		22
Exercise of stock options						2	2
Reorganization of mobile business segment in Brazil				(59)	(59)	59	
Changes in the scope of consolidation			12		12	(15)	(3)
Other changes				25	25	2	27
Balance at December 31, 2006 - in accordance with IFRS	10,605	1,689	686	13,038	26,018	1,080	27,098

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of euro)	note	Year 2006	Year 2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income from continuing operations		2,996	3,140
Adjustments to reconcile net income from continuing operations to cash flows generated by (used in) operating activities:			
Depreciation and amortization		5,487	5,232
Impairment (reversals) losses of non-current assets (including investments)		1	3
Net change in deferred tax assets and liabilities		1,843	1,347
Net (gains) losses realized on disposals of non-current assets (including investments)		(317)	(327)
Share of (profits) losses of associates and joint ventures accounted for using the equity method		(51)	(23)
Change in employee severance indemnities and other employee-related provisions		(114)	255
Change in other operating assets/liabilities:			
Change in inventories		-	(5)
Change in trade receivables and net receivables on construction contracts		(461)	329
Change in trade payables		(10)	184
Net change in miscellaneous receivables/payables and other assets/liabilities		(180)	(357)
CASH FLOWS GENERATED BY (USED IN) OPERATING ACTIVITIES (A)		**9,194**	**9,778**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions of intangible assets on an accrual basis	6)	*(2,187)*	*(1,785)*
Acquisitions of tangible assets on an accrual basis	7)	*(2,927)*	*(3,388)*
Total acquisitions of intangible and tangible assets on an accrual basis (*)		(5,114)	(5,173)
Change in amounts due to fixed asset suppliers		*10*	*158*
Total acquisitions of intangible and tangible assets on a cash basis		(5,104)	(5,015)
Acquisitions of investments in subsidiaries and businesses, net of cash acquired (I)	3, 5, 6)	-	(390)
Acquisitions of other investments	3, 5, 8)	(206)	(14,544)
Change in financial receivables and other financial assets		(264)	(474)
Proceeds from sale of investments in subsidiaries, net of cash disposed of (II)	5,16)	345	2,052
Proceeds from sale/repayments of intangible, tangible and other non-current assets (II)		1,038	950
CASH FLOWS GENERATED BY (USED IN) INVESTING ACTIVITIES (B)		**(4,191)**	**(17,421)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in current financial liabilities and others liabilities		(204)	(1,053)
Proceeds from non-current financial liabilities (including current portion)		5,222	15,357
Repayments of non-current financial liabilities (including current portion)		(9,995)	(3,151)
Proceeds from equity instruments		2	102
Share capital increases/repayments		-	(160)
Dividends paid (distribution of reserves included) (*)		(2,997)	(2,328)
CASH FLOWS GENERATED BY (USED IN) FINANCING ACTIVITIES (C)		**(7,972)**	**8,767**
CASH FLOWS GENERATED BY (USED IN) DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE (D)	16)	**(13)**	**26**
AGGREGATE CASH FLOWS (E=A+B+C+D)		**(2,982)**	**1,150**
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (F)		**9,958**	**8,667**
Net effect of foreign currency translation on net cash and cash equivalents (G)		(16)	141
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (H=E+F+G)		**6,960**	**9,958**

(*) of which Related Parties

(millions of euro)	Year 2006	Year 2005
Total acquisitions of intangible and tangible assets on an accrual basis	543	535
Dividends paid (distribution of reserves included)	348	270

ADDITIONAL CASH FLOW INFORMATION:

(millions of euro)	Year 2006	Year 2005
Income taxes (paid) received	(566)	(708)
Interest expense paid	(3,108)	(2,796)
Interest income received	1,156	1,067
Dividends received	63	61

(I) Net of change in payables following the related acquisition.

(II) Net of change in receivables following the related disposal.

RECONCILIATION OF TOTAL NET CASH AND CASH EQUIVALENTS

(millions of euro)	Year 2006	Year 2.005
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR:		
Cash and cash equivalents - from continuing operations	10.323	8.746
Bank overdraft repayable on demand – from continuing operations	(383)	(248)
Cash and cash equivalents - from discontinued operations/assets held for sale	37	210
Bank overdraft repayable on demand – from discontinued operations/assets held for sale	(19)	(41)
	9.958	8.667
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR:		
Cash and cash equivalents - from continuing operations	7.219	10.323
Bank overdraft repayable on demand – from continuing operations	(259)	(383)
Cash and cash equivalents - from discontinued operations/assets held for sale	-	37
Bank overdraft repayable on demand – from discontinued operations/assets held for sale	-	(19)
	6.960	9.958

NOTE 1 – FORM AND CONTENT AND OTHER GENERAL INFORMATION

Form and content

Telecom Italia S.p.A. is a corporation organized under the laws of the Republic of Italy. Telecom Italia S.p.A. and its subsidiaries (the "Group") operate mainly in Europe, the Mediterranean Basin and South America.
The Group is engaged principally in the communications sector and, particularly, in telephone and data services on fixed lines, for final customers (retail) and other providers (wholesale), in the development of fiber optic networks for wholesale customers, in innovative broadband services, in Internet services, in domestic and international mobile telecommunications (especially in Brazil), in the television sector using both analog and digital terrestrial technology and in the office products sector.
The head office of the Parent, Telecom Italia, is located in Milan, Italy.

The consolidated financial statements of the Telecom Italia Group are expressed in millions of euro which is also the currency of the primary economies in which the Group operates. The foreign subsidiaries are included in the consolidated financial statements in accordance with the accounting policies described in the Note "Accounting policies".

The consolidated financial statements for the year ended December 31, 2006 have been prepared in accordance with IFRS issued by the International Accounting Standards Board and endorsed by the European Union ("IFRS'') by the national laws in force, by Consob resolutions 15519 and 15520 dated July 27, 2006, and by Consob Communication 6064293 dated July 28, 2006. 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")

The consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets held for trading and derivative instruments which have been measured at fair value, as well as discontinued operations/assets held for sale and the liabilities related to discontinued operations/assets held for sale which have been stated at the lower of carrying value or fair value less costs to sell. The carrying amounts of hedged assets and liabilities have been adjusted to reflect the changes in fair value of the hedged risks (fair value hedge).

Moreover, the Group did not elect the early adoption of any IFRS in 2006.

Changes made to the classification of certain items in the consolidated financial statements at December 31, 2006 have also been made, for purposes of comparison, to the comparative data in the consolidated financial statements at December 31, 2005.

Financial statement formats

The financial statement formats adopted are consistent with those indicated in IAS 1. In particular:

- the consolidated balance sheet has been prepared by classifying the assets and liabilities according to "current and non-current" criterion and separately indicating on two lines "Discontinued operations/assets held for sale" and "Liabilities relating to discontinued operations/assets held for sale" as required by IFRS 5;
- the consolidated statement of income has been prepared by classifying the operating costs by nature of expense, since this form of presentation is considered more appropriate and representative of the specific business of the Group, conforms to internal reporting and is in line with the industrial sector of reference. Moreover, results from continuing operations are shown separately from the "Net income (loss) from discontinued operations/assets held for sale" as required by IFRS 5;
- the consolidated statement of changes in equity has been prepared in conformity with the IAS 1;
- the consolidated statement of cash flows has been prepared by presenting financial flows from operating activities according to the "indirect method", as permitted by IAS 7, and separately showing financial flows from "Discontinued operations/assets held for sale", as required by IFRS 5.

Furthermore, as required by Consob resolution 15519 dated July 27, 2006, in the statement of income by nature, income and expenses relating to non-recurring transactions or events which infrequently occur during the normal course of business operations and the relative effects have been shown separately at the main intermediate result levels.
Non-recurring events and transactions are identified basically according to the nature of the transactions. Specifically, non-recurring income (expenses) include events or transactions which by their very nature do not occur continuously during the normal course of operations and refer to:

- income / expenses from the sale of properties;
- income / expenses from the sale of business segments and investments included under non-current assets;
- any income / expenses from reorganizations connected with extraordinary corporate-related transactions (mergers, demergers, acquisitions and other corporate-related transactions);
- any income / expenses from fines levied by regulatory agencies (the National Regulatory Authority (NRA), the Antitrust Authority etc.).

Again in reference to the above Consob resolution, the amounts of balances or transactions with related parties are shown separately by caption in the balance sheet, statement of income and statement of cash flows.

Segment information

The disclosure of segment information has been modified to present the Brazil Mobile segment separately from the Domestic Mobile segment in light of the increasing importance of the Brazilian mobile business and the organizational changes that took place during 2006.
In order to facilitate the comparability of the data, the segment information presented for prior periods has been restated for purposes of comparison.

The accounting presentation by business segment is therefore as follows:

- Wireline
- Domestic Mobile
- Brazil Mobile
- Media
- Olivetti
- Other activities

Seasonal factors affecting revenues

- Wireline

The trend of revenues from basic subscription charges and traffic relating to fixed telecommunications was not significantly affected by seasonal factors in 2006 with respect to 2005. However, the promotional campaigns launched in 2006 had a positive effect on product sales.

- Domestic Mobile

The trend of voice traffic revenues relating to the domestic mobile business was not influenced by seasonal factors related to market campaigns. These campaigns, however, have an effect on the revenues from sales and marginally also on revenues from Valued Added Services (VAS). Nevertheless, there are seasonal phenomena relating to the number of holidays during the months or periods in the reporting calendar.

- Brazil Mobile

The trend of revenues relating to the Brazil mobile business were only marginally affected by seasonal factors connected with marketing campaigns but were influenced by seasonal phenomena relating to the number of holidays during the months or periods in the reporting calendar.

Scope of consolidation

Excluding the effects of discontinued operations/assets held for sale at December 31, 2006 and 2005 (analyzed later in the notes), the impact of the other changes in the scope of consolidation on the results of operations, the financial position and cash flows during 2006 and 2005 is not material.

The changes in the scope of consolidation at December 31, 2006 compared to December 31, 2005 can be summarized as follows:

a) inclusions in the scope of consolidation:
   - *Olivetti*: AdValso S.p.A (established in November 2006);
b) exclusions from the scope of consolidation:
   - *Wireline:* Telecom Media International Italy-Canada Inc. (wind-up closed in November 2006), Emax Trade S.r.l. (wind-up closed in November 2006) and Liberty Telecom B.V. (wind-up closed in December 2006);
   - *Olivetti*: Wirelab S.p.A. (partial sale of investment), Olivetti Tecnost Portugal S.A. (wind-up closed in May 2006) and Olivetti Tecnost H.K. Ltd (wind-up closed in October 2006);
   - *Other activities*: Ruf Gestion S.a.S. (sold in March 2006), Olivetti International (Service) S.A. (wind-up closed in April 2006), Eustema S.p.A. (sold in April 2006), Consorzio Energia (wind-up closed in May 2006), Consorzio Formazione Area Mediterranea (reclassified to investments in associates), Telecom Italia Learning Services S.p.A. (sold

in July 2006), Blah! Inc. (wind-up closed in October 2006) and Edotel S.p.A. (wind-up closed in December 2006);

c) merged companies:
   - effective January 2006, La7 Televisioni S.p.A. was merged with the parent Telecom Italia Media S.p.A.;
   - effective March 2006, Tim Italia S.p.A. was merged with the parent Telecom Italia S.p.A.;
   - effective March 2006, Blah!- Sociedade Anonima de Servicos e Comercio and CRC– Centro de Relacionamento com Clientes were merged in the parent Tim Celular S.A., whose investment was later contributed by Tim Brasil S.A. to Tim Participaçoes S.A.;
   - effective June 2006, Tim Sul S.A. was merged in Tim Celular S.A., Tim Nordeste Telecomunicaçoes S.A. was merged in Maxitel S.A. and renamed Tim Nordeste S.A.;
   - effective October 2006, Nuova Tin.It S.r.l. was merged with the parent Telecom Italia S.p.A..

The changes in the scope of consolidation at December 31, 2005 compared to December 31, 2004 can be summarized as follows:

a) inclusions in the scope of consolidation:
   - *Wireline:* Rits Tele.com. B.V. (acquired in March 2005), Nuova Tin.It S.r.l (established in May 2005), Liberty Surf Group S.A. (acquired on May 31, 2005), Telecom Italia Data Center S.r.l. (established in August 2005) and TIS France S.a.S. (established in August 2005);
   - *Other activities*: Progetto Italia S.p.A. (established in January 2005) and Ascai Servizi S.r.l. (controlling interest acquired in May 2005);

b) exclusions from the scope of consolidation:
   - *Wireline*: Med 1/c-1 (1999) Ltd (sold in July 2005), Kmatrix S.r.l. (deleted from the Companies Register in July 2005);
   - *Media:* Televoice S.p.A. (sold in January 2005), Databank S.p.A. and Dbk S.A. (sold in February 2005);
   - *Olivetti*: Innovis S.p.A. (controlling interest sold in January 2005), Cell-Tell S.p.A. (controlling interest sold in March 2005), Olivetti Servicios y Soluciones Integrales S.A. de C.V. in liquidation (deleted from the Companies Register in March 2005), Olivetti Lexikon Nordic AB in liquidation (closed in April 2005), Olivetti Tecnost Africa Ltd (sold in July 2005) and Olivetti Peruana S.A. (deleted from the Companies Register in November 2005);

c) merged companies:
   - *Wireline*: Finanziaria Web S.p.A., Ism S.r.l. and Telecom Italia Data Center S.r.l. merged in Telecom Italia S.p.A.; Tiscali Telecom S.a.S., Tiscali Contact S.A., Tiscali Media S.A., Film non Stop S.A and Telecom Italia France S.a.S. merged in Tiscali Access S.A. then renamed Telecom Italia S.A.; Rits Tele.com B.V. merged in BBNed;
   - *Mobile*: Telecom Italia Mobile S.p.A. merged in Telecom Italia S.p.A.;
   - *Olivetti*: Olivetti Sistema e Serviços Ltda merged in Olivetti do Brasil and Olivetti Tecnost de Mexico S.A. de C.V. merged in Olivetti Mexicana S.A..

At December 31, 2006 and 2005, the subsidiaries, associates and joint ventures of Telecom Italia can be summarized as follows:

Companies:	12/31/2006 Italy	abroad	Total
• subsidiaries consolidated on a line-by-line basis	43	85	128
• jointly controlled companies accounted for using the equity method	1	1	2
• associates accounted for using the equity method	26	7	33
Total companies	70	93	163

Companies:	12/31/2006 Italy	abroad	Total
• subsidiaries consolidated on a line-by-line basis (*)	54	100	154
• jointly controlled companies accounted for using the equity method	1	1	2
• associates accounted for using the equity method	31	12	43
Total companies	86	113	199

(*) Including companies held for sale

For further details, see the Note "List of companies of the Telecom Italia Group".

Discontinued operations/assets held for sale

As required by IFRS 5 (*Non-current assets held for sale and discontinued operations*), balance sheet and statement of income data relating to discontinued operations/ assets held for sale have been classified in two separate lines on the balance sheet in "Discontinued operations/assets held for sale" and in "Liabilities relating to discontinued operations/assets held for sale" and in one line on the statement of income in "Net income (loss) from discontinued operations/assets held for sale.
In particular:

- the 2006 statement of income includes the data of Digitel Venezuela (sold in May 2006);
- the 2005 statement of income includes the data of: Digitel Venezuela (sold in May 2006), the Entel Chile group (sold in March 2005), Tim Hellas (sold at the beginning of June 2005), the Finsiel group (sold at the end of June 2005), Tim Perù (sold in August 2005) and Gruppo Buffetti (sold in January 2006) ;
- the balance sheet at December 31, 2006 includes the investments held in Solpart Partecipaçoes and Brasil Telecom Partecipaçoes subsequent to the decision to proceed with their sale;
- the balance sheet at December 31, 2005 includes the data of Digitel Venezuela and Gruppo Buffetti.

NOTE 2 – ACCOUNTING POLICIES

Consolidation

The consolidated financial statements include the financial statements of all subsidiaries from when control over such subsidiaries commences until the date that control ceases.

Control exists when the Group has the majority of voting rights or has the power, directly or indirectly, to determine, also through contractual agreements, the financial and operating policies of an enterprise so as to obtain benefits from its activities.
In the preparation of the consolidated financial statements, assets, liabilities, revenues and expenses of the consolidated companies are consolidated on a line-by-line basis and minority interests in the equity and in the net income for the year are disclosed separately under appropriate captions, respectively, in the consolidated balance sheet and in the consolidated statement of income.
The carrying amount of the investment in each subsidiary is eliminated against the corresponding share of net equity in each subsidiary, after adjustment, if any, to fair value at the acquisition date; any resulting difference is treated as goodwill and recognized in intangible assets, as described below.

All intragroup balances and transactions, and any unrealized gains and losses arising from intragroup transactions, are eliminated on consolidation.

All assets and liabilities of foreign consolidated subsidiaries expressed in currencies other than euro are translated using the exchange rates in effect at the balance sheet date (the current method). Income and expenses are translated at the average exchange rate for the year. Translation differences resulting from the application of this method are classified as equity until the disposal of the investment. The average exchange rates for the year are used to translate the cash flows of foreign consolidated subsidiaries included in the consolidated statement of cash flows.

For subsidiaries, associates and jointly controlled companies which adopt inflation accounting to eliminate distorting effects on the result for the year, the statement of income has been translated at the year-end exchange rates, as required by IAS 29 (*Financial reporting in hyperinflationary economies*), instead of at the average rates for the year.

In the context of IFRS first-time adoption, the cumulative translation differences arising from the consolidation of foreign subsidiaries outside the eurozone was set at nil, as allowed by IFRS 1 (*First-time adoption of International Financial Reporting Standards*); therefore, only accumulated translation differences generated and recorded after January 1, 2004 are included in the determination of gains or losses arising from the disposal of such foreign subsidiaries, if any.

Goodwill and fair value adjustments arising from the allocation of the purchase price of a foreign entity are recorded in the relevant foreign currency and are translated using the year-end exchange rate.

If losses attributable to minority interests in a consolidated subsidiary exceed the minority interests in the subsidiary's equity, the excess, and any further losses attributable to the minority interests, are allocated against the equity interest attributable to the equity holders of the Parent except to the extent that the minority interests have a binding obligation, and are able, to make an additional investment to cover the losses. If the subsidiary subsequently reports profits, such profits are allocated to the interest attributable to the equity holders of the Parent until the minority interests' share of losses previously absorbed by the equity holders of the Parent has been recovered.

Investments in associates and in jointly controlled companies are accounted for in the consolidated financial statements by the equity method, as provided, respectively, by IAS 28 (*Investments in associates*) and IAS 31 (*Interests in joint ventures*). Associates are enterprises in which the Group holds at least 20% of the voting rights or exercises a significant influence, but no control or joint control over the financial and operating policies.
The consolidated financial statements include the Group's share in the earnings of associates and jointly controlled companies accounted for by the equity method, from the date that significant influence commences until the date such influence ceases. When the Group's share of losses of an associate and jointly controlled company, if any, exceeds the carrying amount of the investment on the Group's balance sheet, the carrying amount of the investment is reduced to zero and the share of further losses is not recognized except to the extent that the Group has an obligation to cover such losses.
Unrealized gains and losses arising from transactions with associates or jointly controlled companies are eliminated to the extent of the Group's interest in those entities.

With regard to transactions for the acquisition and sale of interests in companies already controlled, in the absence of a Standard or a specific Interpretation on the matter and referring to IAS 8 (*Accounting policies, changes in accounting estimates and errors*), the Group has applied the following accounting treatments, identifying two types of transactions.

- acquisition/sale of interests in companies already controlled: in the case of acquisitions, the Group pays the minority interests in cash or by new shares and, at the same time, eliminates the relative share of the minority interest and records Goodwill equal to the excess of the acquisition cost over the carrying amount of the assets and liabilities acquired. In the case of sales, the difference between the sales amount and the corresponding carrying amount on consolidation is recognized in the statement of income (Parent entity extension method).
- intragroup transfers of interests in controlled companies which result in a change in the percentage of ownership: the interests transferred remain recorded at historical cost and the gain or loss on the transfer is eliminated in full. The minority interests which do not directly take part in the transaction are adjusted to reflect the change in the respective share of equity with a corresponding opposite effect on the equity attributable to the equity holders of the Parent without recognition of any goodwill and however without generating any impact on net income or total equity.

Intangible assets

Goodwill

In the case of the acquisition of a controlling interest in an enterprise, the identifiable assets, liabilities and contingent liabilities acquired (including minority interests) are recorded at fair value at the date of acquisition.
The positive difference or excess of the cost of acquisition over the Group's interest in the fair value of those assets and liabilities is recognized as goodwill and classified in the balance sheet as an intangible asset with an indefinite life. The negative difference or excess of fair value over cost ("negative goodwill") is recognized in the statement of income at the date of acquisition.
Goodwill is originally recorded at cost and is subsequently reduced only for accumulated impairment losses.

In accordance with IAS 36 (*Impairment of assets*), goodwill is tested for impairment annually, or more frequently, if specific events or changes in circumstances indicate that it may be impaired. However, impairment losses of goodwill are not reversed when the underlying assumptions no longer exist. For additional details, please refer to the following *Impairment of assets – Goodwill.*

When a part or the entire investment previously acquired is sold, the corresponding amount of goodwill is taken into account in calculating the gain or loss on sale.

In the context of IFRS first-time adoption, the Group elected not to apply IFRS 3 (*Business Combinations*) retrospectively to the business combinations that occurred before January 1, 2004; as a consequence, goodwill arising on acquisitions before the date of transition to IFRS has been retained at the previous Italian GAAP amounts, subject to being tested for impairment at that date and except for possible effects arising from the application of the new standards.

Development costs

Costs incurred internally for the development of new products and services represent intangible assets (mainly costs for software development) or tangible assets produced internally. Such costs are capitalized only if all the following conditions are met: the project is technically feasible and the Group intends to complete the asset and make it available for internal use or sale; the ability of the Group to use or sell the asset; the existence of a market for the products or services provided by the asset or the ability to use the asset internally; the availability of adequate technical and financial resources to complete the development and sale or internal use of the products or services deriving from the asset; and the ability of the Group to measure reliably the expenditures attributable to the asset during the development phase.
Capitalized development costs comprise only expenditures that can be attributed directly to the development process and are amortized systematically from the start of production over the estimated product or service life.

Other intangible assets with a finite life

Other purchased or internally-generated intangible assets are recognized as assets in accordance with IAS 38 (*Intangible assets*), where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be determined reliably.
Such assets are recorded at purchase or development cost, or, for those assets existing at the transition date to IFRS (January 1, 2004), at the deemed cost which for certain assets is the revalued cost, and amortized on a straight-line basis over their estimated useful lives. Intangible assets with finite useful lives are also tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired.
Amortization is calculated on a straight-line basis over the estimated useful life of the assets. The amortization rates are reviewed yearly and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized in the statement of income prospectively.

Tangible assets – Property, plant and equipment owned

Property, plant and equipment owned is stated at acquisition or production cost or, for those assets existing at the transition date to IFRS at January 1, 2004, at the deemed cost which for some assets is the revalued cost. Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures (including interest expenses directly attributable to the acquisition or construction of the asset) are expensed as incurred.

Cost also includes the expected costs of decommissioning the asset and restoring the site if a legal or constructive obligation exists. The corresponding liability is recognized in the period in which the obligation arises in a balance sheet provision under the provisions for risks and charges. These capitalized costs are depreciated and charged to the statement of income over the useful life of the related tangible assets.
Depreciation of property, plant and equipment owned is calculated on a straight-line basis over the estimated useful life of the assets.
Land, including the land appurtenant to the buildings, is not depreciated.
These depreciation rates are reviewed yearly and revised if the current estimated useful live is different from that estimated previously. The effect of such changes is recognized in the statement of income prospectively.

In 2006, a complete review of the useful lives of tangible assets was undertaken basically in relation to the following:

- integration of fixed and mobile telecommunications;
- planning of a New Generation Network (NGN) to support the domestic broadband services market.

Such changes led to an extension of the relative useful lives for some assets (power supply and air-conditioning systems and transmission installations).
As part of the review of the depreciation rates, technical evaluations of the tangible assets were made and account was taken of technological innovation, market evolution and comparisons with international competitions.
The review of the depreciation rates led to reduction in the depreciation charge for the year 2006 of euro 319 million and, assuming that other existing conditions remain the same, a reduction in the depreciation charge of euro 193 million in 2007 and euro 159 million in 2008.

The minimum and maximum depreciation rates used in 2006 and 2005 are the following:

	Depreciation rates	
	Year 2006	Year 2005
Civil and industrial buildings	3% - 7%	3% - 7%
Plant and equipment	3% - 33%	3% - 33%
Manufacturing and distribution equipment	15% - 25%	15% - 25%
Ships	9%	9%
Other assets	11% - 33%	12% - 33%

Tangible assets - Assets held under finance leases

Assets held under finance leases, in which the Group retains substantially all the risks and rewards of ownership, are recognized as assets of the Group at their fair value or, if lower, at the present value of the minimum lease payments, including bargain purchase options. The corresponding liability payable to the lessor is included in the balance sheet in financial liabilities.
Furthermore, gains realized on sale and leaseback transactions that are recorded under the finance method are deferred over the shorter of the lease term and the remaining useful life of the asset.
Since there is no reasonable certainty over the acquisition of the ownership of the asset at the end of lease period, assets held under finance leases are depreciated over the shorter of the lease term and their useful lives.

Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are accounted for as operating leases. Operating lease rentals are charged to the statement of income on a straight-line basis over the lease term.

Impairment of assets

Goodwill

Goodwill is tested for impairment at least once a year to assess the recoverable amount of the asset.
The test is conducted in conjunction with the planning process of the Group, near the end of every year. Therefore, the date of testing is the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment by the end of the year in which the acquisition and allocation took place.
To test for impairment, goodwill is allocated, at the date of acquisition, to each cash-generating unit or group of cash-generating units which is expected to benefit from the acquisition. Allocation is made to the lowest level at which goodwill is monitored for management purposes. This minimum level must never be at a higher level than the business segment determined in accordance with IAS 14 (*Segment Reporting*).
If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the statement of income. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite life. The recoverable amount of a cash-generating unit, or group of cash-generating units, to which goodwill is allocated, is the higher of fair value less costs to sell and its value in use.
In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The future cash flows are derived from the company plans approved by the board of directors which generally cover a period of three years, except where longer-term projections are required such as in the case of start-up activities. The long-term growth rate used to estimate the end amount of the cash-generating unit (or group of cash-generating units) is assumed not to be higher than the average long-term growth rate of the segment, country or market in which the cash-generating unit (or group of cash-generating units) operate.
The value in use of cash-generating units which operate in a foreign currency is estimated in the local currency by discounting cash flows to present value on the basis of an appropriate rate for that currency. The present value obtained is translated to euro at the spot rate on the date of the impairment test (in the case of the Telecom Italia Group, the date of the financial statements).
Future cash flows are estimated by referring to the current operating conditions of the cash-generating unit and, therefore, do not include either benefits originating from future restructuring for which the entity is not yet committed, or future investments for the improvement or optimization of the cash-generating unit.
For the purpose of calculating impairment, the carrying amount of the cash-generating unit is established based on the same criteria used to determine the recoverable amount of the cash-generating unit, excluding surplus assets (that is, financial assets, deferred tax assets and net assets held for sale) and includes the goodwill attributable to minority interests.
After conducting the goodwill impairment test for the cash-generating unit (or group of cash-generating units), a second level of impairment testing is carried out which includes the corporate assets which do not generate positive cash flows and which cannot be allocated by a reasonable and consistent criterion to the single units. At this second level, the total

recoverable amount of all cash-generating units or groups of cash-generating units is compared to the carrying amount of all cash-generating units (or groups of cash-generating units), including also the net assets of those cash-generating units to which no goodwill was allocated and the corporate assets.
When the conditions that gave rise to an impairment loss no longer exist, the original amount of goodwill is not reinstated, as set forth in IAS 36 (*Impairment of assets*).

Intangible and tangible assets with a finite life

During the year, the Group assesses whether there are any indications of impairment of tangible assets and intangible assets with a finite life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, increases in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization.
If there are any indications of an impairment of either tangible assets or intangible assets with a finite life, the carrying amount of the assets is reduced to the relative recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in use. In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.
An impairment loss is recognized in the statement of income.
When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded had no impairment loss been recognized. A reversal of an impairment loss is recognized as income in the statement of income.

Financial instruments

In the context of IFRS first-time adoption, the Group elected to adopt IAS 32 (*Financial instruments: disclosure and presentation*) and IAS 39 (*Financial instruments: recognition and measurement*) at January 1, 2004 instead of applying the standards from the year beginning January 1, 2005. Furthermore, as allowed by IFRS 1, the designation of financial instruments as a financial asset "at fair value through profit or loss" or "available for sale" or a financial liability valued at "fair value through profit or loss" has been carried out at January 1, 2004 instead of at the date of initial recognition.

Investments in other companies

Investments in other companies (other than those in subsidiaries, associates and jointly controlled companies) are classified upon acquisition as available-for-sale financial assets in current or non-current assets or as "financial assets at fair value through profit or loss" in current assets.
Such investments are valued at fair value or at cost in the case of unlisted companies or investments whose fair value is not reliable or cannot be determined reliably, adjusted by any impairment losses, as required by IAS 39 (*Financial instruments: recognition and measurement*). Changes in the value of investments classified as available-for-sale, if valued at cost, are recognized directly in the statement of income; those valued at fair value are

recognized in a specific equity reserve until the financial asset is disposed of or impaired at which time the equity reserve is reversed to the statement of income. Changes in the value of investments classified as assets at fair value through profit or loss are recognized directly in the statement of income.

Securities other than investments

Securities other than investments classified as non-current assets are those held to maturity. The assets are recorded on the trade date and, on initial recognition, are measured at acquisition cost (which generally coincides with fair value), including transaction costs. Subsequently, they are measured at amortized cost.
The amortized cost is represented by the initial amount of the financial instrument net of repayments of principal already received, adjusted (up or down) on the basis of the amortization (using the effective interest method) of any differences between the initial amount and the amount at maturity, less any writedown for impairment or uncollectibility.
Securities other than investments classified as current assets are those that, by decision of the directors, are intended to be kept in the Group's portfolio for a period of not more than 12 months, and are included in the following categories:

- held to maturity (originally more than 3 months but less than 12 months, or, with an original maturity of more than 12 months but the remaining maturity at the date of purchase is more than 3 months but less than 12 months) and measured at amortized cost;
- held for trading and measured at fair value through profit or loss;
- available-for-sale and measured at fair value with a contra-entry to an equity reserve.

When market prices are not available, the fair value of financial instruments is measured using appropriate valuation techniques e.g. discounted cash flow based on market information available at the balance sheet date.
The increase/decrease in the value of securities other than investments classified as available-for-sale is directly recognized in a specific equity reserve (Reserve for fair value adjustments of available-for-sale financial assets) until the financial asset is disposed of or impaired; at that time, accumulated gains and losses are reversed to the statement of income for the year.

Receivables and loans

Receivables and loans classified both as non-current and current assets are measured at amortized cost.
Receivables with maturities of over one year which bear no interest or an interest rate significantly lower than market rates are discounted using market rates.

Cash and cash equivalents

Cash and cash equivalents are recorded, according to their nature, at nominal value or amortized cost.
Cash includes cash on hand and valuables.
Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and whose original maturity or the remaining maturity at the date of purchase does not exceed 3 months.

Impairment of financial assets

Assessments are made regularly as to whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. If any such evidence exists, an impairment loss is recognized in the statement of income for the year.

Financial liabilities

Financial liabilities include financial debt, including advances received on the assignment of accounts receivable and other financial liabilities such as derivatives and financial lease obligations.
Financial liabilities other than derivatives are initially recognized at fair value less transaction costs and are subsequently measured at amortized cost. The amortized cost is represented by the initial amount of the financial instrument net of repayments of principal already made, adjusted (up or down) on the basis of the amortization (using the effective interest method) of any differences between the initial amount and the amount at maturity.
Compound financial instruments represented by bonds convertible into shares of the issuer are recognized by separating the debt and the call option: the debt is included in financial liabilities using the amortized cost method while the call option amount, computed as the difference between the fair value of the debt and the nominal amount of the financial instrument, is classified in a specific equity reserve (Other equity instruments).
Compound financial instruments represented by bonds exchangeable with shares of entities other than the issuer are recognized by splitting the debt and the call option: the debt is included in financial liabilities using the amortized cost method while the call option amount is classified as a written option among the financial liabilities and measured at fair value. Changes in fair value are recognized in the statement of income at each reporting date.
Financial liabilities hedged by derivative instruments designed to manage exposure to changes in fair value of the liabilities are measured at fair value in accordance with the hedge accounting principles of IAS 39. Gains and losses arising from re-measurement at fair value, to the extent of the hedged component, are recognized in the statement of income and are offset by the effective portion of the gain or loss arising from re-measurement at fair value of the hedging instrument.
Financial liabilities hedged by derivative instruments designed to manage exposure to variability in cash flows are measured at amortized cost in accordance with the hedge accounting principles of IAS 39.

Derivative financial instruments

Derivative financial instruments are used by the Telecom Italia Group to manage its exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within prefixed operational limits.
In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when:

a) at the inception of the hedge there is formal designation and documentation of the hedging relationship;
b) the hedge is expected to be highly effective;
c) its effectiveness can be reliably measured;
d) it is highly effective throughout the financial reporting periods for which the hedge is designated.

All derivative financial instruments are measured at fair value in accordance with IAS 39.
When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:

- <u>Fair value hedge</u> – Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of an asset or liability due to a particular risk, the gain or loss from re-measuring the hedging instrument at fair value is recognized in the statement of income. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the statement of income.

- Cash flow hedge – Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows of an asset or liability or a highly probable forecasted transaction, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in a specific equity reserve (*Reserve for fair value adjustments of hedge instruments*). The cumulative gain or loss is removed from equity and recognized in the statement of income at the same time as the hedged transaction affects the statement of income. The gain or loss associated with the ineffective portion of a hedge is recognized in the statement of income immediately. If the hedged transaction is no longer probable, the cumulative unrealized gains or losses included in the equity reserve are immediately recognized in the statement of income.

If hedge accounting is not appropriate, gains or losses arising from the measurement of the fair value of derivative financial instruments are directly recognized in the statement of income.

Sales of receivables

During the first half of 2006, the Telecom Italia Group sold a significant part of its receivables through the securitization program which ended on July 25, 2006.
In December 2005, the securitization program was partly restructured by a "Master DPP Transfer Agreement" (or Framework Agreement for the sale of the Deferred Purchase Price (DPP)) signed between Telecom Italia S.p.A. and certain financial institutions under which the DPP on Telecom Italia S.p.A. receivables relating to invoices issued between October 1, 2005 and May 31, 2006 were sold without recourse to such financial institutions.
Consequently, as a result of the sale of the DPP without recourse, the risks and rewards of ownership of such receivables were transferred in full to the financial institutions which, having taken over control of the Special Purpose Entity (SPE) according to the criteria established in SIC – 12, consolidate TI Securitisation Vehicle S.r.l. (TISV).
Starting in June 2006, Telecom Italia put into place contracts for the sale of the same kind of receivables under the Law 52/91 on factoring. These sales are characterized by the transfer of all the risks and rewards of ownership of the receivables to third parties and thus meet IFRS requirements for their derecognition. Specific servicing contracts, by virtue of which the buyer institutions conferred a mandate to Telecom Italia S.p.A. for the collection and management of the receivables, leave the current Company/customer relationship unaffected.
Moreover, other types of receivables are sold by Telecom Italia with factoring transactions which, in the majority of cases, meet IFRS requirements for asset derecognition.
In some cases, however, certain receivables sold to factoring companies do not meet IFRS requirements for derecognition. These particularly refer to sales made primarily in prior years and generally regard receivables due from the tax authorities for income taxes that were legally sold without recourse but which required a first loss guarantee by the seller up to a limited amount or included a continuing significant exposure to the cash flows arising from the receivables sold. In these cases, since the risks were not substantially transferred to the third parties, the receivables sold remain in the financial statements and a corresponding financial liability is recorded for the same amount.

Receivables for construction contracts

Construction contracts, regardless of the duration of the contracts, are recognized in accordance with the stage of completion and classified as receivables in current assets.

Losses on such contracts, if any, are recorded in full in the statement of income when they become known.

Inventories

Inventories of raw materials, purchased products, semifinished goods, work in progress and finished goods are valued at the lower of cost or estimated realizable value, cost being determined on a weighted average cost (by single movement) basis. The valuation of inventories includes the direct costs of materials, labor and indirect production costs (variable and fixed). Provision is made for obsolete and slow-moving raw materials, finished goods, spare parts and other supplies based on their expected future use and estimated realizable value.

Discontinued operations/assets held for sale

Discontinued operations/assets held for sale include assets (or groups of assets to be disposed of) whose carrying amount will be recovered principally through a sale transaction rather than through continuing use. Discontinued operations/assets held for sale are measured at the lower of their carrying amount or fair value less costs to sell.
In accordance with IFRS, discontinued operations/assets held for sale are presented in the financial statements as follows:

- ✓ in two lines on the balance sheet: Discontinued operations/assets held for sale and Liabilities relating to discontinued operations/assets held for sale;
- ✓ in one line on the statement of income: Net income (loss) from discontinued operations/assets held for sale.

Employee benefits

Provision for employee severance indemnities

The Provision for employee severance indemnities, mandatory for Italian companies pursuant to art. 2120 of the Italian Civil Code, is considered a defined benefit plan under IFRS and is based, among other things, on the employees' years of service and the remuneration earned by the employee during the service period.
In accordance with IAS 19, the amount of provision to be recognized in the financial statements is determined by actuarial calculations using the Projected Unit Credit Method. As allowed by IFRS 1 and IAS 19, the Telecom Italia Group has elected, in the context of IFRS first-time adoption and for subsequent years, to recognize all actuarial gains and losses in the statement of income as they arise.
The expenses relative to the increase in the present value of the severance indemnity obligation, as the time for payment of the benefit comes closer, are included in Personnel costs in the statement of income.

Stock compensation plans

Stock option plans granted starting from January 1, 2005 are recognized in accordance with IFRS 2 (*Share-based Payment*).
The Group elected to apply the exemptions provided by paragraph 25B of IFRS 1 and, therefore, did not apply IFRS 2 to stock option plans granted before November 7, 2002, where the terms and conditions of such plans had not changed.
For the valuation of stock option plans, the Telecom Italia Group uses the binomial "Cox-Ross-Rubenstein (CRR)" model. This model calculates the possible values which the underlying stock can assume over the life of the option.

The companies of the Group provide additional benefits to certain managers and employees through stock compensation plans (stock options). In accordance with IFRS 2 (*Share-based Payment*), employee stock options are measured at fair value at the grant date using models that take account of circumstances applicable at the grant date (option exercise price, vesting period, current price of the underlying shares, expected share price volatility, expected dividends and interest rate for a risk-free investment over the option term).
If the right vests after a certain period of time and/or upon attainment of certain performance conditions (vesting period), the total stock option amount must be apportioned prorata over the vesting period and recorded in equity under “Other equity instruments”, with a contra-entry recorded in the statement of income in “Personnel costs” (given that this is non-monetary consideration intended to enhance employee loyalty and provide an incentive to improve business performance).
At the end of each year, the previously determined fair value of each option is not restated or updated, but maintained in equity. However, at that date, the Group reviews the estimated number of options that will vest until expiry based on the number of employees who will have exercise rights. The change in estimate must be deducted from or added to “Other equity instruments” with a contra-entry recorded in the statement of income in “Personnel costs”.
When the option expires, the amount reflected in “Other equity instruments” is reclassified as follows: the portion relating to exercised options is reclassified to “Reserve for additional paid-in capital” and the portion relating to non-exercised options is reclassified under “Retained earnings (accumulated losses), including net income (loss) for the year”.

Provisions for risks and charges

The Group records provisions for risks and charges when it has an actual obligation, legal or constructive, to a third party, as a result of a past event, when it is probable that an outflow of Group resources will be required to satisfy the obligation and when a reliable estimate of the amount of the obligation can be made.
Changes in estimates are reflected in the statement of income in the year in which the changes occur.

Treasury shares

Treasury shares are recognized as a deduction from equity. In particular, the nominal amount of treasury shares is reported as a deduction from the share capital issued while the excess portion of cost at acquisition over the nominal amount is presented as a reduction of “Other reserves”.

Foreign currency transactions

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate prevailing at the balance sheet date. Exchange differences arising from the settlement of monetary items or from their conversion at rates different from those at which they were initially recorded during the year or in previous financial statements, are recognized in the statement of income.

Revenue recognition

Revenues are recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenues can be reliably measured. Revenues are stated net of discounts,

allowances, and returns. Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators.
Revenues from services rendered are recognized in the statement of income according to the prorata performance of the transaction and only when the outcome of the service rendered can be estimated reliably. Revenues from the activation of telephone services (and related costs) are deferred over the expected duration of the relationship with the customer (mainly 8 years for retail customers and 3 years for wholesale customers).
Revenues from prepaid traffic are recorded on the basis of the minutes used at the contract price per minute. Deferred income for unused minutes is recorded in “Trade and miscellaneous payables and other current liabilities”. When customers recharge their prepaid cards they pay a fixed amount as Recharging income. The revenues from Recharging income and the relative costs (amounts paid to resellers, banks and other parties), with the latter not exceeding the Recharging income, are deferred over the period between two subsequent recharges (about one month).

The Group capitalizes, as intangible assets, directly attributable subscriber acquisition costs to intangible assets (represented by commissions for the sales network and subsidies for the purchase of handsets) when the following conditions are met:
- the costs can be clearly identified;
- there is a contract binding the customer for a specific period of time;
- it is probable that the amount of the costs will be recovered through the sales generated by the service contract, or, where the customer withdraws from the contract in advance, through the collection of the penalty.

Capitalized costs are amortized over the period of underlying contract.
In all other cases, subscriber acquisition costs are expensed when incurred.

Revenues from construction contracts are recognized based on the percentage of completion method.

Research costs

Research costs are charged directly to the statement of income in the year in which they are incurred.

Taxes

Income taxes include all taxes calculated on the basis of the taxable income of the companies of the Group, including relative incidental expenses of a non-financial nature (e.g. penalties). The relative interest expenses are recognized in “Financial expenses”.
Income taxes are recognized in the statement of income except to the extent that they relate to items directly charged or credited to equity, in which case the related income tax effect is recognized in equity. Accruals for income taxes that could arise on the remittance of a subsidiary’s retained earnings are only made where there is the actual intention to remit such earnings. Other taxes, other than income taxes, are included in either operating expenses or financial expenses, depending on the case.
Deferred tax assets/liabilities are provided using the “Balance sheet liability method”. They are calculated on all temporary differences that arise between the tax base of an asset or liability and the carrying amounts in the consolidated financial statements except for non tax-deductible goodwill and for those differences related to investments in subsidiaries which will not reverse in the foreseeable future. Deferred tax assets relating to unused tax loss carryforwards and tax credits are recognized to the extent that it is probable that future profits will be available against which they can be utilized. Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and where

there is a legally enforceable right of offset. Deferred tax assets and liabilities are determined based on enacted tax rates in the respective jurisdictions in which the Group operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Dividends

Dividends received from companies other than subsidiaries, associates and jointly controlled companies are recognized in the statement of income on the accrual basis, that is, in the year in which they become receivable following the resolution by the shareholders' meeting for the distribution of dividends of the investee companies.
Dividends payable to third parties are reported as a change in equity in the year in which they are approved by the shareholders' meeting.

Earnings per share

Basic earnings per ordinary share is calculated by dividing the Group's net income attributable to ordinary shares by the weighted average number of ordinary shares outstanding during the year, excluding treasury shares. Similarly, basic earnings per savings share is calculated by dividing the Group's net income attributable to savings shares by the weighted average number of savings shares outstanding during the year. For diluted earnings per ordinary share, the weighted average number of shares outstanding is adjusted by all dilutive potential shares from the conversion of bonds and the exercise of warrants. The Group net income is also adjusted to reflect the impact of these transactions net of the related tax effects.

Use of estimates and judgments

The preparation of consolidated financial statements and related disclosures that conform to IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. Estimates and judgments are used to arrive at the recoverable amount of non-current assets (including goodwill), revenues, bad debt accruals, obsolete and slow-moving inventories, depreciation and amortization, employee benefits, taxes, restructuring provisions and other accruals and provisions. Estimates and assumptions are reviewed periodically and the effects of any changes are reflected immediately in the statement of income.
In the absence of a Standard or an Interpretation that specifically applies to a transaction, management uses its judgment as to which accounting methods to adopt to disclose relevant and reliable information so that the financial statements:

- represent faithfully the financial position, the result of operations and cash flows of the Group;
- reflect the economic substance of transactions;
- are neutral;
- are prudent;
- are complete in all material respects.

New Standards and Interpretations endorsed by the European Union effective beginning on January 1, 2006

Amendments to IAS 19 – Employee benefits

Such amendments, endorsed by the European Union in November 2005 (Regulation EC 1910-2005), provide, among other things, the option of recognizing actuarial gains and losses in full in the period in which they occur, not in the statement of income but directly in a specific reserve in equity.
The Telecom Italia Group did not elect this option and recognizes all actuarial gains and losses immediately in the statement of income in the year in which they occur.

IFRIC 4 – Determining whether an arrangement contains a lease
Such Interpretation, endorsed by the European Union in November 2005 (Regulation EC 1910-2005), states that if an arrangement does not have the legal form of a lease but contains a lease, such lease should be classified as a finance or operating lease in accordance with IAS 17 (*Leasing*).
The application of this Interpretation did not have any effect on the consolidated financial statements at December 31, 2006.

Amendments to IAS 39 – Application of the fair value option
Such amendments, endorsed by the European Union in November 2005 (Regulation EC 1864-2005), restrict the use of the "fair value option" to designate every financial asset or liability as measured at fair value through profit or loss. Such change in the Standard restricts the use of this option to those financial instruments which meet the following conditions:

- the designation according to the fair value option significantly eliminates or reduces an accounting mismatch;
- a group of financial assets, financial liabilities or both are managed, and their performance is valued, on a fair value basis in accordance with a documented risk or investment management strategy;
- an instrument contains an implicit derivative which meets specific conditions.

The Group elected to use the fair value option only for assets and liabilities which are effectively held for trading starting from January 1, 2006. The adoption of these amendments had no effect on the consolidated financial statements at December 31, 2006.

Amendments to IAS 39 – Cash flow hedge accounting of forecast intragroup transactions
Such amendment, endorsed by the European Union in December 2005 (Regulation EC 2106-2005), allows a planned highly probable intragroup forecast transaction expressed in foreign currency to be designated as a hedged item in a cash flow hedge in consolidated financial statements, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect the consolidated statement of income.
This amendment did not have any impact on the consolidated financial statements at December 31, 2006.

Amendments to IAS 39 and IFRS 4 – Financial guarantee contracts
Such amendments, endorsed by the European Union in January 2006 (Regulation EC 108-2006), extend the scope of the IAS 39 to include the recognition of financial guarantee contracts by the issuer (guarantor). However, if an issuer has previously stated explicitly that such contracts are considered as insurance contracts and has accounted for them as such, it may elect to apply either IAS 39 or IFRS 4 to such financial guarantee contracts.
The Telecom Italia Group has elected to measure the guarantees in accordance with IAS 39 and consequently the introduction of this amendment did not produce an impact on the consolidated financial statements at December 31, 2006.

IFRIC 6 - Liabilities arising from participating in a specific market – Waste electrical and electronical equipment

Such Interpretation, endorsed by the European Union in January 2006 (Regulation EC 108–2006), was published after the adoption of the European Union Directive on Waste Electrical and Electronic Equipment (WE&EE) which requires member states to implement a regulated system for the collection, treatment, recovery and ecologically correct decommissioning of the waste of electrical and electronic equipment. This Interpretation provides guidelines on the recognition of liabilities for such waste management in the financial statements of producers of electrical equipment based on the sales of such equipment to private households before August 13, 2005 (so-called historical waste). IFRIC 6 has clarified that what triggers the recognition of an accrual for the management costs of such waste, in accordance with IAS 37 (*Provisions, contingent liabilities and contingent assets*), is participation in the market during the measurement period. Consequently, since the obligation arises only on condition that a share of the market exists during the measurement period, the time frame for recognition can be independent of the specific period in which the activities for the management of the waste were undertaken and the relative costs were incurred.
The Italian government has not as yet enacted the necessary decrees for implementation: therefore, in the absence of a reference framework, the Group is not currently able to evaluate the impact, if any, of the application of this Interpretation on the financial statements.

New Standards and Interpretations endorsed by the European Union but not yet effective

As required by IAS 8 (*Accounting policies, changes in accounting estimates and errors*) the IFRS in effect from January 1, 2007 or subsequently are indicated below and briefly illustrated.

IFRS 7 - Financial instruments: disclosures

This Standard, endorsed by the European Union in January 2006 (Regulation EC 108-2006), completely replaces IAS 30 (*Disclosures in financial statements of banks and other financial institutions*) and includes the section on Disclosures contained in IAS 32 (*Financial instruments: presentation and disclosures*) with amendments and revisions; consequently, the title of IAS 32 is changed to "*Financial instruments: presentation*".
IFRS 7 is effective starting on January 1, 2007.

Amendments to IAS 1 - Presentation of Financial Statements – Capital Disclosures

Such amendments, endorsed by the European Union in January 2006 (Regulation EC 108-2006), provide that an entity must present disclosures which allow the users of its financial statements to assess its objectives, its policies and its processes for managing capital.
These amendments are effective starting on January 1, 2007.

IFRIC 8 – Scope of IFRS 2

On September 8, 2006, the European Commission endorsed Interpretation IFRIC 8 (*Scope of IFRS 2*) with Regulation EC 1329-2006.
IFRIC 8 clarifies that IFRS 2 (Share-based Payment) applies to contracts where an entity makes share-based payments also for services for apparently nil or inadequate consideration.
IFRIC 8 specifically explains that if the identifiable consideration given appears to be less than the fair value of the equity instruments granted (or liability incurred), this situation typically indicates that other consideration has been or will be received.
This Interpretation is effective starting on January 1, 2007.
It is not believed that this Interpretation will have any relevant impact on the consolidated financial statements of the Group.

IFRIC 9 – Reassessment of embedded derivatives

On September 8, 2006, the European Commission endorsed Interpretation IFRIC 9 (*Reassessment of embedded derivatives) with* Regulation EC 1329-2006.
This Interpretation concludes that an entity must assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment on the separation of the embedded derivative is required.
This Interpretation is effective starting on January 1, 2007.
It is not believed that this Interpretation will have any relevant impact on the consolidated financial statements of the Group.

NOTE 3 – BUSINESS COMBINATIONS, ACQUISITIONS OF MINORITY INTERESTS, TRANSACTIONS AMONG COMPANIES UNDER COMMON CONTROL

BUSINESS COMBINATIONS

Year 2006

In 2006, there were no transactions entered into of the type of business combinations defined in IFRS 3.

Year 2005

Acquisition of Liberty Surf Group S.A.
In 2005, the entire investment in the capital of the company Liberty Surf Group S.A. was purchased from Tiscali for a total cost of euro 268 million (inclusive of euro 6 million for incidental charges).

The difference of euro 257 million between the price paid (euro 268 million) and the net assets acquired (euro 11 million), less pre-existing goodwill (euro 34 million), was allocated as follows:

✓	euro 249 million	to Goodwill
✓	euro 13 million	to Intangible assets with a finite life – Customer List
✓	euro - 5 million	to Deferred tax liabilities
	euro 257 million	

The value of the Customer List has been determined on the basis of the Subscriber Acquisition Costs (SAC) for the customers acquired. The replacement cost method was elected in lieu of the income method owing to the fact that Tiscali's customer wholesale business showed a loss at the date of purchase.
The goodwill arising on acquisition (euro 249 million) was tested for impairment at the date of purchase. The value in use of the company acquired served as the basis of reference and consideration was also given to the synergies expected from the merger with Telecom Italia France. There was no indication of impairment.

Liberty Surf Group S.A. (millions of euro)	Fair values		Carrying values
Goodwill	249		34
Other non-current assets	76		63
Total current assets	68		68
Total assets	**393**		**165**
Deferred tax liabilities	5		
Other non-current liabilities	21		21
Total current liabilities	99		99
Total liabilities	**125**		**120**
NET ASSETS ACQUIRED	268	*	45
** of which:*			
Cost of the investment	262		
Incidental charges (taxes, legal fees and other expenses)	6		
COST ACQUISITION COST	268		

The effect of the acquisition of Liberty Surf Group on the 2005 statement of income was not significant while the impact on the net financial position was an increase in debt of euro 259 million (euro 268 million for the price paid net of euro 9 million of cash and cash equivalents acquired).

Acquisition of Elefante TV and Delta TV

On October 28, 2005 and November 4, 2005, after the necessary authorizations were received, the deeds were finalized for the purchase of the Elefante TV and Delta TV business segments, respectively, for euro 116 million and euro 12 million.

The transaction was finalized by the contribution of Elefante TV's and Delta TV's business segments to Telecom Italia Media Broadcasting in exchange for shares and, simultaneously, the sale to LA7 Televisioni, by the previous owners, of the shares issued by Telecom Italia Media Broadcasting following the contribution.

The business segments contributed include the whole of the assets and operations functionally required for conducting the TV broadcasting business, such as the stations and the frequencies, the "Elefante TV" brand, the plant, equipment and sundry instruments, antennas, radio links, relay stations and other assets connected with radio and television operations using analog or digital technology. Also contributed were the contracts dealing with the housing and maintenance of the systems for radio and TV broadcasting and all the rights, permits, licenses, concessions (including the concession issued by the Ministry of Communications on July 28, 1999), relative to this business.

The difference of euro 126 million between the price paid (euro 128 million) and the net assets acquired (euro 2 million) was allocated as follows:

- ✓ euro 41 million to Goodwill
- ✓ euro 126 million to Intangible assets with a finite life – Station frequencies and TV Station rights
- ✓ euro -41 million to Deferred tax liabilities

euro 126 million

ELEFANTE TV - DELTA TV (millions of euro)	Fair values		Carrying values
Goodwill	41		
Station frequencies	114		
Television station rights	12		
Other assets	3		3
Total assets	**170**		**3**
Payables and other liabilities	1		1
Deferred tax liabilities	41		
Total liabilities	**42**		**1**
NET ASSETS ACQUIRED	128	*	2
** of which*			
Cost of businesses acquired	127		
Incidental charges (taxes, legal fees and other expenses)	1		
TOTAL ACQUISITION COST	128		

ACQUISITIONS / DIVESTITURES OF MINORITY INTERESTS

Year 2005

Telecom Italia/TIM merger

The merger of Telecom Italia/TIM was finalized on June 30, 2005 with the merger of TIM in Telecom Italia.

In summary, the merger was executed in the following stages:

- Cash tender offer for TIM ordinary and savings shares (launched and closed by Telecom Italia in January 2005) and additional purchases of TIM shares (during the early months of 2005). Details are as follows:

2,456,501,605 ordinary shares acquired in the cash tender offer for	euro	13,854	million
8,463,127 savings shares acquired in the cash tender offer for	euro	48	million
5,063,893 additional purchases of ordinary and savings shares for	euro	28	million
Total 2,470,028,625 ordinary and savings shares purchased for	**euro**	**13,930**	**million(1)**

(1) Including capitalized costs of euro 98 million relating to the cash tender offer.

- Telecom Italia capital increase to service the merger by the issue of:

2,150,947,060 ordinary shares (euro 2.595 per share) for	euro	5,582	million
less: 24,607,520 shares issued by Telecom Italia in exchange for 14,224,000 TIM shares held by Telecom Italia Finance (euro 2.595 per share) for	euro	(64)	million

230,199,592 savings shares (euro 2.156 per share) for	euro	496	million
Total 2,356,539,132 ordinary and savings shares issued, net of 24,607,520 shares in exchange for 14,224,000 TIM shares held by Telecom Italia Finance, for	**euro**	**6,014**	**million**

The part of the merger for the percentage of ownership held previous to the cash tender offer was accounted for at the carrying amount in the financial statements at December 31, 2005 since the merged company was already controlled by the merging company and thus the conditions for the application of IFRS 3 (*Business combinations*) did not exist.

The acquisition of the remaining TIM shares through the cash tender offer and additional share purchases on the market, and the subsequent merger, were treated as a purchase of minority interests, which is not dealt with either by IFRS 3 or any other IFRS.
This transaction was accounted for in the consolidated financial statements at December 31, 2005 at fair value by applying the parent-entity extension method. This method resulted in the recognition of goodwill (difference between the fair value of the shares purchased and the newly issued shares and the share of the carrying value TIM's net assets acquired) of euro 16,654 million, of which euro 11,804 million came from the cash tender offer and additional share purchases and euro 4,850 million from the exchange of TIM shares. The Telecom Italia shares issued to service the exchange were valued at the market price at June 30, 2005 (euro 2.595 for each ordinary share and euro 2.156 for each savings share).

Reorganization of the Brazilian mobile telephone companies
On May 30, 2005, the special shareholders' meetings of the three interested companies unanimously approved the acquisition of the shares of the minority shareholders of Tim Sul S.A. and Tim Nordeste Telecomunicaçoes S.A. through a share capital increase effected by Tim Participaçoes S.A.. The exchange ratios were determined on the basis of economic and equity valuations performed by Banco ABN-AMRO Real S.A.. Tim Participaçoes effected a share capital increase on behalf of the shareholders of the two subsidiaries by issuing ordinary and preferred shares. On the same date, Tim Sul S.A. and Tim Nordeste Telecomunicaçoes S.A. were delisted from the Brazilian stock exchange and Tim Participaçoes then cancelled the shares purchased from the shareholders which exercised the right of withdrawal. The two companies, although maintaining separate legal and administrative status, are now wholly-owned subsidiaries of Tim Participaçoes.

The effect on "goodwill" was as follows:

- an increase of euro 62 million for the purchase of the shares of the minority shareholders of Tim Sul S.A. and Tim Nordeste Telecomunicaçoes S.A. through the capital increase set aside for them and effected by the parent Tim Participaçoes S.A. (euro 57 million) and for the purchase of Tim Participaçoes S.A. ordinary shares on the market by the parent Tim Brasil Serviços e Participaçoes S.A. (euro 5 million);
- a decrease of euro 25 million for the derecognition of goodwill as a result of the dilution of the investment in Tim Participaçoes S.A. following the capital increase set aside for the minority shareholders.

The goodwill of euro 57 million for the purchase of the shares of the minority shareholders of Tim Sul S.A. and Tim Nordeste Telecomunicaçoes S.A was calculated as the difference between the market value of ordinary and preferred shares, at the transaction date, issued by Tim Participaçoes S.A.to the minority shareholders of Tim Sul S.A..and Tim Nordeste Telecomunicaçoes S.A.(euro 204 million), and net equity attributable to minority interests of

Tim Sul S.A. and Tim Nordeste Telecomunicaçoes S.A. at the time of the transaction and covered by the acquisition (euro 147 million).
The transaction had a negative effect of euro 14 million on the equity attributable to equity holders of the Parent and a positive effect of euro 40 million on the equity attributable to minority interests.

TRANSACTIONS AMONG COMPANIES UNDER COMMON CONTROL

Year 2006

Reorganization of the Brazilian mobile telephone companies

In June 2006, the Tim Brasil group concluded the rationalization of its corporate structure, after which, Tim Brasil Serviços e Participaçoes S.A., which previously held a 100% stake in Tim Celular S.A. and a 19.88% stake (economic interest) in Tim Participaçoes S.A., now has a 69.66% (economic interest) in the new Tim Participaçoes S.A..
The rationalization took place in the following stages:

- in March 2006:
  - Tim Celular S.A. merged the wholly-owned subsidiaries Blah! – Sociedade Anonima de Servicos e Comercio and CRC – Centro de Relacionamento com Clientes;
  - Tim Brasil Serviços e Participaçoes S.A. conferred the Tim Celular S.A. shares to Tim Participaçoes S.A. in exchange for a reserved capital increase, raising its controlling stake in Tim Participaçoes S.A. from 50.33% to 81.19%. The transaction was recorded at book value since it was carried out within the same group and led to a reduction in the equity attributable to equity holders of the parent of euro 59 million with an increase of the same amount in the equity attributable to minority interests;
- in June 2006, Tim Sul S.A. was merged in Tim Celular S.A and Tim Nordeste Telecomunicaçoes S.A. was merged in Maxitel S.A., which changed its name to Tim Nordeste S.A..

Year 2005

Acquisition of Virgilio and Tin.it by Telecom Italia S.p.A.

As part of the process to rationalize the Telecom Italia Group's Internet operations, the following transactions were finalized on the basis of the contractual agreements signed with Telecom Italia Media in 2005:

- on May 30, 2005, Telecom Italia purchased, from Telecom Italia Finance, the entire investment in ISM S.r.l. (which already held a 40% stake in Finanziaria Web which, in turn, held a 66% interest in Matrix) for a total amount of euro 98 million;
- on June 1, 2005, ISM S.r.l. (in which Telecom Italia holds a 100% interest), after having received a payment for an increase of share capital from Telecom Italia for euro 70 million, acquired 60% of Finanziaria Web and 0.7% of Matrix from Telecom Italia Media for euro 70 million;
- on June 1, 2005, Telecom Italia purchased a 100% interest in Nuova Tin.it S.r.l., a newly-established company in which Telecom Italia Media contributed the Tin.it business segment, at a price of euro 880 million.

At the conclusion of the foregoing transactions, Telecom Italia S.p.A. holds, directly or indirectly, (through ISM) full control over Virgilio's operations.

In June 2005, Telecom Italia Media successfully concluded the buyback of 364,251,922 ordinary shares and 6,107,723 savings shares (in execution of the resolution passed by the

shareholders' meeting of Telecom Italia Media held on May 24, 2005) for a total amount of euro 148 million.
Following the cancellation of the shares on October 18, 2005, Telecom Italia S.p.A. increased its direct controlling interest (60.2%) and indirect holding (2.1% through Telecom Italia Finance) from a total of 62.3% to 69.2%. The percentage investment in share capital, also taking into account the stock options exercised, increased from 61.47% to 68.07% at December 31, 2005.

Reorganization of the Med Group
In July 2005, the Telecom Italia Group executed the agreement reached in December 2004 with the minority shareholders of Med Nautilus S.A., Med Nautilus Ltd and Med 1, negotiated to resolve certain matters disputed concerning Med Nautilus S.A.'s and Telecom Italia/Telecom Italia International's put option on 49% of the shares of Med Nautilus Ltd and Med 1, and to resolve the arbitration proceedings set in motion in Luxembourg by the Fishman group (FTT) aimed at the restitution of the sums paid to Telecom Italia International N.V. in 2000 for the purchase of a 30% stake in Med Nautilus S.A..
This agreement allows the Telecom Italia Group to strengthen its presence in the sector of IP services and wholesale data in the East Mediterranean and to now hold 100% stakes in Med Nautilus Ltd (through Med Nautilus S.A.) and in Med 1, following the purchase of the minority stake for consideration of euro 135 million.
Concurrently, non-strategic activities in certain local Israeli operations were sold which were managed by the same Med Nautilus Ltd and Med 1 (for the latter, the entire investment in Med 1 IC-1 (1999) Ltd was sold). Furthermore, the Fishman group, in disposing of its investment in Med Nautilus S.A., acquired 30% of the capital of the subsidiary Elettra S.p.A. for consideration of approximately euro 35 million.
Overall, the agreement entailed a net disbursement of euro 49 million.

NOTE 4 – FINANCIAL RISK MANAGEMENT

Objectives and policies for the management of the financial risks of the Telecom Italia Group

The Telecom Italia Group is exposed to the following financial risks during the ordinary course of its business operations.

- market risk: stemming from changes in interest rates and exchange rates in connection with the financial activities that have been originated and the financial liabilities that have been assumed;
- credit risk: represented by the risk of the non-fulfillment of the obligations undertaken by the counterpart with regard to the liquidity investments of the Group;
- liquidity risk: connected with the need to meet short-term financial commitments.

These financial risks are managed by:

- the definition, at a central level, of guidelines for directing operations;
- the activities of an internal committee which monitors the level of exposure to market risks consistently with prefixed general objectives;
- the identification of the most suitable financial instruments, including derivatives, to reach the prefixed objectives;
- the monitoring of the results achieved;
- the exclusion of the use of financial instruments for speculative purposes.

The policies for the management of the above financial risks by the Telecom Italia Group are described below.

Market risk

The Telecom Italia Group, in fact, is exposed to market risks as a result of changes in interest rates and exchange rates in the markets in which it operates or is present with bond issues, mainly Europe, the United States, Great Britain and Latin America.

The risk management policies of the Telecom Italia Group aim to diversify market risks and minimize interest rate exposure by suitable portfolio diversification, which is also implemented by using carefully selected derivative financial instruments.

The Group defines an optimum fixed-rate and floating-rate debt composition and uses derivative financial instruments to achieve that prefixed composition. Taking into account the Group's operations in various sectors, in terms of risk, volatility and the amount of expected operating cash flows, the optimum blend of medium/long-term non-current financial liabilities has been established at 70% for the fixed-rate component and 30% for the floating-rate component.

The Group mainly uses derivative financial instruments to manage market risks:

- Interest Rate Swaps (IRS) are used to modify the profile of the original exposure to interest rate risks on loans and bonds, whether fixed or floating;
- Cross Currency and Interest Rate Swaps (CCIRS) and Currency Forwards are used to convert loans and bonds issued in currencies other than the euro – principally in U.S. dollars and British pounds – to the functional currencies of the operating companies.
  As a result of the above policies, at December 31, 2006, the exchange rate risk on the financial payables assumed by the Group denominated in currencies other than Euro is completely hedged.

Derivative financial instruments are used by the Group and are designated as fair value hedges for the management of exchange rate risks on instruments denominated in currencies other than euro and the management of the interest rate risk on fixed-rate loans. Derivative financial instruments are designated as cash flow hedges when the objective is to fix the exchange rate of future transactions and the interest rate.

All derivative financial instruments are put into place with high-credit-quality banking and financial counterparts with a high rating.

The following tables present the nominal repayment/investment amount (insofar as that amount expresses the effective interest rate exposure of the Group) and, as far as financial assets are concerned, account was taken of the intrinsic nature of the transactions under consideration (financial characteristics and duration) rather than the stated contractual terms alone. Bearing that in mind, a transaction whose characteristics (short or very short time frame and frequent renewal) are such that the interest rate is periodically re-fixed on the basis of market parameters, even though the contract does not call for re-fixing the interest rate (such as in the case of bank deposits and euro commercial paper), was considered in the category of floating rate.

FINANCIAL LIABILITIES (at the nominal repayment amount)						
	12/31/2006			12/31/2005		
(millions of euro)	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
Notes and bonds	23,101	10,018	33,119	24,511	10,066	34,577
Convertible and exchangeable bonds	574	-	574	2,642	-	2,642
Loans and other payables	7,167	3,979	11,146	5,434	7,644	13,078
Liabilities relating to discontinued operations / assets held for sale	-	-	-	-	112	112
TOTAL	30,842	13,997	44,839	32,587	17,822	50,409

FINANCIAL ASSETS (at the nominal investment amount)						
	12/31/2006			12/31/2005		
(millions of euro)	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
Deposits and cash	-	7,204	7,204	-	10,041	10,041
Euro commercial paper	-	20	20	-	326	326
Securities	17	813	830	4	380	384
Other receivables	472	199	671	24	1,038	1,062
Discontinued operations / assets held for sale	-	-	-	-	37	37
TOTAL	489	8,236	8,725	28	11,822	11,850

With regard to floating-rate financial instruments, the contracts provide for revisions of the relative parameters to take place within the subsequent 12 months.

As to the effective interest rate, for the categories where that parameter can be determined, such parameter refers to the original transaction net of the effect of any derivative hedging instruments.
The information, since it is provided by class of financial assets and liabilities, was determined, for purposes of calculating the weighted average, using the carrying amount adjusted by accruals and fair value adjustments: therefore, this is the amortized cost, net of accruals and any fair value adjustments as a consequence of hedge accounting.

FINANCIAL LIABILITIES				
	12/31/2006		12/31/2005	
(millions of euro)	Adjusted carrying amount	Effective interest rate (%)	Adjusted carrying amount	Effective interest rate (%)
Notes and bonds	33,037	5.81	34,453	5.71
Convertible and exchangeable notes and bonds	482	7.43	2,505	6.39
Loans and other payables	10,152	5.24	12,891	3.93
TOTAL	43,671	5.70	49,849	5.28

FINANCIAL ASSETS				
	12/31/2006		12/31/2005	
(millions of euro)	Adjusted carrying amount	Effective interest rate (%)	Adjusted carrying amount	Effective interest rate (%)
Deposits and cash	7,204	3.82	10,041	3.03
Euro commercial paper	20	3.65	326	2.36
Securities	830	4.81	384	3.29
Other receivables	617	5.45	864	4.89
TOTAL	8,671	4.03	11,615	3.16

Transactions hedging outstanding financial liabilities at December 31, 2006 reduce, overall, the nominal interest rate of the position and, therefore, reduce the effective interest rate.

As for financial assets, the weighted average effective interest rate is not essentially affected by the existence of derivative instruments.

With reference to the concept of market risk, in the broad sense, the Group uses interest coupon step-ups and step-downs for certain bonds when there are changes in the rating. Such mechanisms, however, do not affect interest rate exposure, as previously described above, or the determination of the current effective interest rate. Additional information is provided in the Note "Financial liabilities – current and non-current".

As for market risk management using derivative financial instruments, reference should be made to the Note "Financial instruments".

Credit risk

The management of the liquidity of the Group is guided by prudent criteria and is principally based on the following:

- money market management, dealing with the investment of temporary excess cash resources during the year which are expected to turn around within the subsequent 12-month period;
- bond portfolio management, dealing with the investment of a permanent level of liquidity which is expected to be used for cash requirement purposes subsequent to a period of 12 months, in addition to the improvement of the average return.

In order to limit the risk of the non-fulfillment of the obligations undertaken by the counterpart, deposits are made with leading high-credit-quality banking and financial institutions that have credit ratings of not less than "A-" assigned by Standard & Poor's or an equivalent level assigned by other agencies, and are for periods of less than 3 months. As for temporary investments of liquidity in euro commercial paper, the issuers all have credit ratings of not less than "A-" assigned by Standard & Poor's or an equivalent level assigned by other agencies, and headquarters in Europe. With regard to bond portfolio management, the issuers have credit ratings of not less than "A-" assigned by Standard & Poor's or an equivalent level assigned by other agencies.
With a view towards minimizing credit risk, the Group pursues a diversification policy for its investments in liquidity and, as a result, there are no significant positions with any one single counterpart.

Liquidity risk

The Group pursues an objective of achieving an adequate level of financial flexibility which is expressed by maintaining a margin of current treasury resources which allows it to cover refinancing requirements at least for the next 12 months using irrevocable bank lines and liquidity.
Current financial assets at December 31, 2006 represent 149.7% of short-term financial commitments (due in 2007), guaranteeing a further coverage of the maturities due in 2008.
12.2% of gross financial debt at December 31, 2006 will be due in the following 12 months.

Fair value of derivatives

In order to determine the fair value of derivative instruments, the Telecom Italia Group uses various valuation models.
The fair value of IRSs and CCIRSs reflects the difference between the fixed rate which should be paid/received and the market interest rate (having the same maturity as the swap) at the measurement date.
The notional amount of the IRSs does not represent the amount exchanged between the parties and therefore does not constitute a measurement of credit risk exposure which, instead, is limited to the amount of the differential between the interest rates paid/received.
The fair value of CCIRSs, instead, also depends on the differential between the reference exchange rate at the date of signing the contract and the exchange rate at the date of measurement, since CCIRSs imply the exchange of the reference principal, in the respective currencies of denomination, in addition to the exchange of flows of interest at the maturity date and eventually at the intermediate payment dates.
With regard to the fair value measurement of financial liabilities, reference should be made to the Note “Financial instruments” for the assumptions and the amounts.

NOTE 5 – GOODWILL

Goodwill went from euro 43,980 million at December 31, 2005 to euro 43,739 million, with a decrease of euro 241 million. Details of goodwill by business segment and the changes during 2005 and 2006 are presented in the following tables:

(millions of euro)	12/31/2004	Discontinued operations/assets held for sale	Increases	Decreases	Exchange differences	12/31/2005
Wireline	15,113		254	(3)		15,364
Domestic Mobile	11,467		15,479			26,946
Brazil Mobile	23		1,039	(25)	185	1,222
Media	199	(20)	58	(7)		230
Olivetti	6			(6)		-
Other activities (*)	651	(645)	198		14	218
Total	27,459	(665)	17,028	(41)	199	43,980

(millions of euro)	12/31/2005	Discontinued operations/assets held for sale	Increases	Decreases	Exchange differences	12/31/2006
Wireline	15,364					15,364
Domestic Mobile	26,946					26,946

Brazil Mobile	1,222				(23)	1,199
Media	230					230
Other activities (*)	218			(184)	(34)	-
Total	**43,980**	-	-	(184)	(57)	**43,739**

(*) Other activities include, respectively, the Finsiel Group, the Entel Chile Group, Tim Hellas which were sold during 2005 and Avea I.H.A.S., sold during 2006.

The decrease of euro 241 million in 2006 is due to the following transactions:

- ✓ euro 218 million for the sale of Avea I.H.A.S.;
- ✓ euro 23 million for exchange differences on the goodwill relating to the Brazilian companies.

The gross carrying amounts of goodwill and the relative impairment losses accumulated from January 1, 2004 (date of allocation to the cash-generating units) to December 31, 2006 and 2005 can be summarized as follows:

(millions of euro)	12/31/2006			12/31/2005		
	Gross carrying amount	Accumulated impairment losses	Net carrying amount	Gross carrying amount	Accumulated impairment losses	Net carrying amount
Wireline	(**)15,656	(**)(292)	**15,364**	(**)15,656	(**)(292)	**15,364**
Domestic Mobile	26,946	-	**26,946**	26,946	-	**26,946**
Brazil Mobile	1,206	(7)	**1,199**	1,229	(7)	**1,222**
Media	230	-	**230**	230	-	**230**
Olivetti	6	(6)	-	6	(6)	-
Other activities (*)	-	-	-	218	-	**218**
Total	**44,044**	**(305)**	**43,739**	**44,285**	**(305)**	**43,980**

(*) Other activities refer to Avea I.H.A.S. which was sold during 2006.
(**) Includes euro 282 million relating to the settlement with De Agostini in 2004.

Goodwill under IAS 36 is not amortized but is tested for impairment annually or more frequently if specific events or circumstances indicate that it may be impaired. To test for impairment, goodwill must be allocated to cash-generating units or groups of cash-generating units which must not be at a higher level than the business segment determined in accordance with IAS 14. The criteria followed for the allocation of goodwill considers the lowest level at which goodwill is monitored for internal management purposes. The business units (or groups of units) to which goodwill was allocated are as follows:

Sector	Group of units
Wireline	Liberty Surf
	Hansenet
	Wireline (excluding Liberty Surf and Hansenet)
Mobile	Domestic
	Brazil
Media	Telecom Italia Media

The value used to determine the recoverable amount of the units (or groups of units) to which the goodwill was allocated is the value in use, except for Liberty Surf, for which fair value was used net of costs to sell (estimated on the basis of multiples of comparable companies), and for Telecom Italia Media, for which market capitalization at December 31, 2006 was used as the fair value of the entity.

The most representative basic assumptions for the calculation of the value in use of each group of cash generating units are presented in the following table:

Hansenet	Wireline	Domestic Mobile	Brazil Mobile
Number of customers	Ebitda margin (Ebitda/sales) during the period of the plan	Ebitda margin (Ebitda/sales) during the period of the plan	Growth rate of sales during the explicit forecast period (2007-2009)
Gross operating margin	Investments to maintain profit capability (in proportion to sales)	Investments to maintain profit capability (in proportion to sales)	Ebitda margin (Ebitda/sales) during the period of the plan
	Non-recurring expenses excluded from expected Ebitda for extrapolation in the calculation of the end amount		Exchange rate Brazilian Real/euro
Cost of capital	Cost of capital	Cost of capital	Cost of capital
Long-term growth rate	Long-term growth rate	Long-term growth rate	Long-term growth rate

All the plan figures are based on the actual results for 2006 and rely on the best forecasts formulated by management for the period of the 2007/2009 plan.
With regard to Hansenet, so as not to consider the net present value of future investments in the impairment test (IAS 36, paragraph 44), only the flow of the expected result for 2007 was considered, forecasting it in perpetuity.
The recoverable amount of Liberty Surf, instead, was assumed to be equal to fair value less costs to sell, which is higher than the value in use calculated without considering the net present value of future investments for network development.

The nominal growth rates used to estimate the end amount are the following (the growth rate of Brazil refers to flows in Brazilian Reais):

Hansenet	Wireline	Domestic Mobile	Brazil Mobile
+0.5%	0%	+0.5%	+6.55%

Such rates fall within the range of growth rates applied by the analysts following Telecom Italia stock (as can be seen from the reports published after the announcement of the third-quarter 2006 results).

The cost of capital was estimated by considering the following:

a) the CAPM - Capital Asset Pricing Model, to estimate the value in use and referred to in Annex A of IAS 36;

b) the Beta coefficient for business segments obtained by using the Beta coefficients of the European telephone incumbents, including Telecom Italia itself, adjusted to take into account the financial structure;

c) the WACC - Weighted Average Cost of Capital used by other operators to test the value of goodwill;

d) the WACC - Weighted Average Cost of Capital used by the analysts following Telecom Italia stock in the reports published after the announcement of third-quarter 2006 results relative to the principal business segments of the Group. Since there is a direct correlation between the cost of capital used by the analysts and the long-term growth rate (g) forecast for the purpose of estimating the end amount, the comparison was also made on the capitalization rates (WACC-g).

On the basis of these elements, the post-tax Weighted Average Cost of Capital and the capitalization rate (WACC after taxes – g) were estimated for each business unit (Reais are used for Brazil) as follows:

	Hansenet	Wireline	Domestic Mobile	Brazil Mobile
WACC after taxes	7.6%	6.8%	7.0%	13.5%
WACC after taxes - g	7.1%	6.8%	6.5%	7.0%

Having considered the nominal flows of the result for the estimate of the value in use, the discount rates are also expressed in nominal terms (in Reais for Brazil).

A sensitivity analysis of the results was also carried out for those units for which the value in use was estimated: in all cases the value in use remains higher than the carrying amounts, even assuming an increase in the weighted average cost of capital of 50 basis point (hundredths of a percentage point).

The second level of impairment testing was effected by considering the total recoverable value of all the business units of the Group, including those without any goodwill allocation (Olivetti, Bolivia, Central Functions and Other activities). In particular, the value attributed to the Central Functions (corporate) unit was negative since this unit is a cost center. The total recoverable value of all the business units of the Group was compared to the carrying amount of total operating capital referring to the same units/segments. This second level of test did not show any impairment.

NOTE 6 – INTANGIBLE ASSETS WITH A FINITE LIFE

Intangible assets with a finite life decreased from euro 6,810 million at December 31, 2005 to euro 6,740 million. Details on the composition and movements during the year are as follows:

(millions of euro)	12/31/2004	Discontinued operations/assets held for sale	Additions	Amortization	Impairment losses / reversals	Disposals	Exchange differences	Other changes	12/31/2005
Industrial patents and intellectual property rights	2,510	(99)	1,276	(1,414)	(10)	(20)	91	476	2,810
Concessions, licenses, trademarks and similar rights	3,504	(365)	1	(253)		(6)	188	199	3,318
Other intangible assets	52	(16)	47	(17)				(9)	57
Work in progress and advance payments	708	(14)	411				18	(498)	625
Total	6,774	(494)	1,785	(1,684)	(10)	(26)	297	168	6,810

(millions of euro)	12/31/2005	Discontinued operations/assets held for sale	Additions	Amortization	Impairment losses / reversals	Disposals	Exchange differences	Other changes	12/31/2006
Industrial patents and intellectual property rights	2,810		1,126	(1,760)			(9)	454	2,621
Concessions, licenses, trademarks and similar rights	3,318		184	(310)	(14)	(7)	(19)	20	3,172
Other intangible assets	57		260	(110)			(1)	(30)	176
Work in progress and advance payments	625		617		(1)	(1)	(1)	(468)	771

Total	6,810	-	2,187	(2,180)	(15)	(8)	(30)	(24)	6,740

Additions made during 2006 include euro 318 million of capitalized internal development costs (euro 287 million in 2005).

Industrial patents and intellectual property rights at December 31, 2006 consist almost entirely of applications software purchased outright and user license rights acquired for an indefinite time period (amortized over the period of useful benefit estimated in three years). They mainly refer to the Wireline Business Unit (euro 1,290 million), the Mobile Domestic Business Unit (euro 774 million) and the Brazil Mobile Business Unit (euro 441 million).

Concessions, licenses, trademarks and similar rights at December 31, 2006 mainly refer to the Domestic Mobile Business Unit (euro 2,025 million) and the Brazil Mobile Business Unit (euro 618 million) for the remaining unamortized cost of UMTS and PCS licenses, to the Wireline Business Unit (euro 375 million, of which euro 131 million refers to costs for Indefeasible Rights of Use-IRU) and to the Media Business Unit (euro 150 million, mainly for TV frequencies acquired at the end of 2005).

The remaining unamortized mobile telephone licenses totaling euro 2,643 million (amortized on a straight-line basis) refer to the following:

- ✓ licenses of Telecom Italia S.p.A.:
  UMTS for euro 2,014 million expiring in 2021 (amortized over 18 years);
  Wireless Local Loop for euro 11 million expiring in 2021 (amortized over 15 years);
- ✓ licenses of the Tim Participaçoes group:
  GSM for euro 495 million expiring between 2007 and 2018 (amortized in 4-15 years);
  TDMA for euro 123 million expiring in 2012 (amortized in about 14 years).

The user rights for televisions frequencies totaling euro 144 million are amortized as follows: if used for analog broadcasting, amortization is taken to December 31, 2008; if used for digital terrestrial broadcasting, amortization is taken until 2018, the period (12 years) of the network operator license for which the request was filed in the first half of 2006.

Other intangible assets at December 31, 2006 include euro 160 million for the capitalization of subscriber acquisition costs referring to the new sales offers of Telecom Italia S.p.A. (euro 96 million), the Tim Brasil group (euro 57 million) and Liberty Surf Group S.A. (euro 7 million). Following the introduction of new types of sales contracts in 2006 which bind the customer to the Telecom Italia Group for periods of 12 or 24 months, otherwise a penalty is applied, the Group capitalized subscriber acquisition costs to intangible assets. These costs represent negative margins on handset sales and commissions for the sales network. This accounting treatment, permitted by IAS 38 makes it possible to match the amortization charge with cash flows.
Other intangible assets also include euro 9 million allocated to the Customer List and representing a portion of the goodwill that arose on the acquisition of the controlling interest in Liberty Surf Group S.A..

In 2006, the impairment losses of euro 15 million mainly refer to Latin American Nautilus group. In 2005, the impairment losses of euro 10 million, net of impairment reversals of euro 1 million, mainly referred to Maxitel (now renamed Tim Nordeste S.A.).

Amortization and impairment losses are recorded in the statement of income as components of the operating result.

The gross carrying amount, accumulated impairment losses and accumulated amortization at December 31, 2006 and 2005 can be summarized as follows:

(millions of euro)	12/31/2006			
	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	11,806	(8)	(9,177)	2,621
Concessions, licenses, trademarks and similar rights	4,595	(262)	(1,161)	3,172
Other intangible assets	424	(75)	(173)	176
Work in progress and advance payments	772	(1)		771
Total	17,597	(346)	(10,511)	6,740

(millions of euro)	12/31/2005			
	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	9,886	(8)	(7,068)	2,810
Concessions, licenses, trademarks and similar rights	4,457	(276)	(863)	3,318
Other intangible assets	170	(80)	(33)	57
Work in progress and advance payments	625			625
Total	15,138	(364)	(7,964)	6,810

The impairment losses in “Concessions, licenses, trademarks and similar rights” mainly refer to the Indefeasible Rights of Use - IRU of the transmission capacity and cables relating to the international connections acquired by the Latin American Nautilus group.
Such impairments, principally relating to the years prior to 2004, are the result of the altered and shrunken market value of international broadband compared to the expectations anticipated at the historical date of those investments.

NOTE 7 – TANGIBLE ASSETS (OWNED AND UNDER FINANCE LEASES)

Property, plant and equipment owned

Property, plant and equipment owned decreased from euro 16,443 million at December 31, 2005 to euro 15,690 million. Details on the composition and movements during the year are as follows:

(millions of euro)	12/31/2004	Discontinued operations/assets held for sale	Additions	Depreciation	Impairment losses / reversals	Disposals	Exchange differences	Other changes	12/31/2005
Land	224	(14)				(62)	2	5	155
Civil and industrial buildings	1,458	(181)	23	(103)	(1)	(249)	19	6	972
Plant and equipment	14,150	(1,219)	2,069	(2,910)		(29)	378	468	12,907
Manufacturing and distribution equipment	62	(5)	38	(31)				8	72
Aircrafts and ships	55			(9)					46
Other	962	(86)	380	(363)		(6)	99	188	1,174
Construction in progress and advance payments	942	(77)	790		(8)	(2)	59	(587)	1,117
Total	17,853	(1,582)	3,300	(3,416)	(9)	(348)	557	88	16,443

(millions of euro)	12/31/2005	Discontinued operations/assets held for sale	Additions	Depreciation	Impairment losses / reversals	Disposals	Exchange differences	Other changes	12/31/2006
Land	155					(3)	(1)	(17)	134
Civil and industrial buildings	972		9	(48)		(195)	(3)	(137)	598
Plant and equipment	12,907		2,206	(2,644)	(3)	(23)	(68)	580	12,955
Manufacturing and distribution equipment	72		17	(33)	(1)			4	59
Aircrafts and ships	46		1	(7)					40
Other	1,174		190	(446)		(3)	(7)	108	1,016
Construction in progress and advance payments	1,117		462		(2)	(12)	(3)	(674)	888
Total	16,443	-	2,885	(3,178)	(6)	(236)	(82)	(136)	15,690

Additions in 2006 include euro 178 million of capitalized internal construction costs (euro 184 million in 2005).

In 2006, the impairment losses of euro 6 million (euro 9 million in 2005) mainly refer to the writedown of telephone materials in the process of being replaced with new more advanced technological equipment.

Depreciation and impairment losses/reversals are recorded in the statement of income as components of the operating result.

In 2006, the plan was completed for the disposal of real estate properties approved by the board of directors on December 21, 2005 for more than 1,300 buildings for a total of about euro 1 billion.

After a first stage of the disposal plan was concluded in 2005, 291 properties were sold to Fondo Raissa and 181 to Fondo Spazio Industriale for a total amount of euro 350 million in March 2006, June 2006 and December 2006. The transaction generated a gross gain on consolidation of euro 135 million and reduced the consolidated net financial debt by euro 296 million before taxes.
These effects take into account the recognition, in accordance with the finance method in IAS 17, of the contribution of 45 properties to Fondo Raissa and the simultaneous long-term financial leaseback of these properties which have been reclassified from properties owned to properties held under finance leases.

Other changes include not only properties sold and simultaneously leased back for euro 30 million but the revision of the estimates for the restoring costs of the Tim Brasil group for euro 105 million. The change in estimate is due to a reduction in the unit cost for restoring the sites achieved following the renewal of contracts with foreign suppliers, subsequent to the reorganization of the company, and also greater use of co-siting contracts which do not require the companies to restore the sites. These changes in estimate have been recorded with a contra-entry to provision for risks and charges, as provided by IFRIC 1.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2006 and 2005 can be summarized as follows:

(millions of euro)	12/31/2006			
	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	134			134
Civil and industrial buildings	1,333	(2)	(733)	598
Plant and equipment	58,112	(66)	(45,091)	12,955
Manufacturing and distribution equipment	751		(692)	59
Aircrafts and ships	145	(11)	(94)	40
Other	4,046	(6)	(3,024)	1,016
Construction in progress and advance payments	897	(9)		888
Total	**65,418**	**(94)**	**(49,634)**	**15,690**

(millions of euro)	12/31/2005			
	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	155			155
Civil and industrial buildings	2,247	(35)	(1,240)	972
Plant and equipment	58,143	(151)	(45,085)	12,907
Manufacturing and distribution equipment	756	(5)	(679)	72
Aircrafts and ships	145	(11)	(88)	46
Other	4,159	(7)	(2,978)	1,174
Construction in progress and advance payments	1,126	(9)		1,117
Total	**66,731**	**(218)**	**(50,070)**	**16,443**

The reduction in the gross carrying amount, accumulated impairment losses and accumulated depreciation is due to the aforementioned disposal of part of the corporate buildings to real estate investment funds and the sale of network installations and other equipment that has almost been completely depreciated, also comprising, to a lesser degree, the tangible assets acquired in 2002 as a result of the merger of BLU S.p.A., which had been completely written down.

Assets held under finance leases

Assets held under finance leases decreased from euro 1,598 million at December 31, 2005 to euro 1,525 million. Details on the composition and changes are as follows:

(millions of euro)	12/31/2004	Discontinued operations/assets held for sale	Additions	Depreciation	Disposals	Exchange differences	Other changes	12/31/2005
Civil and industrial buildings	1,561	(21)	14	(93)			16	1,477
Plant and equipment	1	(1)		(1)			2	1
Aircrafts and ships	18			(4)				14
Other	73	(5)	46	(34)	(4)		(5)	71
Construction in progress and advance payments			28				7	35
Total	**1,653**	(27)	88	(132)	(4)		20	**1,598**

(millions of euro)	12/31/2005	Discontinued operations/assets held for sale	Additions	Depreciation	Disposals	Exchange differences	Other changes	12/31/2006
Civil and industrial buildings	1,477		29	(99)	(1)		11	1,417
Plant and equipment	1			(1)			1	1
Aircrafts and ships	14			(4)				10
Other	71		2	(25)			(1)	47
Construction in progress and advance payments	35		11				4	50
Total	1,598	-	42	(129)	(1)		15	1,525

Depreciation and impairment losses are recorded in the statement of income as components of the operating result.
Other changes in 2006 include, in particular, euro 30 million representing the net carrying amount of owned properties contributed to Fondo Raissa and the simultaneous long-term financial leaseback of these properties which, in accordance with IAS 17, have been reclassified from owned properties to properties held under finance leases, and euro 23 million due to the change in the scope of consolidation following the sale of RUF Gestion.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2006 and 2005 can be summarized as follows:

(millions of euro)	12/31/2006			
	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Civil and industrial buildings	1,926	(27)	(482)	1,417
Plant and equipment	16		(15)	1
Aircrafts and ships	30		(20)	10
Other	160		(113)	47
Construction in progress and advance payments	50			50
Total	**2,182**	**(27)**	**(630)**	**1,525**

(millions of euro)	12/31/2005			
	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Civil and industrial buildings	1,967	(27)	(463)	1,477
Plant and equipment	22		(21)	1
Aircrafts and ships	30		(16)	14
Other	152		(81)	71
Construction in progress and advance payments	35			35
Total	**2,206**	**(27)**	**(581)**	**1,598**

At December 31, 2006 and 2005, minimum lease payments due in future years and their present value are as follows:

	12/31/2006		12/31/2005	
(millions of euro)	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within 1 year	227	121	234	218
From 2 to 5 years	819	377	868	685
Beyond 5 years	1,841	1,241	1,965	891

	2,887	1,739	3,067	1,794

(millions of euro)	12/31/2006	12/31/2005
Future lease payments (minimum lease payments)	2,887	3,067
Interest portion	(1,148)	(1,273)
Present value of lease payments	**1,739**	**1,794**
Finance lease liabilities	2,116	2,128
Financial receivables for lessors' net investments	(377)	(334)
Total net finance lease liabilities	**1,739**	**1,794**

NOTE 8 – OTHER NON-CURRENT ASSETS

Other non-current assets amount to euro 3,738 million (euro 5,956 million at December 31, 2005). The composition is as follows:

(millions of euro)	12/31/2006	12/31/2005
Investments accounted for using the equity method:		
• Associates	471	765
• Jointly controlled companies	17	16
	488	**781**
Other investments	**776**	**561**
Securities, financial receivables and other non-current financia assets:		
• Securities other than investments	12	8
• Financial receivables and other non-current financial assets	679	988
	691	**996**
Miscellaneous receivables and other non-current assets		
• Miscellaneous receivables	360	358
• Medium/long-term prepaid expenses	511	467
	871	**825**
Deferred tax assets (*)	**912**	**2,793**
Total	**3,738**	**5,956**

(*) Analyzed in the Note "Deferred tax assets and deferred tax liabilities".

Major transactions involving investments

➢ Acquisitions and divestitures in 2006

Sale of Avea I.H.A.S. to Türk Telekomünikasyon A.S. and additional purchase of a stake in Oger Telecom

On September 15, 2006, the sale of the 40.56% stake in Avea I.H.A.S. to **Türk Telekomünikasyon A.S.** was finalized for USD 500 million. Moreover, as established in the July 14, 2006 agreements, Telecom Italia S.p.A. reinvested USD 250 million in the capital of Oger Telecom.

This sale reduced net financial debt by euro 279 million, being the balance between the proceeds on the sale (euro 393 million) and the recognition of non-current financial liabilities (euro 114 million) corresponding to the fair value of the commitments undertaken to make or have a bank make a subordinated loan to Avea I.H.A.S. for USD 150 million.

The sale resulted in a gain of euro 72 million and the simultaneous release to income of the remaining provisions accrued for sureties provided to banks and cancelled during September 2006 for euro 121 million.

➢ Acquisitions and divestitures in 2005

Privatization of Türk Telekomünikasyon A.S.

On July 1, 2005, the bidding ended for the privatization of the majority stake (55%) of the Turkish telecommunications operator Türk Telekomünikasyon A.S.. The bid was won for USD 6,550 million by Oger Telecom, a newly-formed vehicle company controlled by the Saudi-Lebanese group Saudi Oger Limited and in which Telecom Italia S.p.A. – through TIM International – made an initial investment of USD 200 million (13.33%). The partnership between Telecom Italia S.p.A. and Saudi Oger Limited covers mobile telecommunications, while for land-line telecommunications Oger Telecom will continue its collaboration with BT Telconsult. After closing the deal, Telecom Italia S.p.A. and Oger Telecom, in 2006, sealed a four-year agreement for technical assistance with Avea I.H.A.S., the Turkish mobile operator in which stakes are held by TIM International (40.5647%), Türk Telekomünikasyon A.S. (40.5647%) and Is Bank (18.8706%). The agreements with Saudi Oger also envisaged the possibility of Tim International selling its investment in Avea I.H.A.S. to Türk Telekomünikasyon A.S., which took place on September 15, 2006, as described above.
Within the next three years Oger Telecom is expected to be listed on the Dubai stock exchange with the possibility of TIM International investing proportionally in the initial placement. Should the listing not take place within the agreed timeframe, TIM International may exercise a put option to sell Saudi Oger Limited the Oger Telecom shares deriving from the sale of the current investment in Avea I.H.A.S. and also one-fourth of the Oger Telecom shares initially subscribed by TIM International. If the put option is not exercised, the counterpart may exercise a call option on the same shares.

Acquisition of Luna Rossa Challenge 2007 S.L. and Luna Rossa Trademark S.a.r.l.

On July 27, 2005, Telecom Italia S.p.A. purchased 49% of the share capital of Luna Rossa Challenge 2007 S.L., a Spanish-registered company, by subscribing to a share capital increase reserved for Telecom Italia S.p.A. for approximately euro 2 million.
On July 28, 2005, Telecom Italia purchased 49% of the share capital of Luna Rossa Trademark S.a.r.l., a Luxembourg-registered company, from Prada S.A. for euro 10 million.

Sale of CMobil CZ

Under the process for the rationalization of the international investment portfolio, on March 24, 2005, TIM finalized the sale of 7.16% of the share capital of CMobil CZ (a Dutch holding company which has a 60.8% stake in T-Mobile CZ) to T-Mobile Global Holding. This investment corresponds to an indirect interest of 4.35% in T-Mobile CZ, one of the largest mobile operators in the Czech Republic. The sales price was euro 70.5 million on which a gain was realized of approximately euro 61 million.

Investments in associates accounted for using the equity method are detailed as follows:

(millions of euro)	12/31/2004	Investments	Sales and reimbursements of capital	Valuation using the equity method	Reclassifications and other changes	12/31/2005
Avea I.H.A.S.	-	122		(122)		-
Brasil Telecom Participaçoes				(2)	23	**21**
Etecsa	**290**			39		**329**
Italtel Group	**32**			6		**38**
Siemens Informatica	**14**			(10)		**4**
Solpart Participaçoes			(17)	142	89	**214**
Tiglio I	**153**		(41)	(17)		**95**

Tiglio II	60		(33)	(10)		17
Other	36	14	(7)	4		47
Total	585	136	(98)	30	112	765

(millions of euro)	12/31/2005	Investments	Sales and reimbursements of capital	Valuation using the equity method	Reclassifications and other changes	12/31/2006
Brasil Telecom Participaçoes	21			1	(22)	-
Etecsa	329			(18)		311
Italtel Group	38			5		43
Siemens Informatica	4			(4)		-
Solpart Participaçoes	214			2	(216)	-
Tiglio I	95		(24)	(2)		69
Tiglio II	17		(11)	(2)		4
Other	47	1	(3)	(1)		44
Total	765	1	(38)	(19)	(238)	471

The decrease of euro 294 million from December 31, 2005 mainly refers to Solpart Participaçoes and Brasil Telecom Participaçoes.
On October 27, 2006, following approval by the Brazilian Telecommunications Authority (ANATEL), the 38% investment in Solpart Participaçoes (the controlling holding company of Brasil Telecom Participaçoes) was transferred to Brasilco S.r.l., a company 100%-owned by Telecom Italia International. The investment in Solpart Participaçoes is now held and managed, through Brasilco S.r.l., by Credit Suisse as a trustee but Telecom Italia International will be the sole beneficiary of the trust and, consequently, of the earnings from the investment in Solpart, including the price of its future sale.
As a result of this transaction, the Telecom Italia Group sold the ownership of the investment in Solpart Participaçoes (although it remains the beneficiary) and the relative governance rights thus resolving the question surrounding the overlapping of the mobile and long-distance licenses between Tim Brasil Participaçoes and Brasil Telecom Participaçoes, to the benefit of all parties concerned, including the same Brasil Telecom and its shareholders.
After the decision to sell the Solpart Participaçoes shares and those of Brasil Telecom Participaçoes (held by Telecom Italia International), by charging JP Morgan with their sale, the carrying amount of the two investments, updated to September 30, 2006, was reclassified to “discontinued operations/assets held for sale”.

The value of the investment in ETECSA includes euro 64 million of residual goodwill, being the excess of the carrying amount over the corresponding share of net assets acquired.

The investment in Italtel Group S.p.A. in 2005 was recorded in investments in associates accounted for using the equity method because, although owning a 19.37% stake (below 20% of the voting rights exercisable), Telecom Italia S.p.A. is able to exercise a significant influence through the rights attributed to it by the shareholders’ agreements.

On June 21, 2006, the Board of Directors of Italtel Group S.p.A. voted not to proceed with the project to list the shares of the company on the Italian stock exchange in the immediate future as resolved by the shareholders’ meeting held on February 27, 2006.

Investments accounted for using the equity method include the share of income (losses) for the year and the differences arising from the translation of foreign company financial statements. The 2006 consolidated statement of income was particularly impacted by ETECSA (euro 47 million) and other companies (euro 4 million) and in 2005 by Avea I.H.A.S. (-euro 122 million), ETECSA (euro 45 million), Solpart Participaçoes (euro 94 million) and other companies (-euro 10 million).

Aggregate 2006 and 2005 data relating to the major associates, prepared in accordance with IFRS, based on the Telecom Italia Group's share, is as follows:

(millions of euro)	12/31/2006	12/31/2005
Total assets	1,173	4,961
Total liabilities	740	2,606
Revenues	498	2,278
Net income (losses) for the year	67	(114)

Investments in jointly controlled companies include the investments in Perseo S.r.l. and Sofora Telecomunicaciones S.A., in which 50% stakes are held.

The investment in Sofora Telecomunicaciones S.A. is accounted for using the equity method. From 2001 to 2004, following the monetary crisis in Argentina, the net equity of the company, which controls the Telecom Argentina group, was a negative figure so the carrying amount, including the goodwill acquired, had been written off. In 2005, the net equity of the Sofora group again became positive as a result of restructuring a part of the Telecom Argentina group's debt and, consequently, the carrying amount was proportionally adjusted for the share of ownership (euro 16 million). In 2006, the value of the investment was adjusted by euro 1 million bringing the investment value to euro 17 million at December 31, 2006. However, the impairment loss has not been reversed since all the reasons which led to the impairment of the investment in previous years have not been eliminated.

Aggregate 2006 and 2005 data, based on the Telecom Italia Group's share, is as follows:

(millions of euro)	2006	2005
Non-current assets	825	938
Current assets	307	269
Total assets	**1,132**	**1,207**
Non-current liabilities	500	767
Current liabilities	477	299
Total liabilities	**977**	**1,066**
Revenues	971	787
Ebitda	284	257
Operating income (Ebit)	113	65
Income before taxes	32	207
Net income for the year	**29**	**54**

The list of companies accounted for using the equity method is presented in the Note "List of companies of the Telecom Italia Group".

Other investments refer to the following:

(millions of euro)	12/31/2004	Discontinued operations/assets held for sale	Investments	Sales and reimbursements of capital	Valuation at fair value	Reclassifications and other changes	12/31/2005
Brasil Telecom Participaçoes	17					(17)	-
Cmobil	9			(9)			
Consortium	20						20
Euskaltel	13			(13)			-
Fin.Priv.	15						15
Forthnet	10			(10)			-
Mediobanca	168				59		227
MCC	36						36
Neuf Télécom	51						51
Oger Telecom			178				178
Sia	11						11
Solpart Participaçoes	95					(95)	-
Other	34	(11)	4	(4)			23
Total	**479**	**(11)**	**182**	**(36)**	**59**	**(112)**	**561**

(millions of euro)	12/31/2005	Discontinued operations/assets held for sale	Investments	Sales and reimbursements of capital	Valuation at fair value	Reclassifications and other changes	12/31/2006
Capitalia	-				39	36	75
Consortium	20			(2)		(18)	-
Fin.Priv.	15						15
Assicurazioni Generali	-				1	4	5
MCC	36					(36)	-
Mediobanca	227				26	14	267
Neuf Télécom	51			(51)			-
New Satellite Radio			7				7
Oger Telecom	178		197				375
Sia	11						11
Other	23		1	(3)			21
Total	**561**	-	205	**(56)**	**66**	-	**776**

The increase of euro 215 million compared to December 31, 2005 is mainly due to the investment in Oger Telecom and the fair value adjustment to the investments in Capitalia and Mediobanca, partly and offset by the sale of Neuf Télécom.

On May 26, 2006, the meeting of the parties to the Mediobanca shareholders' agreement approved the early dissolution of the vehicle company Consortium S.r.l. and assigned the direct ownership of the Mediobanca and Assicurazioni Generali shares to the shareholders, in proportion to their respective stakes in the vehicle company. The transaction took place on the block trading market with settlement deferred and compensated by the distribution of profits and reserves by Consortium S.r.l. in July 2006. The net proceeds amount to euro 5 million.
After this transaction, Telecom Italia holds a 0.01% stake in Assicurazioni Generali and a 1.84% interest in Mediobanca.

On May 11, 2006, the entire stake held in Neuf Télécom by Telecom Italia International (equal to about 4.99% of share capital) was sold to Louis Dreyfus and Societé Française du Radiotelephone for euro 199 million, realizing a gain of euro 148 million.

Effective January 1, 2006, MCC S.p.A. was non-proportionally partially spun-off to Capitalia S.p.A. by assigning a part of the equity of MCC S.p.A. to the beneficiary Capitalia S.p.A. with allocation of its shares, deriving from the reserved capital increase, to the minority shareholders of MCC S.p.A.. After this transaction, the shares of Capitalia S.p.A., since the company is listed, were measured at fair value and the fair value adjustment was recognized in a specific reserve under equity.

Financial receivables and other non-current financial assets decreased by euro 309 million compared to December 31, 2005. The composition is as follows:

(millions of euro)	12/31/2006	12/31/2005
Financial receivables for lessors' net investments	229	212
Loans to employees	70	79
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	243	276
Other financial receivables	137	421
Total	679	988

Financial receivables for lessors' net investments refer to:
- Teleleasing lease contracts directly negotiated with customers and guaranteed by Telecom Italia S.p.A.;
- medium/long-term portion of contracts which provide for the finance lease, of assets to customers which the Group has available under finance leaseback contracts, with the performance of accessory services under the "full rent" formula.

The total amount (non-current and current portion) of these receivables are as follows:

(millions of euro)	12/31/2006	12/31/2005
Non-current portion	229	212
Current portion	148	122
Total	377	334

Hedging derivatives relating to hedged items classified in non-current assets and liabilities of a financial nature refer to the accrued income component of the derivatives.
Additional information is provided in the Note "Financial instruments".

Other financial receivables decreased from euro 421 million at December 31, 2005 to euro 137 million mainly as a result of the reclassification of euro 309 million to cash from the escrow account at ABN Amro. This amount became available since the conditions for the contractual commitments with Opportunity did not occur. At December 31, 2006 such receivables include:
- euro 68 million relating to cash collateral with Goldman Sachs to guarantee the two Cross Currency Interest Rate Swap contracts;
- euro 22 million for the non-current portion of the remaining receivable due from Ptt Srbija for the sale of Telekom Srbija;
- euro 24 million for loans made to Aree Urbane S.r.l..

Miscellaneous receivables and other non-current assets increased from euro 825 million at December 31, 2005 to euro 871 million and include:
- the fair value of the two call options on 50% of Sofora Telecomunicaciones share capital for euro 190 million (euro 160 million at December 31, 2005):
- the remaining receivable on the sale of 100% of gruppo Buffetti for euro 6 million;
- the tax credit from the advance payment of taxes on the provision for employee severance indemnities of euro 19 million (euro 35 million at December 31, 2005);

- medium/long-term prepaid expenses relating to the deferral of costs in conjunction with the recognition of revenues of euro 511 million (euro 467 million at December 31, 2005).

NOTE 9 – DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

Net deferred tax assets decreased from euro 2,656 million at December 31, 2005 to euro 718 million and are presented in the balance sheet as follows:

(millions of euro)	12/31/2006	12/31/2005
Deferred tax assets	912	2,793
Deferred tax liabilities	(194)	(137)
Total	718	2,656

Since deferred tax assets and liabilities are offset in the financial statements when the income taxes are levied by the same tax authority and where there is a legally enforceable right of offset, the composition of the gross amounts is presented below:

(millions of euro)	12/31/2006	12/31/2005
Deferred tax assets	1,714	3,118
Deferred tax liabilities	(996)	(462)
Total	718	2,656

Reversal and provision charges in deferred tax assets and liabilities gave rise to a tax charge for the year ended December 31, 2006 of euro 1,837 million (see the Note “Income taxes” for additional details on the tax charge). The tax effect on income and losses recognized directly in equity in 2006 is a charge of euro 83 million and is mainly referred to the fair value adjustment of the hedging derivative instruments.

The other changes during the year in deferred taxes which did not have an effect on net income mainly refer to the reduction in deferred tax liabilities recorded on the business combinations recognized according to IFRS 3 (euro 5 million, of which euro 3 million relates to the purchase of Elefante TV-Delta TV and euro 2 million to the purchase of Liberty Surf Group S.A.).

Temporary differences which make up this caption at December 31, 2006 and 2005 are the following:

(millions of euro)	12/31/2006	12/31/2005
Deferred tax assets:		
Write-downs for the impairment of investments and other	189	1,259
Unrealized intra-group gains	36	31
Provision for pension fund integration (Law No. 58/92)	194	227
Tax loss carryforwards	300	517
Provisions for risks and charges	186	276
Provision for restoration and decommissioning costs	59	55
Provision for bad debts	212	220
Recognition of revenues	124	177
Sale and lease back transactions on properties	150	109
Derivative instruments	42	130
Capital grants	46	64
Other deferred tax assets	176	53
Total	1,714	3,118
Deferred tax liabilities:		
Accelerated depreciation	(601)	(280)
Deferred gains	(136)	(108)
Discounting of provision for employee severance indemnities	(39)	(28)
Notes and bonds	(27)	(34)
Other deferred tax liabilities	(193)	(12)
Total	(996)	(462)
Total deferred tax assets net of deferred tax liabilities	718	2,656

The reduction in deferred tax assets gross of offsets compared to December 31, 2005 is principally due to the reversal of deferred tax assets on the writedown of investments in 2003, deducted for tax purposes over five years, and the reversal of deferred tax assets recognized on tax loss carryforwards by the Parent, Telecom Italia.
The increase in deferred tax liabilities compared to December 31, 2005 is mainly the result of the recognition in 2006 of deferred tax liabilities on accelerated depreciation taken by the Parent, Telecom Italia.

At December 31, 2006, the Group has unused tax loss carryforwards referring to the Parent, Telecom Italia, and some foreign companies (Telecom Italia Finance, Liberty Surf group, Telecom Italia International and TIM Participaçoes group) for euro 7,668 million, with the following expiration dates:

Year of expiration	(millions of euro)
2007	78
2008	1,195
2009	32
2010	245
2011	24
Expiration beyond 2011	594
Without expiration	5,500
Total unused tax loss carryforwards	7,668

Deferred tax assets relating to deductible temporary differences and unused tax loss carryforwards are recognized to the extent that it is probable that future profits will be available against which they can be utilized.
In particular, deferred tax assets have been calculated on tax loss carryforwards of euro 907 million at December 31, 2006 (euro 1,567 million at December 31, 2005) and mainly refer to the Parent, Telecom Italia. Moreover, at December 31, 2006, deferred tax assets of euro 2,124 million have not been calculated on unused tax losses of euro 6,761 million since their recoverability is not considered probable (euro 5,737 million at December 31, 2005).

At December 31, 2006, deferred taxes have not been recognized on tax-deferred reserves, subject to taxation in the event of distribution or utilization, in that their distribution or utilization is not foreseen.
Deferred taxes have not been recognized on the undistributed earnings of subsidiaries and associates in that the tax system of their parents provide for the participation exemption.

NOTE 10 – INVENTORIES

Inventories decreased from euro 294 million at December 31, 2005 to euro 291 million. The composition of inventories is as follows:

(millions of euro)	12/31/2006	12/31/2005
Raw materials and supplies	5	8
Work in progress and semi-finished products	13	24
Finished goods	273	262
Total	**291**	**294**

Inventories particularly refer to Telecom Italia S.p.A. for euro 125 million and the companies in the Brazil Mobile Business Unit for euro 58 million. They mainly consist of equipment, handsets and relative fixed and mobile telecommunications accessories. Another euro 88 million relates to the Olivetti Business Unit for office products, specialized printers and gaming terminals.

Writedowns of inventories made in 2006 total euro 31 million (euro 26 million in 2005) and mainly refer to the adjustment of equipment and fixed and mobile telephone handsets of Telecom Italia S.p.A. to estimated realizable value (euro 22 million) and writedowns for the industrial reconversion of Olivetti S.p.A. (euro 8 million).

No inventories are pledged as collateral.

NOTE 11 – TRADE AND MISCELLANEOUS RECEIVABLES AND OTHER CURRENT ASSETS

Trade and miscellaneous receivables and other current assets decreased from euro 8,856 million at December 31, 2005 to euro 8,748 million and consist of the following:

(millions of euro)	12/31/2006	12/31/2005
Receivables for construction contracts	12	37
Trade receivables:		
• Receivables from customers	5,731	5,960
• Receivables from other telecommunication operators	1,638	978
	7,369	6,938
Miscellaneous receivables and other current assets:		
• Other receivables	972	1,533
• Trade and miscellaneous prepaid expenses	395	348
	1,367	1,881
Total	8,748	8,856

Receivables for construction contracts of euro 12 million mainly refer to Telecom Italia S.p.A. for network equipment, Lombardy Region health cards and works related to telephone installations customized for customers. The also include advances received for euro 2 million.

Trade receivables amount to euro 7,369 million (euro 6,938 million at December 31, 2005), and are net of the provision for bad debts of euro 791 million (euro 773 million at December 31, 2005).
The increase in trade receivables from December 31, 2005 is principally the result of a different presentation of receivables due from other mobile operators which, partly as a result of the revision of the contracts that became due following the integration of fixed-mobile operations, were no longer shown net of the corresponding liability position.
The caption also includes euro 3 million (euro 4 million at December 31, 2005) of medium/long-term trade receivables from customers.
Trade receivables specifically refer to Telecom Italia S.p.A. (euro 5,542 million) and the foreign mobile telephone companies (euro 872 million).

Movements in the provision for bad debts are as follows:

(millions of euro)	2006	2005
At January 1	773	897
Discontinued operations/assets held for sale	-	(132)
Charge to the statement of income	252	264
Utilization	(212)	(264)
Reversal of the provision in excess of requirements	(17)	(15)
Exchange differences and other changes	(5)	23
At December 31	791	773

Other receivables amount to euro 972 million (euro 1,533 million at December 31, 2005) and are net of a provision account for euro 52 million. Details are as follows:

(millions of euro)	12/31/2006	12/31/2005
Advances to suppliers	144	60
Receivables from employees	33	55
Tax receivables	223	230
Receivables on the sale of consolidated investments	4	28
Sundry receivables	568	1,160
Total	972	1,533

Advances to suppliers increased by euro 84 million mainly due to advances paid to the supplier Ericsson (euro 61 million) on the contract dealing with software updates for the GSM/EGPRS/UMTS networks for the Telecom Italia S.p.A. mobile network for the three years 2006-2008. These advances will be recovered when the invoices are recorded for the release of the software.

Sundry receivables decreased by euro 592 million largely on account of the refund from the Financial Administration, following the ruling handed down by the Regional Administrative Court (TAR) of Lazio on July 10, 2006, for the principal portion (euro 546 million) of the TLC operating fee that Telecom Italia S.p.A. and ex-TIM S.p.A. had paid for the year 1999 pursuant to ex art. 20, Law No. 448/1998.
Sundry receivables still include a receivable from the Tax Authorities (euro 100 million) for the legal interest earned up to the date of the refund on the above principal portion of the TLC operating fee and also receivables from factoring companies (Euro 146 million) following the assignment of receivables mostly due from the sales network.

Trade and miscellaneous **prepaid expenses** principally pertain to building leases, rentals and maintenance as well as the deferral of costs referring to the recognition of revenues.

NOTE 12 – CURRENT INCOME TAX RECEIVABLES

Current income tax receivables amount to euro 287 million (euro 335 million at December 31, 2005) and mainly refer to IRES taxes receivable on the consolidated national tax return filed by the Telecom Italia Group.

NOTE 13 – SECURITIES (CURRENT ASSETS)

Securities in current assets increased from euro 378 million at December 31, 2005 to euro 812 million. Details are as follows:

(millions of euro)	12/31/2006	12/31/2005
Held-to-maturity financial assets		
➢ *Listed securities other than investments*	-	3
Available-for-sale financial assets		
➢ *Listed securities other than investments, due beyond 3 months*	259	374
Financial assets at fair value through profit or loss		
➢ *Listed securities held for trading other than investments*	553	1
TOTALE	812	378

The above securities (mainly bonds and shares held in SICAVs) refer to investments made by the Luxembourg subsidiary Telecom Italia Finance S.A. for euro 794 million.
Available-for-sale listed securities other than investments, due beyond 3 months refer to bonds issued by counterparts that have credit ratings of not less than "A-" assigned by Standard & Poor's or an equivalent level assigned by other agencies, and with different maturity dates but all are actively traded and, therefore, readily convertible into cash.
Listed securities held for trading other than investments refer to a very short-term investment in a monetary SICAV registered under Belgian law which was partially sold in February 2007 (euro 542 million).
Additional information is proved in the Note "Financial instruments".

NOTE 14 – FINANCIAL RECEIVABLES AND OTHER CURRENT FINANCIAL ASSETS

Financial receivables and other current financial assets decreased from euro 509 million at December 31, 2005 to euro 433 million. They consist of the following:

(millions of euro)	12/31/2006	12/31/2005
Deposits for temporary investments of excess liquidity originally due beyond 3 months but less than 12 months	17	90
Financial receivables for lessors' net investments	148	122
Other short-term financial receivables	52	41
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	207	195
Non-hedging derivatives	9	61
Total	433	509

Deposits refer entirely to the investment of excess liquidity made by Entel Bolivia.
Financial receivables for lessors' net investments refer to:

- the current portion of Teleleasing lease contracts directly negotiated with customers and guaranteed by Telecom Italia S.p.A.;
- the current portion of contracts which provide for the sale of assets under finance leases to customers, including the performance of accessory services (the "full rent" formula).

Other short-term financial receivables include the current portion of loans receivable from personnel for euro 18 million and the receivable from PTT Srbija on the sale of Telekom Srbija for euro 13 million.
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature refer to accrued income on derivatives.
Additional details are provided in the Note "Financial instruments".

NOTE 15 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents decreased from euro 10,323 million at December 31, 2005 to euro 7,219 million. They consist of the following:

(millions of euro)	12/31/2006	12/31/2005
Liquidity with banks, financial institutions and post offices	7,186	9,956
Checks	4	-
Cash	1	2
Other receivables and deposits for cash flexibility	1	34
Securities other than investments (due within 3 months)	27	331
Total	7,219	10,323

The decrease in liquidity with banks, financial institutions and post offices from the end of 2005 is mainly due to the following:

- repayment of liabilities which became due during the course of 2006;
- early partial repayment of euro 3 billion of the Revolving Credit Facility maturing in 2012;
- payment of dividends.
-

The different technical forms used for the liquidity as of December 31, 2006 can be further analyzed as follows:

- maturities: 95% of deposits have a maximum maturity date of one month;

- counterpart risk: deposits are made with leading banks and financial institutions that have credit ratings of not less than "A-" assigned by Standard & Poor's or an equivalent level assigned by other agencies;
- country risk: the geographical location of deposits is principally on major European markets.

Securities other than investments (due within 3 months) include euro 20 million (euro 327 million at December 31, 2005) of Euro Commercial Paper held by Telecom Italia Finance S.A. maturing within one month. The issuers all have credit ratings of not less than "A-" assigned by Standard & Poor's or an equivalent level assigned by other agencies, and are located in Europe.

NOTE 16 – DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE

In the balance sheet at December 31, 2006, "Discontinued operations/assets held for sale" include the investments held in Solpart Participaçoes and Brasil Telecom Participaçoes after the decision to proceed with their sale.
In the statement of income and in the statement of cash flows for the year 2006, the respective captions, "Net income (loss) from discontinued operations/assets held for sale" and "Cash flows generated by (used in) discontinued operations/assets held for sale" include the relative effects of the divestitures of Gruppo Buffetti (sold in January 2006) and Digitel Venezuela (sold in May 2006). Therefore, these captions particularly include the data for Digitel Venezuela up to its divestiture (May 2006), the effects of the sale itself (a gain of euro 31 million net of transaction charges) and accruals to the provisions for risks and charges relating to the divestitures of Digitel Venezuela (euro 9 million) and Tim Hellas (euro 30 million).

In the balance sheet at December 31, 2005, "Discontinued operations/assets held for sale" and "Liabilities relating to discontinued operations/assets held for sale" include the balance sheet data of Gruppo Buffetti and Digitel Venezuela (sold in 2006).
In the statement of income and in the statement of cash flows for the year 2005, the respective captions, "Net income from discontinued operations/assets held for sale" and "Cash flows generated by (used in) discontinued operations/assets held for sale" include the data of the Entel Chile group (sold in March 2005), the Finsiel group and Tim Hellas (sold in June 2005), Tim Perù (sold in August 2005), and Gruppo Buffetti (sold in January 2006) and Digitel Venezuela (sold in May 2006).

Divestitures in 2006

Gruppo Buffetti
On January 11, 2006, the sale of 100% of the capital of Gruppo Buffetti S.p.A. to Dylog Italia S.p.A. and Palladio Finanziaria S.p.A. was finalized, with a total positive financial effect of euro 66 million.
There was no effect on the statement of income in 2006 since the carrying amount had already been adjusted to the sales price at the end of 2005.

Digitel Venezuela
On May 25, 2006, the sale of 100% of the capital of Digitel by Tim International to Telvenco S.A. was finalized at a price of USD 425 million (enterprise value). As a result, there was a

reduction in net financial debt of approximately euro 318 million (including the deconsolidation of the net financial debt of the subsidiary sold).
In December 2006, under the contractual commitments guaranteed at the time of sale, Telvenco S.A. notified Tim International about a tax assessment for Digital issued by the local tax authorities for approximately USD 15 million.
Digital filed an appeal against the assessment for approximately USD 10 million, paying the difference of about USD 5 million in January 2007.
Accordingly, an accrual was made to the provision for risks and charges on investments and corporate-related transactions for about euro 9 million to take into account not only the amount paid by Digitel but also the interest payable from the date the payment was due up to the date of payment in addition to the relative penalties normally applied.

Divestitures in 2005

Entel Chile

On March 29, 2005, Telecom Italia sold its 54.76% investment in the Chilean company Entel Chile S.A. to Almendral S.A. (an investment holding company listed on the stock exchange in Santiago, Chile which represents local businesses including the Hurtado Vicuna group and the Matte group).
The sales price was USD 934 million (euro 723 million) with a loss of euro 1 million besides euro 6 million of transaction charges.

Finsiel

On April 26, 2005, the contract was finalized for the sale of the entire interest held by Telecom Italia in Finsiel (79.5%) to the COS group. The sale is based on an enterprise value of euro 164 million. The sales terms are as follows:

- on June 28, 2005, a 59.6% interest was sold for a price of euro 87 million;
- on November 7, 2005, the remaining 19.9% was sold for a price of euro 28 million.

The sale had no effect on the statement of income since the carrying amount had previously been adjusted to the sales price.
The residual receivable from the COS group for the sale of the investment is equal to euro 26 million and was collected in December 2006.

Tim Hellas

On June 15, 2005, Tim International N.V. sold the 80.87% investment in Tim Hellas Telecommunications S.A. to a vehicle referring to the funds managed by Apax Partners and Texas Pacific Group (TPG) for a price of euro 1,114 million corresponding to an enterprise value of about euro 1,600 million for 100% of Tim Hellas or approximately euro 16.43 per share. The sale gave rise to a net gain of euro 410 million on consolidation.
During 2006 the provision for risks and charges on investments and corporate-related transactions was increased by euro 30 million to euro 52 million; this accrual is mainly related to certain legal disputes against Tim Hellas, in relation to which, at the time of the disposal of the investment, TIM International had provided contractual indemnities to the purchasers.

Tim Perù

On August 10, 2005, Tim International N.V. sold the entire investment in Tim Perù S.A.C. to Sercotel S.A. de C.V., a company controlled 100% by America Movil S.A. de C.V. at a price of euro 330 million. The sale gave rise to a net gain on consolidation in 2005 of euro 120 million (net of the relative transaction charges) and a decrease in net financial debt of more than euro 400 million.

The composition of **discontinued operations/assets held for sale** (and the related liabilities) is provided in the following table:

(millions of euro)	12/31/2006	12/31/2005
Discontinued operations /assets held for sale:		
Of a financial nature	-	37
Of a non-financial nature	235	491
Total	235	528
Liabilities relating to discontinued operations /assets held for sale:		
Of a financial nature	-	143
Of a non-financial nature	-	142
Total	-	285

Discontinued operations/assets held for sale of a financial nature refer to:

(millions of euro)	12/31/2006	12/31/2005
-Gruppo Buffetti	-	4
-Digitel Venezuela	-	33
Total	-	37

Discontinued operations/assets held for sale of a non-financial nature refer to:

(millions of euro)	12/31/2006	12/31/2005
Investments in Solpart Participaçoes and Brasil Telecom Participaçoes	235	-
-Gruppo Buffetti	-	113
-Digitel Venezuela	-	378
Total	235	491

At December 31, 2005, this caption includes goodwill of euro 171 million, of which euro 12 million refers to Gruppo Buffetti (net of the writedown of euro 7 million to adjust the amount to the sales price) and euro 158 million to Digitel Venezuela.

Liabilities relating to discontinued operations/assets held for sale of a financial nature refer to:

(millions of euro)	12/31/2006	12/31/2005
-Gruppo Buffetti (current liabilities)	-	19
-Digitel Venezuela (non-current liabilities)	-	124
Total	-	143

Liabilities relating to discontinued operations/assets held for sale of a non-financial nature refer to:

(millions of euro)	12/31/2006	12/31/2005
-Gruppo Buffetti	-	40
-Digitel Venezuela	-	102
	-	142

The net income (loss) from discontinued operations/assets held for sale in the statement of income can be represented as follows:

(millions of euro)		2006	2005
Economic effects from discontinued operations/assets held for sale:			
Revenues		121	1,387
Other income		-	18
Operating expenses		(89)	(1,127)
Depreciation and amortization, impairment reversals(losses), gains(losses) realized		(17)	(181)
Operating income		15	97
Net financial income (expenses)		-	(22)
Income from discontinued operations/assets held for sale before taxes		15	75
Income taxes		-	(31)
Net income from discontinued operations/assets held for sale after taxes	(A)	15	44
Result of disposal:			
Writedowns/accruals relating to assets held for sale		(39)	(9)
Gain (loss) from discontinued operations		31	515
Income taxes		-	-
	(B)	(8)	506
Net income from discontinued operations/assets held for sale	(A+B)	7	550

A breakdown of the **net income from discontinued operations/assets held for sale after taxes (A)** is as follows:

(millions of euro)	2006	2005
-Entel Chile Group	-	26
-Finsiel Group	-	(11)
-Tim Hellas	-	11
-Tim Perù	-	(3)
-Gruppo Buffetti	-	1
-Digitel Venezuela	15	20
	15	44

A breakdown of the **results of disposal (B)** is as follows:

(millions of euro)	2006	2005
-Entel Chile Group	-	(7)
-Finsiel Group	-	(8)
-Tim Hellas	(30)	410
-Tim Perù	-	120
-Gruppo Buffetti	-	(9)
-Digitel Venezuela	22	-
	(8)	506

Net cash flows from operating, investing and financing activities relating to discontinued operations/assets held for sale are as follows:

Total cash flows generated by (used in) discontinued operations/assets held for sale

(millions of euro)	2006	2005
Cash flows from operating activities	33	190
Cash flows from investing activities	(10)	(124)
Cash flows from financing activities	(36)	(40)
Total cash flows generated by (used in) discontinued operations/assets held for sale	**(13)**	**26**

In particular:

Cash flows from operating activities are as follows:

(millions of euro)	2006	2005
-Entel Chile Group		61
-Finsiel Group		(12)
-Tim Hellas		27
-Tim Perù		21
-Gruppo Buffetti		11
-Digitel Venezuela	33	69
-Other, adjustments and eliminations		13
	33	190

Cash flows from investing activities are as follows:

(millions of euro)	2006	2005
-Entel Chile Group		(12)
-Finsiel Group		(3)
-Tim Hellas		(20)
-Tim Perù		(19)
-Gruppo Buffetti		(3)
-Digitel Venezuela	(10)	(47)
-Other, adjustments and eliminations		(20)
	(10)	(124)

Cash flows from financing activities are as follows:

(millions of euro)	2006	2005
-Entel Chile Group		(2)
-Finsiel Group		15
-Tim Hellas		(17)
-Tim Perù		(8)
-Gruppo Buffetti		(3)
-Digitel Venezuela	(36)	(32)
-Other, adjustments and eliminations		7
	(36)	(40)

NOTE 17 – EQUITY

Equity includes:

(millions of euro)	12/31/2006	12/31/2005
Equity attributable to equity holders of the Parent	26,018	25,662
Equity attributable to Minority Interests	1,080	1,323
Total	**27,098**	**26,985**

Equity attributable to equity holders of the Parent increased by euro 356 million compared to December 31, 2005 mainly due to:

- the net income for the year (euro 3,014 million);
- the increase from the conversion of bonds (euro 22 million);
- the increase in "Income (loss) recognized directly in equity" (euro 227 million);
- the decrease in the "Reserve for net translation differences" (-euro 107 million);
- the distribution of dividends (euro 2,766 million, net of dividends on shares held by Telecom Italia Finance).

Equity attributable to Minority interests decreased by euro 243 million mainly due to the distribution of dividends (euro 236 million) and the net loss for the year (euro 11 million).

The movements in **share capital** during 2006 are presented in the following tables:

RECONCILIATION BETWEEN THE NUMBER OF SHARES OUTSTANDING AT DECEMBER 31, 2005 AND DECEMBER 31, 2006

(number of shares)	At 12/31/2005	Shares issued as a result of bond conversions	At 12/31/2006
Ordinary shares	13,370,482,156	10,240,922	13,380,723,078
Less: treasury shares	(125,816,387)		(125,816,387)
Outstanding ordinary shares	13,244,665,769	10,240,922	13,254,906,691
Outstanding savings shares	6,026,120,661		6,026,120,661
Total shares issued	**19,396,602,817**	**10,240,922**	**19,406,843,739**
Less: treasury shares	(125,816,387)		(125,816,387)
Total shares outstanding	**19,270,786,430**	**10,240,922**	**19,281,027,352**

RECONCILIATION BETWEEN THE VALUE OF OUTSTANDING SHARES AT DECEMBER 31, 2005 AND DECEMBER 31, 2006

(millions of euro)	Share capital at 12/31/2005	Changes in share capital as a result of bond conversions	Share capital at 12/31/2006
Ordinary shares	7,354	6	7,360
Less: treasury shares	(69)		(69)
Outstanding ordinary shares	7,285	6	7,291
Outstanding savings shares	3,314		3,314
Total shares issued	**10,668**	**6**	**10,674**
Less: treasury shares	(69)	0	(69)
Total shares outstanding	**10,599**	**6**	**10,605**

Share capital is divided into two classes of shares: ordinary and savings. Ordinary shares have the right to attend, take part and vote in the ordinary and special shareholders' meetings. The holders of such shares have the right to the earnings distributed by the Company after the distribution of dividends to the holders of savings shares. Savings shares, in the absence of voting rights in the ordinary and special shareholders' meetings of the Company, have the right to the distribution of the net income for the year equal to 5% of the par value of the shares (euro 0.55) and, in any case, to receive dividends higher than those of ordinary shares by 2% of the par value of the shares.

Reserve for additional paid-in capital is equal to euro 1,689 million at December 31, 2006 and decreased by euro 4,776 million compared to December 31, 2005. The decrease is due to the balance of the following:

- the reclassification, for euro 4,796 million, to "Other reserves and retained earnings (accumulated losses), including net income (loss) for the year", of the portion of "Additional paid-in capital" deriving from the share capital increase to service the merger of TIM in Telecom Italia following the application of art. 7, paragraph 7 of Legislative Decree 38/2005;
- the additional paid-in capital, for euro 20 million, deriving from the issue of shares following the conversion of "Telecom Italia 1.5% 2001 – 2010 convertible notes with a repayment premium".

Reserve for net translation differences shows a positive balance of euro 686 million at December 31, 2006 and decreased by euro 107 million compared to December 31, 2005 and mainly refers to differences in euro from the translation of the financial statements of the Brazilian mobile telephone companies.

Other reserves and retained earnings (accumulated losses), including net income (loss) for the year amount to euro 13,038 million (euro 7,805 million at December 31, 2005) and include:

- Other income (loss) recognized directly in equity for a positive euro 118 million at December 31, 2006 (a negative euro 109 million at December 31, 2005) referring to the following:
  - "Reserve for fair value adjustments of hedging instruments" for a negative euro 54 million at December 31, 2006 (a negative euro 216 million at December 31, 2005), attributable to the Parent for -euro 62 million and other Group companies for +euro 8 million. This reserve is expressed net of deferred tax assets of euro 15 million (euro 95 million at December 31, 2005). In particular, this reserve includes the effective portion of gains or losses related to the fair value adjustment to cash flows hedge derivatives designated to hedge the exposure of cash flow fluctuations referring to the assets or liabilities recorded in the financial statements;
  - "Reserve for fair value adjustments of available-for-sale financial assets" is a positive euro 172 million (a positive euro 107 million at December 31, 2005). This reserve refers to the measurement at market price of Mediobanca shares (euro 133 million), Capitalia shares (euro 37 million) and Assicurazioni Generali shares (euro 1 million) held by the Parent, in addition to other shares held by the Group (euro 1 million) and is expressed net of deferred tax liabilities of euro 9 million.

- Other reserves are a positive euro 5,175 million at December 31, 2006 (a positive euro 3,835 million at December 31, 2005) and include the other reserves of the Parent net of the value of the treasury stock held by the Parent and Telecom Italia Finance for the amount in excess of the relative par value which was deducted from "Share capital". "Other reserves" increased principally due to the aforementioned reclassification from "Reserve for additional paid-in capital" (euro 1,022 million: euro 4,796 million net of euro 3,774 million reclassified to "Retained earnings, including net income for the year"), in addition to the appropriation of a part of 2005 earnings (euro 319 million).

- Retained earnings (accumulated losses), including net income (loss) for the year, at December 31, 2006, is euro 7,745 million, with an increase of euro 3,666 million compared to December 31, 2005 and is mainly due to:

    - the net income for the year attributable to the equity holders of the Parent, equal to euro 3,014 million (euro 3,216 million in 2005);
    - the amount (+euro 3,774 million) deriving from the above reclassification of "Additional paid-in capital" pursuant to the application of art. 7, paragraph 7, of Legislative Decree 38/2005;
    - the dividends approved for euro 2,766 million (euro 1,912 million in 2005). Dividends payable to ordinary and savings shareholders are, respectively, euro 1,856 million (euro 0.1400 per share) and euro 910 million (euro 0.1510 per share).

Equity attributable to Minority Interests, equal to euro 1,080 million (euro 1,323 million at December 31, 2005), includes the "Net loss for the year attributable to Minority Interests" of euro 11 million (net income of euro 474 million in 2005) and decreased compared to December 31, 2005 principally due to the distribution of dividends (euro 236 million). This item consists mainly of the equity attributable to the minority interests of the Brazil mobile telephony companies and the Media Business Unit.

The following table shows the future potential changes in share capital by reason of the convertible bonds and options in the stock option plans still outstanding at December 31, 2006:

	Outstanding bonds/option rights at 12/31/2006	Conversion / grant ratio	Number of maximum shares issuable	Par value (thousands of euro)	Additional paid-in capital (thousands of euro)	Subscription price per share (euro)
Additional increases approved (ord. sh.)						
Bonds "Telecom Italia 1.5% 2001 - 2010"	484,990,163	0.471553	228,698,566	125,784	359,206	
Stock Option Plan 2000	5,349,998.00	3.300871	17,659,608	9,713	64,197	4.185259
Stock Option Plan 2001	31,847,500.00	3.300871	105,123,871	57,818	276,196	3.177343
Stock Option Plan 2002 Top	9,480,001.33	3.300871	31,292,243	17,211	70,034	2.788052
Stock Option Plan 2002	16,471,053.93	3.300871	54,368,456	29,902	128,141	
of which grants March 2002	*15,801,053.50*	*3.300871*	*52,156,879*	*28,686*	*124,030*	*2.928015*
grants August 2002	*670,000.43*	*3.300871*	*2,211,577*	*1,216*	*4,111*	*2.409061*
Stock Option Plans 2000-2002 - ex-TIM	9,795,656.00	1.73	16,946,391	9,321	53,568	3.710983
Stock Option Plans 2002-2003 - ex-TIM	17,395,000.00	1.73	30,093,350	16,551	82,065	3.277457
Stock Option Plans 2003-2005 - ex-TIM	1,685,900.00	1.73	2,916,605	1,604	6,944	2.930636
Total additional increases approved (ord. sh.)			487,099,090	267,904	1,040,351	
Additional increases not yet approved (ord. sh.)			1,600,000,000	880,000		

With regard to the "Telecom Italia 1.5% 2001 – 2010 convertible notes with a repayment premium", it should be noted that the number of outstanding notes at December 31, 2006 includes 3,500 notes for which the conversion to shares had already been requested. On January 15, 2007, the corresponding no. 1,649 ordinary shares were issued for a total par value of euro 0.9 thousand and additional paid-in capital of euro 2.6 thousand.

Additional details on the stock option plans are disclosed in the "Note 42 - Stock option plans of the Telecom Italia Group".

The Shareholders' Meeting of May 6, 2004 also granted the Board of Directors the right (which, to date, has not been exercised), for a maximum period of five years beginning May 6, 2004, to increase against payment, at one or more times, the share capital for a maximum total amount of euro 880,000,000, through the issue of a maximum of no. 1,600,000,000 ordinary shares, in whole or in part:

(i) to be offered as option rights to the shareholders and convertible noteholders, or

(ii) to be offered for subscription to the employees of Telecom Italia S.p.A. or to the companies which it controls, with the exclusion of the pre-emptive rights, pursuant to the combined provision of art. 2441, last paragraph, of the Italian Civil Code, and art. 134, second paragraph, of Legislative Decree No. 58/1998.

The resolutions for capital increases passed by the board of directors in exercising the aforementioned right shall establish the subscription price (including any additional paid-in-capital) and shall fix a specific deadline for the subscription of the shares; they may also provide that, in the event the increase voted by the board is not fully subscribed to by the deadline set each time for that purpose, the capital shall be increased for an amount equal to the subscriptions received up to that deadline date.

On the basis of the motion by the Board of Directors' Meeting held on March 8, 2007, the net income for the year 2006 resulting from the separate financial statements of the Parent, Telecom Italia S.p.A., equal to euro 4,144 million, will be appropriated as dividends for euro 2,851 million for distribution to the shareholders:

- ✓ euro 0.1400 for each ordinary share
- ✓ euro 0.1510 for each savings share

gross of withholdings as established by law. Undistributed net income will be appropriated to retained earnings.

NOTE 18 – FINANCIAL LIABILITIES (CURRENT AND NON-CURRENT)

Non-current financial liabilities decreased from euro 42,146 million at December 31, 2005 to euro 40,803 million at December 31, 2006; current financial liabilities decreased from euro 9,812 million at December 31, 2005 to euro 5,653 million at December 31, 2006.

The composition is as follows:

(millions of euro)	12/31/2006	12/31/2005
Financial payables (medium/long-term):		
• Notes and bonds	29,856	29,281
• Convertible and exchangeable notes/bonds	482	476
	30,338	29,757
• Amounts due to banks	6,832	9,462
• Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	1,451	730
• Other financial payables	221	303
	38,842	40,252
Finance lease liabilities (medium/long-term)	1,847	1,894
Other financial liabilities (medium/long-term)	114	-
TOTAL NON-CURRENT FINANCIAL LIABILITIES (A)	40,803	42,146
Financial payables (short-term):		
• Bonds	4,050	6,181
• Convertible and exchangeable bonds	7	2,043
	4,057	8,224
• Amounts due to banks	906	646
• Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	219	185
• Non-hedging derivatives	12	64
• Other financial payables	180	453
	5,374	9,572
• Finance lease liabilities	269	234
• Other financial liabilities	10	6
TOTAL CURRENT FINANCIAL LIABILITIES (B)	5,653	9,812
TOTAL FINANCIAL LIABILITIES (C) = (A+B)	46,456	51,958
Liabilities related to discontinued operations/assets held for sale (D)	-	**143**
TOTAL GROSS FINANCIAL DEBT E=(C+D)	46,456	52,101

Notes and bonds total euro 33,906 million (euro 35,462 million at December 31, 2005) and decreased by euro 1,556 million. Details are as follows:

(millions of euro)	12/31/2006	12/31/2005
Non-current portion	29,856	29,281
Current portion	4,050	6,181
Total carrying amount	**33,906**	**35,462**
Fair value adjustment and measurement at amortized cost	(787)	(885)
Total nominal repayment amount	**33,119**	**34,577**

The nominal repayment amount totals euro 33,119 million and decreased by euro 1,458 million compared to December 31, 2005 (euro 34,577 million), mainly due to repayments made by Telecom Italia S.p.A. and Telecom Italia Finance S.A. during 2006 and the difference in the USD /euro exchange rate.
The regulations and/or Offering Circulars relating to the bonds described below are available on the corporate website http://www.telecomitalia.it.

Notes and bonds expressed at the nominal amount of principal refer to the following:

Notes and bonds issued by Telecom Italia S.p.A. (for a total of euro 10,936 million):

- notes for euro 2,500 million, issued on February 1, 2002, divided into two tranches of euro 1,250 million each, at annual fixed rates, respectively, with a coupon of 5.625%, maturing February 1, 2007 (the tranche was duly repaid at maturity) and with a coupon of 6.25%, maturing February 1, 2012;
- bonds 2002-2022 reserved for subscription by employees, in service or retired, of companies, directly and indirectly, controlled by Telecom Italia S.p.A., with headquarters in Italy, for euro 250 million;
- bonds for euro 3,000 million, issued on January 29, 2004, divided into three tranches: the first, for euro 1,000 million, with a quarterly coupon indexed to the 3-month Euribor + 0.33%, maturing October 29, 2007 was repaid before maturity on January 30, 2006); the second, for euro 750 million, with an annual fixed-rate coupon of 4.50%, maturing January 28, 2011; the third, for euro 1,250 million, with an annual fixed-rate coupon of 5.375%, maturing January 29, 2019;
- notes for euro 110 million issued on April 8, 2004 with a quarterly coupon equal to the 3-month Euribor + 0.60%, maturing March 30, 2009;
- bonds for GBP 850 million (equivalent to euro 1,266 million at December 31, 2006) issued on June 24, 2004, with an annual fixed-rate coupon of 6.375%, maturing June 24, 2019;
- bonds for euro 120 million issued on November 23, 2004 with a quarterly coupon equal to the 3-month Euribor + 0.66%, maturing November 23, 2015;
- bonds for euro 850 million issued on March 17, 2005 with an annual fixed-rate coupon of 5.25%, maturing March 17, 2055;
- bonds for GBP 500 million (equivalent to euro 744 million at December 31, 2006) issued on June 29, 2005, with an annual fixed-rate coupon of 5.625%, maturing December 29, 2015;
- notes for euro 1,000 million issued on December 6, 2005 with a quarterly coupon equal to the 3-month Euribor + 0.53%, maturing December 6, 2012;
- notes for euro 750 million issued on May 19, 2006 with an annual fixed-rate coupon of 4.75%, maturing May 19, 2014;
- bonds for GBP 400 million (equivalent to euro 596 million at December 31, 2006) issued on May 19, 2006 with an annual fixed-rate coupon of 5.875%, maturing May 19, 2023;
- notes for euro 750 million issued on June 9, 2006 with a quarterly coupon equal to the 3-month Euribor + 0.22%, maturing June 9, 2008.

Notes and bonds issued by Telecom Italia Finance S.A. (a wholly-owned subsidiary of Telecom Italia S.p.A.) and guaranteed by Telecom Italia S.p.A. (for a total of euro 12,616 million):

- notes issued April 20, 2001 on international markets for a total of euro 6,000 million. The issue is divided into three tranches: the first two tranches were duly repaid; the third tranche is for euro 2,000 million with an annual fixed-rate of 7.25%, maturing April 20, 2011;
- notes 1999–2009 for euro 1,500 million with an annual fixed-rate coupon of 5.15%, maturing in February 9, 2009.

All of the notes and bonds listed below were originally issued by Olivetti Finance N.V.S.A. (merged in Telecom Italia Finance S.A. effective June 1, 2004) and are guaranteed by Telecom Italia S.p.A.:

- notes denominated “Telecom Italia Finance S.A. Euro 499,669,000 Guaranteed Floating Rate Extendable Notes Due 2008” maturing September 14, 2008, with a quarterly coupon indexed to the 3-month Euribor + 130 basis points. In accordance with the terms and conditions of the notes, noteholders in possession of notes totaling euro 48,000 chose not to extend the maturity term of the notes on December 14, 2006 (original maturity date of the notes) and the company proceeded to repay the notes for that amount;
- notes 2002-2007 for euro 1,720 million with an annual fixed-rate coupon of 6.5%, maturing April 24, 2007;
- notes 2003-2008 for euro 1,659 million with an annual fixed-rate coupon of 5.875%, maturing January 24, 2008;
- notes 1999-2009 for euro 2,210 million with an annual fixed-rate coupon of 6.575%, maturing July 30, 2009;
- notes 2002-2012 for euro 1,000 million with an annual fixed-rate coupon of 7.25%, maturing April 24, 2012;
- notes 2003-2013 for euro 850 million with an annual fixed-rate coupon of 6.875%, maturing January 24, 2013;
- bonds 2002-2032 for JPY 20 billion (equivalent to euro 127 million at December 31, 2006) with a semi-annual fixed-rate coupon of 3.55%, maturing May 14, 2032 (callable by the issuer annually beginning from May 14, 2012);
- bonds 2003-2033 for euro 1,050 million with an annual fixed-rate coupon of 7.75%, maturing January 24, 2033.

Notes and bonds issued by Telecom Italia Capital S.A. (a wholly-owned subsidiary of Telecom Italia S.p.A.) and guaranteed by Telecom Italia S.p.A. (for a total of euro 9,567 million).

- issue of multi-tranche fixed-rate bonds on October 29, 2003, for USD 4,000 million. The issue is divided into three tranches as follows:
  - USD 1,000 million (equivalent to euro 759 million at December 31, 2006), with an annual fixed-rate coupon of 4%, maturing November 15, 2008;
  - USD 2,000 million (equivalent to euro 1,519 million at December 31, 2006), with an annual fixed-rate coupon of 5.25%, maturing November 15, 2013;
  - USD 1,000 million (equivalent to euro 759 million at December 31, 2006), with an annual fixed-rate coupon of 6.375%, maturing November 15, 2033;
- issue of multi-tranche fixed-rate bonds on October 6, 2004, for USD 3,500 million. The issue is divided into three tranches as follows:
  - USD 1,250 million (equivalent to euro 949 million at December 31, 2006) with an annual fixed-rate coupon of 4%, maturing January 15, 2010;
  - USD 1,250 million (equivalent to euro 949 million at December 31, 2006) with an annual fixed-rate coupon of 4.95%, maturing September 30, 2014;
  - USD 1,000 million (equivalent to euro 759 million at December 31, 2006) with an annual fixed-rate coupon of 6%, maturing September 30, 2034;
- issue of multi-tranche bonds on September 28, 2005 for USD 2,500 million. The issue is divided into three tranches as follows:
  - USD 400 million (equivalent to euro 304 million at December 31, 2006) with a quarterly coupon indexed to the 3-month USD Libor + 0.48%, maturing February 1, 2011;
  - USD 700 million (equivalent to euro 532 million at December 31, 2006) with 4.875% annual fixed-rate interest with a semi-annual coupon, maturing October 1, 2010;
  - USD 1,400 million (equivalent to euro 1,063 million at December 31, 2006) with 5.25% annual fixed-rate interest with a semi-annual coupon, maturing October 1, 2015;

- issue of multi-tranche bonds on July 18, 2006 for USD 2,600 million. The issue is divided into three tranches as follows:
  - USD 850 million (equivalent to euro 645 million at December 31, 2006), with a coupon indexed to the 3-month USD Libor + 0.61%, maturing July 18, 2011;
  - USD 750 million (equivalent to euro 570 million at December 31, 2006), with 6.20% annual fixed-rate interest with a semi-annual coupon, maturing July 18, 2011;
  - USD 1,000 million (equivalent to euro 759 million at December 31, 2006), with 7.20% annual fixed-rate interest with a semi-annual coupon, maturing July 18, 2036.

The following table lists the notes and bonds issued to third parties by companies in the Telecom Italia Group, divided by issuing company, expressed at the nominal repayment amount and market value.

Original currency	Amount in original currency (millions)	Nominal repayment amount euro (millions)	Coupon %	Issue date	Maturity date	Issue price (%)	Market price 12/31/2006 (%)	Market value 12/31/2006 euro (millions)
Notes and bonds issued by Telecom Italia S.p.A.								
Euro	1,250	1,250	5.625%	02/01/02	02/01/07	99.841	100.126	1,252
Euro	750	750	3-month Euribor + 0.22%	06/09/06	06/09/08	100	100.00	750
Euro	110	110	3-month Euribor+ 0.60%	04/04/04	03/30/09	100	100.797	111
Euro	750	750	4.500%	01/29/04	01/28/11	99.56	99.39	745
Euro	1,250	1,250	6.250%	02/01/02	02/01/12	98.952	106.038	1,325
Euro	1,000	1,000	3- month Euribor + 0.53%	12/06/05	12/06/12	100	99.27	993
Euro	750	750	4.750%	05/19/06	05/19/14	99.156	98.00	735
Euro	120	120	3-month Euribor+ 0.66%	11/23/04	11/23/15	100	97.694.	117
GBP	500	744	5.625%	06/29/05	12/29/15	99.878	95.12	708
Euro	1,250	1,250	5.375%	01/29/04	01/29/19	99.07	98.43	1,230
GBP	850	1,266	6.375%	06/24/04	06/24/19	98.85	100.076	1,267
Euro	250	250	6-month Euribor (base 365)	01/01/02	01/01/22	100	100	250
GBP	400	596	5.875%	05/19/06	05/19/23	99.622	95.714	570
Euro	850	850	5.250%	03/17/05	03/17/55	99.667	84.55	719
	Subtotal	10,936						10,772
Bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A.								
Euro	1,720	1,720	6.500%	04/24/02	04/24/07	100.911 (*)	100.697	1,732
Euro	1,659	1,659	5.875%	01/24/03	01/24/08	99.937	101.607	1,686
Euro	499,67	500	3-month Euribor + 1.3%	09/14/06	09/14/08	100	103.259	516
Euro	1,500	1,500	5.150% (b)	02/09/99	02/09/09	99.633	101.501	1,523
Euro	2,210	2,210	6.575% (c)	07/30/99	07/30/09	98.649 (*)	105.114	2,323
Euro	2,000	2,000	7.250% (a)	04/20/01	04/20/11	99.214	110.221	2,204
Euro	1,000	1,000	7.250%	04/24/02	04/24/12	101.651 (*)	110.782	1,108
Euro	850	850	6.875%	01/24/03	01/24/13	99.332	109.599	932
JPY	20,000	127	3.550%	04/22/02	05/14/32	99.25	122.728	156
Euro	1,050	1,050	7.750%	01/24/03	01/24/33	109.646 (*)	118.86	1,248
	Subtotal	12,616						13,428
Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A.								
USD	1,000	759	4.000%	10/29/03	11/15/08	99.953	97.326	739
USD	1,250	949	4.000%	10/06/04	01/15/10	99.732	95.498	906
USD	700	532	4.875%	09/28/05	10/01/10	99.898	97.202	517
USD	400	304	3-month US Libor + 0.48%	09/28/05	02/01/11	100	99.476	302
USD	850	645	3-month US Libor + 0.61%	07/18/06	07/18/11	100	99.867	644
USD	750	570	6.200%	07/18/06	07/18/11	99.826	101.448	578
USD	2,000	1,519	5.250%	10/29/03	11/15/13	99.742	95.418	1,449
USD	1,250	949	4.950%	10/06/04	09/30/14	99.651	92.60	879
USD	1,400	1,063	5.25%	09/28/05	10/01/15	99.370	93.173	990
USD	1,000	759	6.375%	10/29/03	11/15/33	99.558	94.43	717
USD	1,000	759	6.000%	10/06/04	09/30/34	99.081	90.759	689
USD	1,000	759	7.200%	07/18/06	07/18/36	99.440	104.022	790
	Subtotal	9,567						9,200
	Total	33,119						33,400

Notes (a), (b), (c): see the following paragraph "Mechanism describing how coupons change on step-up/step-down bonds".
(*) Weighted average issue price for bonds issued with more than one tranche.

Mechanism describing how coupons change on step-up/step-down notes and bonds in relation to a change in the rating

The mechanism for coupon changes on step-up/step-down notes and bonds is described below and in the corporate website (www.telecomitalia.it) under “Investors”.

Ratings of Telecom Italia by the major rating agencies at December 31, 2006 are the following:

S&P's		Moody's		Fitch Ratings	
Rating	Outlook	Rating	Outlook	Rating	Outlook
BBB+	Negative	Baa2	Stable	BBB+	Stable

(a) Telecom Italia Finance S.A. notes: Euro 2,000 million, 7.25% interest maturing April 2011

These securities carry protection for investors which would be triggered by a change in the rating assigned to Telecom Italia to below the Baa1/BBB+ ratings (by Moody’s and S&P’s, respectively): each downgrade in the rating by one notch by each of the two rating agencies to below the stated thresholds would cause an increase in the coupon interest by 0.25%, starting from the coupon payment date subsequent to the downgrade in the rating.

The downgrade in the rating from the thresholds is evaluated at the end of each coupon period and, on the basis of this evaluation, the interest for the next coupon is fixed; therefore, changes in the ratings during the coupon interest period would have no impact on the coupon in progress at that particular time.
Nevertheless, the relative step-up/step-down will only be applied when the rating at the end of the coupon period is different from the rating at the end of the preceding coupon period.

By virtue of this mechanism, the coupons for these securities are currently subject to an increase of 0.25% due to a Baa2 rating assigned by Moody’s in August 2003. The increase was applied beginning from the coupon period which started in April 2004, accordingly, the coupon is equal to 7.25% for securities maturing in April 2011.

(b) Telecom Italia Finance S.A. notes: euro 1,500 million, 5.15% interest, maturing February 2009

These notes carry protection for investors which would only be triggered by a downgrade in the minimum rating (among the ratings assigned by the various agencies, in this specific case, the Baa2 rating by Moody’s).

At the beginning of every coupon period, this minimum rating will be checked, and depending upon the rating, the coupon interest will be fixed; once fixed, changes in the minimum rating during the coupon period will have no effect on the coupon to be paid, and will only have an impact when the next coupon interest rate is fixed (if the changes are still in effect).

Starting from the initial level of the coupon at issue (5%), a 0.15% increase in interest was granted to investors definitively up to the maturity date, bringing the current coupon interest rate to 5.15%.

This current coupon can be further increased in relation to the level of the minimum rating:

- ✓ if at the time the coupon interest is fixed, the minimum rating is Ba1/BB+ or below, the current coupon will be increased by 1.5%;
- ✓ if at the time the coupon interest is fixed, the minimum rating is Baa3/BBB-, the current coupon will be increased by 0.5%;
- ✓ ratings higher than the minimum rating do not lead to increases in the current coupon.

Therefore, only future downgrades in the minimum rating could cause an increase in the current coupon; this coupon cannot be reduced because of upgrades in the rating.

(c) Telecom Italia Finance S.A. notes: euro 2,210 million, 6.575% interest, maturing July 2009

These notes carry protection for investors which would be triggered by a change in the minimum rating (among those assigned by the various agencies, in this specific case, the Baa2 rating by Moody's).
At the beginning of every coupon period, this minimum rating will be checked and depending upon the rating, the coupon interest will be fixed; once fixed, changes in the minimum rating during the coupon period will have no effect on the coupon to be paid, and will only have an impact when the next coupon interest rate is fixed (if the changes are still in effect).

Starting from the initial level of interest at issue (6.125%), the coupon to be paid will be increased in relation to the level of the minimum rating:

- ✓ if, at the time the coupon is fixed, the minimum rating is Ba1/BB+ or below, the original coupon will be increased by 1.95%;
- ✓ if, at the time the coupon interest is fixed, the minimum rating is Baa3/BBB-, the original coupon will be increased by 0.95%;
- ✓ if, at the time the coupon interest is fixed, the minimum rating is Baa2/BBB, the original coupon will be increased by 0.45%;
- ✓ if, at the time the coupon interest is fixed, the minimum rating is Baa1/BBB+, the original coupon will be increased by 0.15%;
- ✓ ratings higher than the minimum rating do not lead to increases in the original coupon.

Under this mechanism, since October 2000 (the date the mechanism was introduced), the original coupon has been increased by 0.45% (reaching the current 6.575%).

Future upgrades/downgrades in the minimum rating could cause a decrease/increase in the coupon according to the mechanism described above.

Convertible and exchangeable notes and bonds amount to euro 489 million (euro 2,519 million at December 31, 2005) and decreased by euro 2,030 million. The composition is as follows:

(millions of euro)	12/31/2006	12/31/2005
Non-current portion	482	476
Current portion	7	2,043
Total carrying amount	489	2,519
Measurement at amortized cost	85	123
Total nominal repayment amount	574	2,642

The nominal repayment amount of convertible and exchangeable notes and bonds totals euro 574 million. This is a decrease of euro 2,068 million compared to December 31, 2005 (euro 2,642 million). Such reduction is due to the repayment on maturity (March 15, 2006) of the notes exchangeable into shares of TIM or Seat Pagine Gialle, which showed a carrying amount of euro 2,035 million at the end of 2005, in addition to the request for the conversion of "Telecom Italia S.p.A. 1.5% 2001-2010 convertible notes with a repayment premium" (euro 26 million).

The following table shows the "Telecom Italia S.p.A. 1.5% 2001-2010 convertible notes with a repayment premium", expressed at the nominal repayment amount and at market value:

Currency	Nominal repayment amount euro (millions)	Coupon	New shares issuers	Issue date	Maturity date	Issue price (%)	Market price 12/31/2006 (%)	Market value 12/31/2006 euro (millions)
Convertible bonds issued by Telecom Italia S.p.A.								
Euro	574	1.50%	TI S.p.A.	23/11/01	1/1/10	100	120.948	694

Financial covenants / other covenants / other features of convertible bonds

Bonds issued by companies of the Group to third parties do not contain either financial covenants or clauses that would force the early redemption of the bonds in relation to events other than the insolvency of the Telecom Italia Group. Furthermore, the redemption of the bonds and the payment of interest are not covered by specific guarantees nor are there commitments provided relative to the assumption of future guarantees, except for the full and unconditional guarantees provided by Telecom Italia S.p.A. for the bonds issued by Telecom Italia Finance S.A. and Telecom Italia Capital S.A..
None of the securities summarized here carry any other interest rate structures or structural complexities.
Since these bonds have been placed principally with institutional investors on major world capital markets (Euromarket and the U.S.A.), the terms which regulate the bonds are in line with market practice for similar transactions effected on these same markets.

Medium/long-term amounts due to banks total euro 6,832 million (euro 9,462 million at December 31, 2005) and decreased by euro 2,630 million mainly as a result of the early repayment of euro 3 billion of the Revolving Credit Facility expiring in 2012, the amount of which currently drawn down has been reduced to euro 1.5 billion, and new loans secured from the European Investment Bank (EIB).
Short-term amounts due to banks of euro 906 million increased by euro 260 million (euro 646 million at December 31, 2005) and include euro 625 million of the current portion of medium/long-term transactions due within 12 months.

Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature amount to euro 1,451 million (euro 730 million at December 31, 2005). The increase is due to a negative mark to market change connected principally with the decrease in the value of the U.S. dollar against the euro and the rise in rates during 2006 which, however, were compensated by a positive change in the underlying amounts. Hedging derivatives relating to hedged items classified as current assets/liabilities total euro 219 million (euro 185 million at December 31, 2005). Additional details are provided in the Note "Financial instruments".

Medium/long-term other financial payables amount to euro 221 million (euro 303 million at December 31, 2005). They include euro 127 million for the Telecom Italia Finance S.A. loan of JPY 20,000 million maturing in 2029 and euro 64 million of payables to the Ministry of Industry. Short-term other financial payables amount to euro 180 million (euro 453 million at

December 31, 2005) and include euro 43 million of payables to the Cassa Depositi e Prestiti, euro 14 million of payables to the Ministry of Industry and euro 86 million of payables for factoring transactions.

Medium-long term **finance lease liabilities** total euro 1,847 million (euro 1,894 million at December 31, 2005) and mainly refer to building sale and leaseback transactions recorded in accordance with IAS 17. Short-term finance lease liabilities amount to euro 269 million (euro 234 million at December 31, 2005).

Short-term **non-hedging derivatives** totaling euro 12 million (euro 64 million at December 31, 2005) decreased by euro 52 million and refer to the measurement of derivatives which, although put into place for hedging purposes, do not possess the formal requisites to be considered as such under IFRS.

Medium/long-term **other financial liabilities** amount to euro 114 million and refer to the gain that has been temporarily deferred on the sale of Avea I.H.A.S. in relation to the Telecom Italia Group's commitment to make or have a bank make a subordinated loan to Avea I.H.A.S. for USD 150 million. Short-term other financial liabilities amount to euro 10 million (euro 6 million at December 31, 2005).

At December 31, 2006, the unused credit lines of the Telecom Italia Group amount to euro 8,443 million (euro 8,227 million at December 31, 2005) and include unused committed credit lines of euro 2 billion and euro 4.5 billion expiring, respectively, in March 2007 and in August 2012. Approximately 98% of the credit lines is denominated in euro and linked to a floating interest rate.
The analysis of gross financial debt in the following tables presents discontinued operations separately.

Gross financial debt according to the original currency of the transaction is as follows:

	12/31/2006 (millions of foreign currency)	12/31/2006 (millions of euro)	12/31/2005 (millions of foreign currency)	12/31/2005 (millions of euro)
USD	13,126	9,966	10,351	8,774
GBP	1,782	2,653	1,365	1,991
BRL	2,177	773	1,898	687
JPY	20,755	132	19,888	143
CHF	-	-	90	58
EURO	-	32,932	-	40,305
		46,456		51,958
Discontinued operations/assets held for sale		-		143
		46,456		52,101

The analysis of gross financial debt by effective interest rate bracket excluding the effect of derivative hedging instruments, if any, is the following:

(millions of euro)	12/31/2006	12/31/2005
Up to 2.5%	120	9,328
From 2.5% to 5%	14,530	9,055
From 5% to 7.5%	22,644	25,218
From 7.5% to 10%	5,635	5,752
Over 10%	742	496
Accruals, prepayments and deferrals, MTM and derivatives	2,785	2,109
	46,456	51,958
Discontinued operations/assets held for sale	-	143
	46,456	52,101

However, as a result of the use of derivative hedging instruments, gross financial debt by nominal interest rate bracket is the following:

(millions of euro)	12/31/2006	12/31/2005
Up to 2.5%	867	8,270
From 2.5% to 5%	19,797	18,883
From 5% to 7.5%	19,587	19,432
From 7.5% to 10%	2,656	2,766
Over 10%	764	498
Accruals, prepayments and deferrals, MTM and derivatives	2,785	2,109
	46,456	51,958
Discontinued operations/assets held for sale	-	143
	46,456	52,101

Gross financial debt by maturity date (divided between medium/long-term and short-term) at December 31, 2006 is as follows (carrying amounts):

(millions of euro)	Medium/long term debt	Short-term debt	Total
2007	5,240	413	5,653
2008	4,466		4,466
2009	4,280		4,280
2010	5,352		5,352
2011	4,618		4,618
Beyond 2011	22,087		22,087
Total (*)	46,043	413	46,456

(*) The total includes accrued liabilities and deferred income which increase the amount of non-current financial liabilities due beyond December 31, 2011 by euro 114 million, non-current financial liabilities due within 12 months by euro 1,405 million and other current financial liabilities by euro 56 million.

NOTE 19 – NET FINANCIAL DEBT

As required by Consob Communication No. DEM/6064293 dated July 28, 2006, the following table presents the net financial debt at December 31, 2006 and 2005 calculated in accordance with the criteria indicated in the Recommendation of CESR (Committee of European Securities Regulators) dated February 10, 2005 "Recommendations for the uniform implementation of the European Commissions regulation on disclosures" and also introduced by Consob itself. This table also includes the reconciliation of net financial debt determined according to the criteria indicated by CESR and the net financial debt calculated according to the criteria of the Telecom Italia Group adopted in previous years and presented in the Directors' Report on Operations.

Net financial debt determined according to the criteria of Consob amounts to euro 37,520 million at December 31, 2006 (euro 40,366 million at December 31, 2005) and, compared to the corresponding amount determined according to the criteria of the Group, is higher by euro 219 million in 2006 (higher by euro 508 million in 2005).

The net financial debt determined according to the criteria of the Group amounts to euro 37,301 million at December 31, 2006, with a reduction of euro 2,557 million compared to euro 39,858 million at December 31, 2005.

Composition of net financial debt (*)

(millions of euro)		12/31/2006 (a)	12/31/2005 (b)	Change (a-b)
Non-current financial liabilities (**)				
Financial payables		37,391	39,522	(2,131)
Finance lease liabilities		1,847	1,894	(47)
Non-current liabilities for hedging derivatives		1,451	730	721
Other financial liabilities		114	-	114
	(1)	40,803	42,146	(1,343)
Less:				
Non-current financial receivables for lessors' net investments		*(229)*	*(212)*	(17)
Non-current assets for hedging derivatives		*(243)*	*(276)*	*33*
		(472)	(488)	*16*
TOTAL NON-CURRENT FINANCIAL LIABILITIES (**)	(A)	40,331	41,658	(1,327)
Current financial liabilities (**)				
Financial payables		5,143	9,323	(4,180)
Finance lease liabilities		269	234	35
Current liabilities for hedging and non-hedging derivatives		231	249	(18)
Other financial liabilities		10	6	4
	(2)	5,653	9,812	(4,159)
Less:				
Current financial receivables for lessors' net investments		*(148)*	*(122)*	(26)
Current assets for hedging derivatives		*(207)*	*(195)*	*(12)*
		(355)	(317)	(38)
TOTAL CURRENT FINANCIAL LIABILITIES (**)	(B)	5,298	9,495	(4,197)
Financial liabilities relating to discontinued operations/assets held for sale	(C) (3)	-	143	(143)
TOTAL GROSS FINANCIAL DEBT (**)	(D=A+B+C)	45,629	51,296	(5,667)
Current financial assets (**)				
Securities		(812)	(378)	(434)
Financial receivables and other current financial assets		(433)	(509)	76
Cash and cash equivalents		(7,219)	(10,323)	3,104
	(4)	(8,464)	(11,210)	2,746
Less:				
Current financial receivables for lessors' net investments		*148*	*122*	26
Current assets for hedging derivatives		*207*	*195*	*12*
		355	317	38
	(E)	(8,109)	(10,893)	2,784
Financial assets relating to discontinued operations/assets held for sale	(F) (5)	-	(37)	37
TOTAL CURRENT FINANCIAL ASSETS (**)	(G=E+F)	(8,109)	(10,930)	2,821
NET FINANCIAL DEBT AS OF CONSOB COMMUNICATION N. DEM/6064293/2006	(H=D+G)	37,520	40,366	(2,846)
Non-current financial assets (**)				
Securities other than investments		(12)	(8)	(4)
Financial receivables and other non-current financial assets		(679)	(988)	309
	(6)	(691)	(996)	305
Less:				
Non-current financial receivables for lessors' net investments		*229*	*212*	17
Non-current assets for hedging derivatives		*243*	*276*	*(33)*
		472	488	(16)
TOTAL NON-CURRENT FINANCIAL ASSETS (**)	(I)	(219)	(508)	289
NET FINANCIAL DEBT	(L=H+I)	**37,301**	**39,858**	**(2,557)**
COMPOSITION OF THE NET FINANCIAL DEBT:				
Total gross financial debt:				
Non-current financial liabilities	(1)	40,803	42,146	(1,343)
Current financial liabilities	(2) + (3)	5,653	9,955	(4,302)
		46,456	52,101	(5,645)
Total gross financial assets				-
Non-current financial assets	(6)	(691)	(996)	305
Current financial assets	(4) + (5)	(8,464)	(11,247)	2,783
		(9,155)	(12,243)	3,088
		37,301	**39,858**	**(2,557)**

(*) As regards the effects of related party transactions on net financial debt, see the specific table included in the Note "Related party transactions" in the consolidated financial statements.

(**) Net of assets for hedging derivatives and financial receivables for lessors' net investments.

For purposes of determining net financial debt in accordance with Consob criteria, are not considered as a deduction from gross financial debt the items related to the “Non-current financial assets (excluding the current portion, included in the “Current Financial Assets”).This item totaling euro 219 million and principally consist of the following:

- euro 70 million for the non-current portion of low-rate loans made to employees;
- euro 22 million for the non-current portion of the residual receivable on the sale of the investment in Telekom Srbija to PTT Srbija on July 7, 2003, due in 2008;
- euro 68 million for the non-current portion of cash collateral with Goldman Sachs to guarantee two of Telecom Italia S.p.A.’s Cross Currency Interest Rate Swaps;;
- euro 24 million for the non-current portion of loans made to Aree Urbane S.r.l.;
- euro 12 million for securities other than investments included in non-current assets and relating to the investment by Telecom Italia Finance S.A. in the closed-end investment fund Clessidra, registered under Italian law, for euro 10 million.

At December 31, 2005, “Non-current financial assets” that were not considered as a deduction from gross financial debt for purposes of the calculation in accordance with Consob criteria amounted to euro 508 million and included euro 309 million of bank deposits used to guarantee Telecom Italia’s payment to Opportunity regarding the purchase of the investment in Brasil Telecom Participaçoes. Since the conditions stated in the contract did not occur, these deposits were released in 2006 and Telecom Italia had full use of the funds and therefore they were reclassified to “Current financial assets”.

Covenants and negative pledges relating to outstanding positions at December 31, 2006

With reference to loans received by Telecom Italia S.p.A. from the European Investment Bank (EIB), the amount of euro 350 million, out of a total of euro 1,740 million at December 31, 2006, is not secured by bank guarantees and there are covenants which cover the following:

- in the event the company becomes the target of a merger, demerger or contribution of a business segment outside the Group, or sells, disposes or transfers assets or business segments, it shall immediately inform EIB which shall have the right to ask for guarantees to be provided or changes to be made to the loan contract;
- starting from Telecom Italia’s rating situation (at December 31, 2006: BBB+ for S&P’s, Baa2 for Moody’s and BBB+ for Fitch), if the company’s rating is downgraded by Standard & Poor’s or Fitch Ratings, it shall immediately inform EIB which shall have the right to ask for suitable guarantees to be provided, indicating a date for setting up these guarantees. After that date and if Telecom Italia fails to provide the guarantees, EIB shall have the right to demand immediate repayment of the amount disbursed.

The syndicated bank loans of Telecom Italia do not contain financial covenants which would oblige Telecom Italia to automatically to repay the outstanding loan if the covenants are not observed. Mechanisms are provided for adjusting the cost of funding in relation to Telecom Italia’s credit rating, with a spread compared to the Euribor of between a minimum of 0.12% and a maximum of 0.33% for the line expiring in 2007, a minimum of 0.15% and a maximum of 0.425% for the line expiring in 2010 and a minimum of 0.0875% and a maximum of 0.2625% for the line expiring in 2012.

The three syndicated bank lines contain the usual negative pledge clauses consisting of the commitment not to change the business purpose or sell the assets of the company unless specific conditions exist (e.g. the sale takes place at fair market value). The same negative pledge conditions are also found in the export credit loan agreements.

The syndicated bank lines (as well as an export credit agreement for a residual nominal amount of euro 162.8 million at December 31, 2006) consider the case where a party, other than the current relative majority shareholder or permitted acquiring shareholders acquire control of Telecom Italia, individually or jointly. In that case, a 30-day period is established during which the parties shall negotiate the terms with which to continue the relationship.

Lastly, in the documentation of loans granted to certain companies of the TIM Brasil group, the companies must generally respect certain financial ratios (e.g. capitalization ratios, ratios for servicing debt, profit ratios and debt ratios) as well as negative pledge clauses.

Finally, at December 31, 2006, none of the covenants, negative pledge clauses or other clauses regarding the above-described debt positions have been breached or violated in any way.

NOTE 20 – EMPLOYEE SEVERANCE INDEMNITIES AND OTHER EMPLOYEE-RELATED PROVISIONS

Employee severance indemnities and other employee-related provisions decreased from euro 1,494 million at December 31, 2005 to euro 1,372 million. Details are as follows:

(millions of euro)	12/31/2004	Discontinued operations/assets held for sale	Increases	Decreases	Exchange differences	12/31/2005
Provisions for employee severance indemnities (a)	**1,181**	**(4)**	**168**	**(111)**		**1,234**
Provisions for pension plans	40	(10)	6	(3)	1	34
Provisions for termination benefit incentives	71		234	(79)		226
Other employee-related provisions (*)(b)	**111**	**(10)**	**240**	**(82)**	**1**	**260**
Total (a+b)	**1,292**	**(14)**	**408**	**(193)**	**1**	**1,494**
of which:						
Non-current portion	1,222					1,351
Current portion (*)	70					143

(millions of euro)	12/31/2005	Discontinued operations/assets held for sale	Increases	Decreases	Exchange differences	12/31/2006
Provision for employee severance indemnities (a)	**1,234**		**146**	**(152)**		**1,228**
Provisions for pension plans	34		2	(4)	(1)	31
Provisions for termination benefit incentives	226		7	(120)		113
Other employee-related provisions (*)(b)	**260**		**9**	**(124)**	**(1)**	**144**
Total (a+b)	**1,494**		**155**	**(276)**	**(1)**	**1,372**
of which:						
Non-current portion	1,351					1,262
Current portion (*)	143					110

Employee severance indemnities refer only to Italian companies of the Group. The provision decreased by euro 6 million mainly as a result of the accrual to the statement of income (euro 146 million), utilizations for indemnities paid to employees who terminated employment, advances and transfers to pension funds (euro 140 million) and other negative changes (euro 12 million).

According to the law and national regulations, the amount to which each employee is entitled matures in relation to the period of service and must be paid immediately when the employee leaves the company. This severance indemnity is due upon termination of employment and is calculated in accordance with civil laws and Italian labor laws on the basis of the period of employment and the taxable income of each employee. This liability is adjusted annually based on the official cost-of-living index and interest earned. This liability is not associated with any vesting condition or period or any funding obligation. Consequently, in accordance with IAS 19, this provision has been recognized as a Defined benefit plan. Since there are no funding obligations there are no assets to service the provision.

In accordance with IAS 19 "Employee Benefits", the "Projected Unit Credit Method" was used to measure employee severance indemnities, as described below:

- the future possible benefits which could be paid to each employee in the event of retirement, death, disability, resignation etc. have been projected on the basis of a series of financial assumptions (cost-of-living increases, increase in remuneration etc.). The estimate of the future benefits includes any increases for additional service seniority as well as the estimated increase in the remuneration level at the measurement date;
- the *average present value of future benefits* has been calculated, at the measurement date, on the basis of the annual interest rate and on the expected payment date;
- the liability of each interested company has been determined as the average present value of future benefits for service matured by the employee at the measurement date.

The following assumptions were made:

FINANCIAL ASSUMPTIONS	Executives	Non-executives
➢ Cost-of-living increases	2.2% per annum	2.2% per annum
➢ Discount rate	4.4% per annum	4.4% per annum
➢ Increase in remuneration:		
• equal to or less than 40 years of age	3.2% per annum	3.2% per annum
• over 40 but equal to or less than 55 years of age	2.7% per annum	2.7% per annum
• over 55 years of age	2.2% per annum	2.2% per annum

DEMOGRAPHIC ASSUMPTIONS	Executives	Non-executives
Probability of death	Mortality tables RG 48 published by "Ragioneria Generale dello Stato"	Mortality tables RG 48 published by "Ragioneria Generale dello Stato"
Probability of disability	Unisex tables based on a study published by C.N.R. for "Università di Roma" reduced by 80%	Unisex tables based on a study published by C.N.R. for "Università di Roma" reduced by 80%
Probability of resignation (in relation to each company):		
➢ up to 40 years of age	3.0% - 4.0% per annum	3.0% - 4.0% per annum
➢ over 40 up to 50 years of age	1.5% - 2.5% per annum	1.5% - 2.5% per annum
➢ over 50 years of age	none	none
Probability of retirement:		
➢ up to 60 years of age	35% (100% for women)	60% (100% for women)

➢ over 60 but less than 65 years of age	15% per annum	10% per annum
➢ at 65 years of age	100%	100%

The adoption of the above assumptions resulted in a liability for employee severance indemnities at December 31, 2006 and 2005, respectively, of euro 1,228 million and euro 1,234 million.

The effect on the statement of income (Personnel costs) is as follows:

(millions of euro)	2006	2005
Current service cost	129	134
Interest expenses	49	45
Net actuarial (gains) losses recognized during the year	(32)	(11)
Total expense	**146**	**168**
Effective return on plan assets	**n/a**	**n/a**

Provisions for pension plans principally refer to pension plans operating in foreign companies of the Group.

Provisions for termination benefit incentives include accruals made both for agreements regarding mobility pursuant to Law 223/91, agreed in December 2005 with the labor unions, and the plan for termination incentive benefits for managers with regard to the cases currently pending.
The decreases are due to the termination of employees during the year while the increases refer to the accruals for the year 2006 (for euro 3 million) and the effect of the reversal of discounting the provision to present value in the 2005 financial statements (for euro 4 million).

NOTE 21 – PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges decreased from euro 1,569 million at December 31, 2005 to euro 1,355 million. The composition and changes are as follows:

(millions of euro)	12/31/2005	Increases	Used through statement of income	Used directly	Exchange differences and other	12/31/2006
Provision for taxation and tax risks	226	64	(21)	(7)		262
Provision for restoration costs	443	62		(5)	(113)	387
Provision for legal disputes	148	93	(1)	(36)	2	206
Provision for commercial risks	122	14	(4)	(30)	(12)	90
Provision for risks and charges on investments and corporate-related transactions	429	40	(121)	(29)	(30)	289
Other provisions for risks and charges	201	18	(5)	(130)	37	121
Total	**1,569**	**291**	**(152)**	**(237)**	**(116)**	**1,355**
of which:						
Non-current portion	797					775
Current portion	772					580

Provision for restoration costs refers to the accrual for the estimated cost to decommission tangible assets and restore the sites of the Parent (euro 331 million) and the companies of Brazil Mobile Business Unit (euro 56 million).

This provision decreased, compared to December 31, 2005, mainly as a result of the change in the estimates of the Brazilian companies (euro 105 million) and was partially countered by the increase caused by the reduction in the discount rate and the release of the effects of discounting to present value (euro 37 million), in addition to the increase due to a higher number of sites leased (euro 25 million)
The significant changes in estimate became necessary after the unit cost of restoring the sites decreased following the renewal of contracts with foreign suppliers, subsequent to the corporate reorganization of the Brazilian companies, and greater use of co-siting contracts which do not require the companies to restore the sites. These changes in estimate have been recorded with a contra-entry to tangible assets, as provided by IFRIC 1.

Provision for legal disputes increased by euro 58 million compared to December 31, 2005 mainly due to the accrual (euro 61 million) set aside following the arbitration proceedings initiated by Fastweb, in March 2005, against Telecom Italia with regard to the execution of the contract for "Local Loop Unbundling".

Provision for risks and charges on investments and corporate-related transactions decreased from December 31, 2005 principally due to the effect of:
- the release to income of provisions set aside for sureties provided to banks and cancelled in September 2006 at the same time the investment in Avea I.H.A.S. was sold (euro 121 million);
- the accruals for risks associated with the sales of Digitel Venezuela and Tim Hellas (euro 39 million).

Other provisions for risks and charges decreased as a result of the payment of the fine of euro 115 million levied against Telecom Italia by the Antitrust Authority for the abuse of a dominant position under the Antitrust A351 proceedings.
In 2006, exchange differences are minor in amount.

NOTE 22 – MISCELLANEOUS PAYABLES AND OTHER NON-CURRENT LIABILITIES

Miscellaneous payables and other non-current liabilities decreased from euro 2,113 million at December 31, 2005 to euro 1,857 million and consist of the following:

(millions of euro)	12/31/2006	12/31/2005
Payables to social security authorities	709	881
Capital grants	146	170
Medium/long-term deferred income	1,002	1,056
Other payables and liabilities	-	6
Total	1,857	2,113

Payables to social security authorities refer to the residual amount payable to INPS for estimated employee benefit obligations owed under Law 58/1992. Details are as follows:

(millions of euro)	12/31/2006	12/31/2005
Non-current payables		
Due from 2 to 5 years after the balance sheet date	647	753
Due beyond 5 years after the balance sheet date	62	128
	709	881
Current payables	215	213
Total	924	1,094

Medium/long-term deferred income includes euro 714 million (euro 758 million at December 31, 2005) for the deferral of revenues on the activation of Telecom Italia telephone service and euro 261 million (euro 265 million at December 31, 2005) on the sale of transmission capacity referring to future years.

NOTE 23 – TRADE AND MISCELLANEOUS PAYABLES AND OTHER CURRENT LIABILITIES

Trade and miscellaneous payables and other current liabilities decreased from euro 12,157 million at December 31, 2005 to euro 11,596 million. The composition is as follows:

		12/31/2006	12/31/2005
Payables for construction contracts (A)		2	-
Trade payables:			
• Payables to suppliers		5,487	6,230
• Payables to other telecommunication operators		1,322	606
	(B)	6,809	6,836
Tax payables (C)		550	602
Miscellaneous payables and other current liabilities:			
• Payables for employee compensation		524	712
• Payables to social security authorities		381	375
• Trade and miscellaneous deferred income		832	821
• Advances received		48	64
• Customer-related items		1,434	1,465
• Payables for "TLC operating fee"		35	39
• Dividends approved, but yet to be paid to shareholders		24	22
• Other current liabilities		267	306
• Employee-related provisions (except for Employee severance indemnities) expected to be settled within 12 months		110	143
• Other provisions for risks and charges, expected to be settled within 12 months		580	772
	(D)	4,235	4,719
Total	(A+B+C+D)	11,596	12,157

Trade payables (all due within 12 months) refer to Telecom Italia (euro 4,762 million) and to the Tim Brasil group (euro 950 million). The increase in payables to other telecommunications operators, compared to December 31, 2005, is related to the previously-mentioned different representation of the corresponding receivables position.

Tax payables particularly refer to the Parent for a total of euro 369 million (including VAT payable for euro 181 million and the government concession tax for euro 98 million) and to the Brazilian mobile telephone companies for euro 125 million.

Payables to social security authorities include the short-term portion of the amount payable to INPS under Law 58 for euro 215 million (euro 213 million at December 31, 2005) as described in the Note "Miscellaneous payables and other non-current liabilities".

Deferred income mainly refers to the Parent and includes euro 282 million (euro 282 million at December 31, 2005) for the deferral of revenues from the activation of telephone service (current portion) and euro 38 million (euro 38 million at December 31, 2005) for the deferral of revenues from recharging prepaid telephone cards.

NOTE 24 – CURRENT INCOME TAX PAYABLES

Current income tax payables amount to euro 219 million (euro 227 million at December 31, 2005) and mainly include IRAP taxes payable by Telecom Italia (euro 102 million) and IRES taxes payable by Telecom Italia Sparkle (euro 72 million) which are not included in the national consolidated tax return filed by the Telecom Italia Group.

NOTE 25 – FINANCIAL INSTRUMENTS

Fair value

The majority of non-current financial liabilities of the Telecom Italia Group consist of bonds and their measurement at fair value can be easily determined since they are represented by financial instruments which, because of their size and diffusion among investors, are frequently exchanged on the markets (see the Note "Financial liabilities (current and non-current)". Instead, for other types of loans, where there is no public trading, the following assumptions were made:

- the floating-rate loans were considered at the nominal repayment amount;
- the fixed-rate loans were measured at fair value (present value of future flows using December 31, 2006 market rates).

Finally, the carrying amount of most of the financial assets represents a reasonable approximation of their fair value as they are highly liquid short-term financial investments.
Fair values (accruals included) of financial liabilities and financial assets at December 31, 2006 and at December 31, 2005 are set out below:

FINANCIAL LIABILITIES	12/31/2006		12/31/2005	
(millions of euro)	Carrying amounts	Fair value (accruals included)	Carrying amounts	Fair value (accruals included)
Bonds	33,906	34,478	35,462	37,427
Convertible and exchangeable bonds	489	701	2,519	2,680
Drawn bank facility	4,549	4,567	7,535	7,574
Loans, other debt and finance lease liabilities	7,512	7,616	6,442	6,509
	46,456	47,362	51,958	54,190
Discontinued operations/assets held for sale	-	-	143	143
Total gross financial debt	46,456	47,362	52,101	54,333

FINANCIAL ASSETS	12/31/2006		12/31/2005	
(millions of euro)	Carrying amounts	Fair value (accruals included)	Carrying amounts	Fair value (accruals included)
Deposits and cash	7,191	7,191	9,958	9,958
Euro Commercial Paper	20	20	327	327
Deposits for temporary investments maturing beyond 3 months	17	17	90	90
Securities	831	831	390	390
Other receivables	1,096	1,096	1,441	1,441
	9,155	9,155	12,206	12,206
Discontinued operations/assets held for sale	-	-	37	37
Total financial assets	9,155	9,155	12,243	12,243

Derivatives

Derivative financial instruments are used by the Telecom Italia Group to manage its exposure to foreign exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within predetermined operational limits.

Derivative financial instruments at December 31, 2006 are principally used to manage debt positions. They include interest rate swaps (IRS) to reduce interest rate exposure on fixed-rate and floating-rate bank loans and bonds, as well as cross currency and interest rate swaps

(CCIRS) and currency forwards to convert the loans secured in different foreign currencies to the functional currencies of the various companies of the Group.

IRSs involve, at specified maturity dates, the exchange of flows of interest calculated on the notional amount at the agreed fixed or floating rates, with the counterparts.
The same also applies to CCIRSs which, in addition to the settlement of periodic interest flows, can involve the exchange of principal, in the respective currencies of denomination, at maturity and at another date.

The following tables show the derivative transactions put into place by the Telecom Italia Group at December 31, 2006 divided between Fair Value Hedge Derivatives (Table 1 – Fair Value Hedge Derivatives), Cash Flow Hedge Derivatives (Table 2 – Cash Flow Hedge Derivatives) and Non-Hedge Accounting Derivatives (Table 3 – Non-Hedge Accounting Derivatives) under IAS 39:

Table 1 - Fair Value Hedge Derivatives

Description	Notional Amount (millions of euro)	Mark to Market (Clean Price) (millions of euro)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing April 2007 on an EIB loan of USD 180 million (equivalent amount of euro 136 million at December 31, 2006)	150	(14)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing June 2007 on bonds issued by Telecom Italia S.p.A. for GBP 850 million (equivalent amount of euro 1,266 million at December 31, 2006) in June 2004	1,289	(23)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing November 2008 on the USD 1,000 million (equivalent amount of euro 759 million at December 31, 2006) 5-year tranche of the bonds issued by Telecom Italia Capital S.A. for a total amount of USD 4,000 million in October 2003	850	(114)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing May 2032 on Telecom Italia Finance S.A. bonds of JPY 20 billion (equivalent amount of euro 127 million at December 31, 2006) originally issued by Olivetti Finance N.V.S.A. (2002-2032)	171	(80)
CCIRS transactions put into place by Telecom Italia Capital S.A. on bonds issued by Telecom Italia Capital S.A. in October 2004 for a total amount of USD 3,500 million (equivalent amount of euro 2,658 million at December 31, 2006) (5-year tranche of USD 1,250 million, 10-year tranche of USD 1,250 million and 30-year tranche of USD 1,000 million)	2,831	(295)
CCIRS transactions put into place by Telecom Italia Capital S.A. on bonds issued by Telecom Italia Capital S.A. in September 2005 for a total amount of USD 2,500 million (equivalent amount of euro 1,898 million at December 31, 2006) (5-year tranche of USD 700 million, 5.35-year tranche of USD 400 million and 10-year tranche of USD 1,400 million)	2,068	(223)
CCIRS transactions put into place by Telecom Italia Capital S.A. maturing in July 2011 on bonds issued by Telecom Italia Capital S.A. in July 2006 for a total amount of USD 2,600 million on the two 5-year tranches for a total of USD 1,600 million (equivalent amount of euro 1,215 million at December 31, 2006)	1,264	(38)
Total Fair Value Hedge Derivatives	**8,623**	**(787)**

- On the EIB loan in USD 180 million, maturing April 2007, Telecom Italia S.p.A. finalized a CCIRS contract for euro 150 million converting a 3-month Libor in USD to the 3-month Euribor.
- On the bonds of GBP 850 million issued by Telecom Italia S.p.A. in June 2004, Telecom Italia S.p.A. put in place CCIRS contracts for euro 1,289 million maturing June 2007, converting the GBP annual fixed rate of 6.375% to the Euribor.
- On the tranche maturing in November 2008 for USD 1,000 million relating to the bonds issued in October 2003 by Telecom Italia Capital S.A. for a total amount of USD 4,000 million, Telecom Italia S.p.A. put into place CCIRS contracts of euro 850 million converting the coupon rate of 4% in USD to the 3-month Euribor.
- For euro 171 million, on the bonds 2002-2032 of JPY 20 billion with a 3.55% fixed rate coupon maturing May 2032, originally issued by Olivetti Finance N.V.S.A., the following transactions were put into place:

- ✓ by Telecom Italia Finance S.A., an IRS contract in which Telecom Italia Finance S.A. receives the semiannual coupon of 3.55% in JPY and pays a semiannual floating rate in JPY;
- ✓ by Telecom Italia S.p.A., a CCIRS contract, on a floating rate intragroup loan in JPY, in which Telecom Italia S.p.A. receives 6-month Libor in JPY and pays 6-month Euribor.

- ➢ On the bonds of USD 3,500 million issued by Telecom Italia Capital S.A. in October 2004, Telecom Italia Capital S.A. put into place CCIRS contracts for euro 2,831 million converting the coupon rate in USD to the 6-month Euribor.
- ➢ On the bonds of USD 2,500 million issued by Telecom Italia Capital S.A. in September 2005, Telecom Italia Capital S.A. put in place CCIRS contracts for euro 2,068 million converting the coupon rate in USD to the 6-month Euribor.
- ➢ On the two tranches maturing July 2011 for USD 1,600 million of bonds for a total of USD 2,600 million issued by Telecom Italia Capital S.A. in July 2006, Telecom Italia Capital S.A. put into place CCIRS contracts for euro 1,264 million converting the coupon rate (respectively, of 6.2% in USD and the 3-month USD Libor + 0.61%) to the 6-month Euribor.

Table 2 - Cash Flow Hedge Derivatives

Description	Notional Amount (millions of euro)	Mark to Market (Clean Price) (millions of euro)
Forward purchase transactions of USD 3 million (equivalent amount of euro 2 million at December 31, 2006) put into place by Telecom Media News S.p.A. with monthly maturities between January 2007 and December 2008	2	-
USD Call / EUR Put options purchased by Telecom Media News S.p.A. maturing December 2009, December 2010 and February 2011	3	-
Commodity swaps put into place by Telecom Italia S.p.A. on behalf of Telenergia S.r.l. for the purchase of electrical energy in 2007	89	(6)
IRS transactions put into place by Telecom Italia S.p.A. maturing March 2009 on bonds of euro 110 million issued by Telecom Italia S.p.A. (2004-2009)	110	3
IRS transactions put into place by Telecom Italia S.p.A. maturing January 2010 on the 5-year tranche C of the Term Loan for a total amount of euro 12,000 million finalized in December 2004 and connected with the loan for the tender offer for TIM S.p.A.	3,000	88
CCIRS transactions put into place by Telecom Italia S.p.A. maturing November 2013 on the 10-year tranche of USD 2,000 million (equivalent amount of euro 1,519 million at December 31, 2006) on the bonds issued by Telecom Italia Capital S.A. in October 2003 for a total amount of USD 4,000 million	1,709	(267)
IRS transactions put into place by Telecom Italia S.p.A. maturing November 2015 on bonds of euro 120 million issued by Telecom Italia S.p.A. (2004-2015)	120	6
CCIRS transactions put into place by Telecom Italia S.p.A. maturing December 2015 on bonds of GBP 500 million (equivalent amount of euro 744 million at December 31, 2006) issued by Telecom Italia S.p.A. in June 2005	751	13
CCIRS transactions put into place by Telecom Italia S.p.A. starting June 2007 and maturing June 2019 on bonds of GBP 850 million (equivalent amount of euro 1,266 million at December 31, 2006) issued by Telecom Italia S.p.A. in June 2004	1,258	15
CCIRS transactions put into place by Telecom Italia S.p.A. maturing May 2023 on bonds of GBP 400 million (equivalent amount of euro 596 million at December 31, 2006) issued by Telecom Italia S.p.A. in May 2006	587	(3)
IRS transaction put into place by Telecom Italia S.p.A. maturing December 2010 on floating-rate notes of euro 1,000 million issued by Telecom Italia S.p.A. in December 2005 and maturing December 2012	1,000	5
CCIRS transactions put into place by Telecom Italia S.p.A. maturing October 2029 related to the Telecom Italia Finance S.A. "Dual-Currency" loan with a notional principal of JPY 20 billion (equivalent amount of euro 127 million at December 31, 2006) originally received by Olivetti International Finance N.V.	174	(72)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing November 2033 on the 30-year tranche of USD 1,000 million (equivalent amount of euro 759 million at December 31, 2006) on the bonds issued by Telecom Italia Capital S.A. in October 2003 for a total amount of USD 4,000 million	849	(202)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing July 2036 on the 30-year tranche of USD 1,000 million (equivalent amount of euro 759 million at	791	(22)

December 31, 2006) on the bonds issued by Telecom Italia Capital S.A. in July 2006 for a total amount of USD 2,600 million		
Total Cash Flow Hedge Derivatives	10,443	(442)

- Forward purchase transactions in USD, for an equivalent amount of euro 2 million, put into place by Telecom Media News S.p.A. to hedge the exchange rate risk on the commitment to make monthly payments in USD from January 2007 to December 2008.
- USD call / EUR put options, for an equivalent amount of euro 3 million, purchased by Telecom Media News S.p.A. to hedge the exchange rate risk on the commitment to make monthly payments in USD from January 2009 to February 2011.
- Commodity swaps for euro 89 million by which Telenergia S.r.l. set the price for a part of the energy purchased at euro 56.10 per MWh (fixed weighted average price). The contract expires in December 31, 2007.
- On the notes 2004-2009 of euro 110 million at a quarterly floating rate issued by Telecom Italia S.p.A. maturing March 2009, Telecom Italia S.p.A. put in place an IRS contract converting the 3-month Euribor to an annual fixed rate of 3.35%.
- In reference to the term loan for a total amount of euro 12,000 million finalized in December 2004 in connection with the cash tender offer for TIM S.p.A., Telecom Italia S.p.A. put into place IRS contracts for a total amount of euro 3,000 million converting the 6-month Euribor on tranche C to an annual fixed rate of 3.088%, maturing January 2010.
- On the tranche maturing in November 2013 of USD 2,000 million relating to the bonds issued in October 2003 by Telecom Italia Capital S.A. for a total amount of USD 4,000 million, Telecom Italia S.p.A. put in place CCIRS contracts for euro 1,709 million converting the coupon rate of 5.25% in USD to a fixed rate of 5.035% in euro.
- On the bonds of euro 120 million at a quarterly floating rate issued by Telecom Italia S.p.A. maturing November 2015, Telecom Italia S.p.A. put into place IRS contracts converting the 3-month Euribor to an annual fixed rate of 4.161%.
- On the bonds 2005-2015 of GBP 500 million issued by Telecom Italia S.p.A. in June 2005, Telecom Italia S.p.A. put into place CCIRS contracts for euro 751 million converting a rate of 5.625% in GBP to a fixed rate of 4.34% in euro.
- On the GBP 850 million bonds issued by Telecom Italia S.p.A. in June 2004, Telecom Italia S.p.A. put into place CCIRS contracts for euro 1,258 million, converting the fixed rate of 6.375% in GBP to a fixed rate of 5.31% in euro, starting June 2007 and maturing June 2019.
- On the bonds 2006-2023 of GBP 400 million issued by Telecom Italia S.p.A. in May 2006, Telecom Italia S.p.A. put into place CCIRS contracts for euro 587 million converting a rate of 5.875% in GBP to a fixed rate of 5.53% in euro.
- On the notes 2005-2012 of euro 1,000 million issued by Telecom Italia S.p.A. in December 2005, Telecom Italia S.p.A. put into place IRS contracts converting the Euribor + 0.53% coupon rate to a fixed rate of 4.54% in euro up to December 2010.
- For euro 174 million, with reference to the Telecom Italia Finance S.A. "Dual Currency" loan with a notional principal of JPY 20 billion and a 5% fixed interest rate with a step-up of +0.45% in USD maturing October 2029, originally received by Olivetti International Finance N.V., equivalent to euro 127 million at December 31, 2006, the following was put in place:
  - ✓ by Telecom Italia Finance S.A., an IRS contract converting the 5% fixed rate in USD to the 6-month Libor in JPY.
  - ✓ by Telecom Italia S.p.A., a CCIRS contract with which Telecom Italia S.p.A., with regard to the intragroup loan in JPY, receives 6-month Libor in JPY and pays 6-month Euribor.
  - ✓ by Telecom Italia S.p.A. an IRS contract converting the semiannual floating rate in Euro to a 6.94% fixed rate up to maturity.

- On the tranche of USD 1,000 million maturing in November 2033 relating to the bonds issued in October 2003 by Telecom Italia Capital S.A. for a total amount of USD 4,000 million, Telecom Italia S.p.A. put in place CCIRS contracts for euro 849 million converting the rate of 6.375% in USD to the fixed rate of 6% in euro.
- On the tranche of USD 1,000 maturing in July 2036 relating to the bonds issued in July 2006 by Telecom Italia Capital S.A. for a total of USD 2,600 million, Telecom Italia S.p.A. put into place CCIRS contracts for euro 791 million converting the rate of 7.20% in USD to the fixed rate of 5.88% in euro.

The selected method to test the effectiveness, retrospectively and prospectively, of Fair Value Hedge instruments and Cash Flows Hedge instruments is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (where the portfolio means the hedging instrument and the item hedged) and the risk of the hedged item taken separately. In short, the portfolio risk must be less than the risk of the item hedged:

VRR = 1 – (portfolio risk / risk of the hedged item)

The better the hedging ratio, the more VRR tends to the value 1. To establish if a hedge is effective, this ratio must be higher than the threshold over which the test identifies the hedging as “highly effective” as required by IFRS.

Table 3 – Non-Hedge Accounting Derivatives

Description	Notional Amount (millions of euro)	Mark to Market (Clean Price) (millions of euro)
Floating to floating IRS contracts put into place by Telecom Italia S.p.A.	22	-
FRA contracts put into place by Telecom Italia S.p.A. maturing January 2007	593	-
FRA contracts put into place by Telecom Italia S.p.A. maturing March 2007	806	1
FRA contracts put into place by Telecom Italia S.p.A. maturing July 2007	593	-
FRA contracts put into place by Telecom Italia S.p.A. maturing September 2007	806	1
Interest rate and foreign exchange contracts put into place by Group companies	366	4
Total Non-Hedge Accounting Derivatives	3,186	6

- The floating to floating IRS contracts put into place by Telecom Italia S.p.A. for a notional amount of euro 22 million refer to loans indexed at domestic parameters (Rendint, Rolint and Robot) with conversion to the 6-month Euribor.

- Purchase of Forward Rate Agreements (FRA):
  - ✓ for a notional amount of euro 593 million, through which in January 2007 Telecom Italia S.p.A. will receive the 6-month Euribor at the January 2007 fixing and will pay a fixed rate of 3.83% relating to a period of 6 months. The FRAs purchased are for the management of risks associated with a possible increase in the short-term rates in euro;
  - ✓ for a notional amount of euro 806 million, through which in March 2007 Telecom Italia S.p.A. will receive the 6-month Euribor at the March 2007 fixing and will pay a fixed rate of 3.91% relating to a period of 6 months. The FRAs purchased are for the management of risks associated with a possible increase in the short-term rates in euro;
  - ✓ for a notional amount of euro 593 million, through which in July 2007 Telecom Italia S.p.A. will receive the 6-month Euribor at the July 2007 fixing and will pay a fixed rate of 3.99% relating to a period of 6 months. The FRAs purchased are for

the management of risks associated with a possible increase in the short-term rates in euro;

- ✓ for a notional amount of euro 806 million, through which in September 2007 Telecom Italia S.p.A. will receive the 6-month Euribor at the September 2007 fixing and will pay a fixed rate of 3.91% relate to a period of 6 months. The FRAs purchased are for the management of risks associated with a possible increase in the short-term rates in euro.

- Interest rate and foreign exchange contracts amount to euro 366 million, of which euro 88 million are carried by companies in Brazil.

The following table shows the derivative financial instruments of the Telecom Italia Group by type:

Type	Hedged risk	Notional amount (millions of euro)	Mark to Market Spot (Clean Price) at 12/31/2006 (millions of euro)	Mark to Market Spot (Clean Price) at 12/31/2005 (millions of euro)
Interest rate swaps	Interest rate risk	-	-	-
Cross Currency and Interest Rate Swaps	Interest rate risk and foreign currency exchange rate risk	8,623	(787)	(62)
Total Fair Value Hedge Derivatives		**8,623**	**(787)**	**(62)**
Interest rate swaps	Interest rate risk	4,230	102	13
Cross Currency and Interest Rate Swaps	Interest rate risk and Foreign currency exchange rate risk	6,119	(538)	(405)
Commodity Swap	Commodity risk	89	(6)	-
Forward and FX Options	Foreign currency exchange rate risk	5	-	-
Total Cash Flow Hedge Derivatives		**10,443**	**(442)**	**(392)**
Non-Hedge Accounting Derivatives		**3,186**	**6**	**(19)**
Total Telecom Italia Group Derivatives		**22,252**	**(1,223)**	**(473)**

The following table shows, for Cash Flow Hedge Derivatives, the amount recognized in the Reserve for fair value adjustments to hedging derivatives during 2006 and the portion reversed from the reserve to the statement of income as an exchange rate adjustment, before the relative tax effect:

Description (millions of euro)	Reserve for fair value adjustments to cash flow hedge derivatives at December 31, 2006	Reserve for fair value adjustments to cash flow hedge derivatives at December 31, 2005	Mark to Market change recognized in the Reserve for fair value adjustments to hedging derivatives	Amount reversed from the Reserve for fair value adjustments to hedging derivatives to the statement of income as an exchange rate adjustment	Impact of cash flow hedge derivatives in 2006 on the Reserve for fair value adjustments to hedging derivatives
Cash Flow Hedge Derivatives	(69)	(311)	(48)	290	242

NOTE 26 – FINANCIAL ASSETS PLEDGED AS COLLATERAL FOR FINANCIAL LIABILITIES

The contracts for easy-term loans granted by the Brazilian development bank BNDES (Banco Nacional de Desenvolvimento Econômico e Social) to certain operating companies of the Tim Brasil Serviços e Participações S.A. group for a total equivalent amount of euro 434 million are guaranteed by a part of the receipts of those companies which pass through bank accounts that are pledged in favor of BNDES. The bank will have access to such amounts only in the case of default by the company, otherwise the funds will be automatically transferred to accounts on which the company has full access.

NOTE 27 – CONTINGENT ASSETS AND LIABILITIES, COMMITMENTS AND OTHER GUARANTEES

The main legal and arbitration proceedings in which companies of the Telecom Italia Group were involved as of December 31, 2006 are described below. Except where explicitly mentioned, no provisions have been made, for lack of a definite and objective basis and/or because an adverse outcome of the dispute is considered unlikely.

a) Contingent liabilities

TAX AUDIT OF BLU

On January 26, 2007 Telecom Italia received the report containing the Revenue Agency's conclusions with regard to the tax audit of the 2002 merger of Blu into Tim.

The audit began in July 2004 with regard to Blu and, in particular, to financial years 2000 (only for purposes of value-added tax) and 2002 (in this case also for purposes of direct taxes). In March 2005 the Revenue Agency extended the audit to Tim's 2002 financial year, particularly as regards the tax consequences of the merger, whose tax effects were backdated to January 1.

It should be recalled that Blu was involved in a complex break-up, carried out with the full accord of the Government and the various regulatory authorities involved, that entailed the transfer of three distinct business units from Blu to Wind, Vodafone-Omnitel and H3G respectively and the transfer of 100% of its share capital to Tim.

Towards the end of 2002 Tim, adducing the business reasons underlying the merger, petitioned the tax administration (which assented on March 6, 2003) not to apply the anti-avoidance provisions of tax law, which otherwise would have prevented Tim from using Blu's prior-year tax losses (amounting to euro 857 million).

The Revenue Agency became increasingly interested in the matter.

In particular, the above-mentioned assent underwent a sort of ex-post "revision", to the point where it was stated that the merger of Blu had not created the business synergies and values suggested in the petition, which had supposedly given an incomplete or even misleading description of the terms of a transaction to be considered as aimed at tax avoidance.

On these grounds, the report puts forward the following objections (which would involve additional income taxes totaling euro 465 million in connection with Tim's 2002 financial year):

- First objection: disallowance of the tax saving (euro 156 million) resulting from the backdating of the merger;

- Second objection: disallowance of the right to use Blu's prior-year tax losses (corresponding to euro 309 million in terms of additional taxes due).

As mentioned, the rationale for both objections is the alleged tax-avoidance purpose of the whole transaction, the consequence being not only the (unprecedented) revocation of the assent already granted by the Revenue Agency but also, in connection with the first objection, the denial of the tax effects naturally arising from the retroactivity of the merger. In addition, the report contends that the write-downs and revaluation deficits deducted for tax purposes by the former shareholders of Blu in relation with their investment, before the sale to Tim, would in any case reduce the prior-year losses of Blu that could be utilized by Tim by an equal amount (euro 625 million in total) inasmuch as the tax rule designed to prevent double deduction of losses is in the nature of a "systematic" rule, not an anti-avoidance provision, and is therefore not subject to disapplication upon request of the taxpayer.

In relation to this entire matter the Company, sustained by authoritative opinions, considers that it can validly appeal in all the administrative and, if necessary, judicial fora, and accordingly has not deemed it appropriate to make any provisions in the financial statements.

The Turin Office of the Revenue Agency must evaluate the validity of the objections and of the Company's replies before deciding whether and for what amount to proceed with the assessment.

A copy of the report has been transmitted to the public prosecutor at the Turin Court.

FASTWEB

In December 2006 Fastweb notified Telecom Italia of the start of an arbitration proceeding under the arbitration clause of the interconnection contract concluded between the parties in January 2000, alleging non-performance of contract in connection with the fixed-mobile termination fees charged from January 1, 2000 to the end of November 2006.

Specifically, Fastweb asserts that Telecom Italia violated the obligation, imposed by the regulations in force on firms with significant power in the market in question, to apply cost-related, non-discriminatory fees. The consequent request for damages amounts to about euro 70 million.

In December 2006 Fastweb also notified Telecom Italia that it had sent a petition to the Communications Regulatory Authority under Article 23 of the Communications Code and Resolution 148/01/CONS (for the resolution of disputes between operators) claiming "the termination charges on Telecom Italia's mobile network to be invalid and therefore no longer applicable", and requesting the Authority to establish "new termination charges in conformity with the regulations in force".

Telecom Italia filed a counterclaim in the arbitration proceeding, challenging Fastweb's statements.

* * *

In January 2007 the award was issued in the arbitration proceeding initiated by Fastweb in 2005 for alleged non-performance by Telecom Italia of the contract for the supply of unbundled local access services ("local loop unbundling"). The arbitration board recognized non-performance and ordered the Company to pay damages of about euro 61 million. A specific provision has been made in the financial statements for 2006

In particular, the dispute concerned a claim by Fastweb for euro 168 million of damages in relation to more than 21,000 customers who were allegedly taken away by Telecom Italia between 2002 and 2005 as a result of non-activation of unbundled lines. The award ascertained non-performance by the Company in about 11,000 cases, compared with a total of some 555,000 requests by Fastweb for activation of unbundling in the period considered (up to April 30, 2005). The Company intends to challenge the award before the Rome Court of Appeal.

***

In November 2006 Fastweb initiated a proceeding before the Milan Court of Appeal to have Telecom Italia ordered to pay damages of euro 522 million resulting from transgressions already punished by the Antitrust Authority in Case A/351 (which ended with Telecom Italia being ordered to pay a fine of euro 115 million for anti-competitive conduct).
Telecom Italia has defended the case, arguing that Fastweb's requests are unfounded and inadmissible.

***

Still pending is the arbitration proceeding that Telecom Italia initiated in December 2005 with Fastweb S.p.A. (concerning inverse termination) with a view to obtaining a decision recognizing: (i) that Fastweb had breached the interconnection contract concluded on January 28, 2000 by unilaterally altering the economic conditions for termination on Fastweb's fixed network of traffic developed towards geographical numbers; (ii) that the value of termination on the Fastweb network be determined in accordance with the principle of reciprocity; and (iii) that Telecom did not owe the larger sums requested by Fastweb applying its "self-determined" termination charges.
Specifically, Telecom Italia seeks to obtain a decision finding that Fastweb breached the January 2000 interconnection contract and consequently recognizing the applicability, for termination on Fastweb's fixed network in the period from January 1, 2004 to June 30, 2006, of the contractual price (euro 0.55 per minute) instead of the higher price that Fastweb demanded and billed (euro 2.71 per minute). The time limit for the publication of the arbitration award will expire on May 31, 2007.

EUTELIA

In January 2007 Eutelia S.p.A. brought an action against Telecom Italia, claiming damages of euro 50 million in relation to the omission from Telecom Italia bills, in the space reserved to telephone traffic towards special numbers, of the name of the new operator (Voiceplus) assigned the access numbers to the value-added services previously assigned to Eutelia.

According to Eutelia, Telecom Italia omitted the new assignee's name from the telephone bills it sent to its own subscribers with a view to harming Eutelia's image and business reputation. Eutelia asserts that as a consequence of the omission it is involved in disputes initiated by final users who contend they never requested the telephony services supplied by Voiceplus.

Telecom Italia will defend the case, disputing Eutelia's claims.

***

In January 2007 Eutelia brought a further action claiming damages of not less than euro 40 million in relation to alleged abuse of dominant position by Telecom Italia in the form of illegitimately disconnecting the lines of customers of the operator Grapes Network Services Srl who were about to move over to Eutelia as a result of the transfer to Eutelia of the business unit of Grapes Network Services Srl consisting of contracts for voice and data transmission to business and retail customers.

Telecom Italia will defend the case, disputing Eutelia's claims.

***

Furthermore, in February 2007 Eutelia also brought an action before the Milan Court of Appeal against Telecom Italia for alleged abuse of dominant position in the markets for access to the switched and voice telephony networks, particularly as regards the offer called “Casa Vacanza”.

The abuses Telecom Italia is alleged to have committed consist, in general, in charging an unjustifiably high fee for the basic telephone line and applying a below-cost fee for additional telephone lines in the name of the same customer (with the “Casa Vacanza” offer), and, lastly, in coupling (with the “Hello Gratis” offer) an hour and a half of free traffic every two months with the access service (i.e. the subscription fee).

In essence, Eutelia alleges that the subscription fee for the basic residential line (currently euro 14.57 per month) generates monopoly superprofits enabling Telecom Italia to compensate for the costs of access services for the customer’s principal line, subsidize the cost of the access service for the same customers’ secondary lines and finance the costs of the hour and half of traffic offered free of charge every two months for all the lines held by the same customer. Eutelia claims damages of euro 150 million.

Telecom Italia will defend the case, arguing that Eutelia’s claims are unfounded.

***

The proceeding initiated by Eutelia in December 2005 with an urgent petition filed pursuant to Articles 700 of the Code of Civil Procedure and Article 33 of Law 287/1990 claiming abusive conduct by Telecom on the broadband access markets is still pending. The alleged abuses consisted in the non-execution or delayed execution of orders to activate Eutelia’s ADSL service for its own customers or in the activation of Telecom Italia’s ADSL service for customers who had never requested it, thereby preventing them from using the ADSL service offered by Eutelia. In addition, Eutelia asserts that Telecom Italia’s refusal to activate so-called “data only” ADSL lines inasmuch as these were separate from the telephony service constituted an abuse of dominant position, claiming total damages of euro 40 million.

Telecom Italia has defended the case, arguing that Eutelia’s assertions are unfounded..

***

A proceeding initiated by Eutelia in November 2006 before the Milan Court of Appeal is also still pending. Eutelia alleges that Telecom Italia committed abuses on the broadband access market by applying anti-competitive prices to Eutelia and has claimed damages, to be quantified, for alleged losses. Telecom Italia has disputed Eutelia’s allegations and has requested that this proceeding be brought together with that initiated by Eutelia in December 2005, described in the preceding paragraph.

NHAI

The action brought by Nhai Srl (formerly Help S.p.A.) in September 2005 is still pending. Nhai’s purpose in bringing the action was to establish that in the first half of the 1990s Telesoft (subsequently merged into Telecom Italia), in its capacity as a member of the Consortium for Automatic Telephone Traffic Data Collection and Processing (whose participants included the petitioner and Telesoft) had competed with the consortium, in violation of the obligations provided for in the consortium’s agreements and the constituent instrument. Nhai consequently asked that Telecom be ordered to pay damages of between euro 16 million and euro 25 million for the losses incurred by the consortium and, for its share, to Help in connection with the orders not received.

Nhai also alleged that Telesoft, during the life of the consortium, had appropriated software developed by Help, in violation of the agreements between the members of the consortium, and for this it claimed damages of euro 1 million.

Telecom Italia has defended the case, arguing that Nhai's claims are unfounded and inadmissible.

GALACTICA

The dispute initiated in 2000-01 by the Internet Service Provider Galactica owing to Telecom Italia's alleged non-performance of an "experimental contract" for the supply of connectivity and in relation to conduct on the part of Telecom Italia allegedly constituting acts of unfair competition under Article 2598 of the Civil Code Is still pending. Galactica's claims for damages amount to more than euro 90 million.

In the proceeding Telecom Italia has argued that Galactica's claims are unfounded and has filed a counterclaim for Galactica to be ordered to pay more than euro 5 million as consideration for the increase in traffic in the period January-July 2001.

VODAFONE

In October 2006 Telecom Italia filed an urgent petition with the Rome Court for an injunction on any action aimed at promoting, advertising or marketing, including preselling, the 'Vodafone Casa Numero Fisso' offer. Partially granting Telecom Italia's petition, with an order issued on November 29, 2006 the court prohibited Vodafone from any further marketing and preselling of the "Vodafone Casa Numero Fisso" service for the part involving the offer to users of the portability of their Telecom Italia fixed line number to the Vodafone mobile network. Vodafone has filed an appeal against this order.

Meanwhile, the Ministry of Communications had authorized Vodafone to supply the service on an experimental basis with a decision issued on December 7, 2006. Telecom challenged this decision and petitioned that its execution be suspended. In February 2007 the Lazio Administrative Court granted the petition, deeming it necessary to acquire information from the Communications Regulatory Authority as to whether the service in question could be classified as a fixed-line service and whether Vodafone had a valid authorization and considering that there were sufficient indications of serious and irreparable prejudice "at least in a competitive perspective". The Lazio Administrative Court therefore set a time limit for the Authority to produce the above-mentioned information, pending which it suspended the enforceability of the administrative order. The discussion regarding the merits of the case is scheduled for May.

For the sake of completeness, the Company mentions the fact that on December 29, 2006 the Communications Regulatory Authority decided to begin a public consultation on integrated services, including "Vodafone Casa Numero Fisso".

Since Telecom Italia had suspended negotiations on the inverse interconnection contract underlying the "Vodafone Casa Numero Fisso" offer, on November 2, 2006 Vodafone brought a civil action before the Milan Court to establish that Telecom Italia had breached the obligation to negotiate the interconnection service and that this refusal constituted unfair competition. Vodafone also petitioned the court to order Telecom to supply the interconnection service immediately and to pay damages in an amount to be ascertained during the trial. Telecom Italia has defended the case, challenging the regularity of all the initiatives undertaken.

***

The appeal Telecom Italia filed with the Supreme Court in December 2005 against the decision of October 2005 with which the State Council reversed the ruling of the Lazio Regional Administrative Court and annulled Communications Regulatory Authority Resolution 1/CIR/98 (Approval of Telecom Italia's Reference Interconnection Offer) is still pending.

The question originated from the petition with which Omnitel (now Vodafone) challenged the part of Resolution 1/CIR/98 establishing that, pursuant to a ministerial decree issued on April

23, 1998, the new economic conditions for interconnections would become effective for the existing GSM licence-holders (Tim and Omnitel) from July 25, 1998 (the date Telecom Italia's Reference Offer was submitted) rather than retroactively from January 1, as envisaged for the fixed-network operators.

In November 2005, following the State Council's favourable decision, Vodafone transmitted an extra-judicial request to Telecom Italia for the restitution of more than euro 16 million in alleged overpayments for interconnection services supplied between January 1 and July 24, 1998. The sum has not been paid in view of the appeal pending before the Supreme Court.

***

Proceedings are still under way before the Milan Court of Appeal in the action brought by Vodafone against Telecom Italia in July 2006 for damages amounting to approximately euro 525 million in relation to Telecom Italia's alleged abuse of dominant position consisting in the exploitation of its position in fixed telephony markets to strengthen its position in the contiguous market for mobile communication services with exclusionary effects to the detriment of its competitor.

According to Vodafone, Telecom Italia had abused its dominant position in the fixed telephony market and taken advantage of its market power in the supply of mobile telephony services and the recent restructuring of the group with the organizational and functional integration of Telecom Italia and Tim by: (a) exploiting the information it held as the incumbent fixed telephony operator to create client profiles and offer targeted mobile communication services and combined fixed/mobile services; (b) using strategic information regarding fixed telephony to compete in the mobile telephony market with offers that competitors could not replicate; (c) offering discounts for fixed telephony services to take clients away from Vodafone in the mobile telephony market; and (d) using the 187 service to promote mobile communication services.

The conduct in question is alleged to have concerned business customers as well as household customers and to have also involved violation of the law on the protection of personal data.

During the trial Vodafone produced some documents as evidence of the abusive conduct of which it accuses Telecom Italia and updated its July claim for damages to euro 759 million as of December 31, 2006.

Telecom Italia has defended the case, challenging Vodafone's assertions.

IL NUMERO ITALIA

The action initiated in September 2005 by Il Numero Italia S.r.l. and its subsidiary DA Directory Assistance Company Srl for damages of approximately euro 92 million for unfair competition in relation to the alleged violation by Telecom Italia of Communications Regulatory Authority Resolution 15/04/CIR (concerning assignment of the rights to use new numbers of the "12xy" series for subscriber information services) is still pending.

Telecom Italia has filed a counterclaim for about euro 100 million for unfair competition in the form of misleading and denigratory comparative advertising.

TELE2

As regards the actions involving Tele2 S.p.A., the following are currently pending:

- the action brought by Tele2 in May 2005 calling for an injunction – and payment of related damages amounting to approximately euro 100 million – on the alleged abuse of dominant position by Telecom Italia consisting in the application to all users, including the customers of other operators, of a discount equal to one hour of local telephone calls for residential and non-residential customers and to half an hour of long-distance calls for residential customers every two months (the offer known as "Hello Gratis");

- the action brought by Tele2 (following an urgent petition upheld in September 2005 with an order subsequently revoked after Telecom Italia had lodged a complaint) calling for an injunction – and payment of related damages amounting to approximately euro 15 million – on the alleged abuse of dominant position by Telecom Italia in connection with the wholesale offer of ADSL broadband data access (with special reference to Telecom Italia's application in the E@SY.IP contract of the obligation to buy at least 5 hours of traffic);
- the action brought by Tele2 in December 2005 (subsequent to an urgent petition under Article 700 of the Code of Civil Procedure and Article 33 of Law 287/1990) calling for payment by Telecom Italia of damages amounting to more than euro 18 million deriving from alleged abusive conduct on the broadband access market by Telecom Italia consisting in the non-execution or delayed execution of orders from Tele2 to activate ADSL service for its own customers or in the activation of Telecom Italia's ADSL service for customers who had never requested it, thereby preventing them from using the ADSL service offered by Tele2;
- the action brought by Telecom Italia in March 2005 against Tele2 S.p.A. and Tele2 AB calling for the payment of approximately euro 200 million of damages in connection with alleged unfair competition by Tele2 in relation to comparative advertising campaigns it had run that were misleading and denigratory of Telecom Italia. Tele2 subsequently filed a counterclaim in connection with alleged anticompetitive conduct on the part of Telecom Italia.

TISCALI

The action regarding so-called shared access brought by Tiscali S.p.A. before the Court of Rome in December 2005 is still pending. The merits of the case are now being examined following the ruling – unfavourable to Telecom Italia – on the preliminary petition Tiscali made earlier in 2005.

In this trial Tiscali has called for Telecom Italia's obligation established in the preliminary petition to be confirmed and for the Company to be condemned to pay damages, to be determined during the case, for the loss of revenue caused by the impossibility of providing the ADSL service to retail customers and for the harm done to Tiscali's image and reputation.

Telecom Italia is defending the case.

The case originates in the shared access service supply contract concluded by Telecom Italia and Tiscali on July 27, 2004. The contract calls for Tiscali to be supplied unbundled shared access to the connections of Telecom Italia's copper distribution network (with which Telecom Italia continues to supply final customers with voice telephony, while Internet access is provided by another operator, Tiscali in the case in question). According to Tiscali, requests to activate the shared access service for numerous customers met with a refusal by Telecom Italia to free up the lines with which it provides Internet access services (marketed under the trademarks "Alice" and "Tin.it") to final customers, so that Telecom Italia customers who opted to use Tiscali's Internet access services in place of those supplied by Telecom Italia were in fact unable to extricate themselves from Telecom Italia, which was therefore violating both its contractual obligations in respect of Tiscali and the rules laid down by the Communications Regulatory Authority.

ALICE 20 MEGA

In November 2006 the Lazio Regional Administrative Court published its judgment upholding the petition submitted by the Associazione Italiana Internet Provider to suspend and annul the decision of the Communications Regulatory Authority authorizing Telecom Italia's offer of

access to ADSL services up to 20 Mbit/sec ("Alice 20 Mega"), associated with a wholesale offer based on Managed IP solutions. Basically, the petition claimed that, as configured, the wholesale offer did not allow competitors to replicate the offer to final customers. Telecom Italia has appealed to the Council of State against the Administrative Court's judgment.
In the meantime, however, in a resolution notified to the Company on February 13, 2007 the Communications Regulatory Authority, while approving the offer of "*wholesale flat ADSL with individual access and downstream access speeds up to 20 Mbit/sec using Ethernet IP technology*" (presented in December 2006 and characterized by technical access parameters corresponding to those of the retail "Alice 20 Mega" service), authorized the marketing of "Alice 20 Mega" again. In fact the Authority considered that the presence on the market of wholesale ADSL offers that meet the requirements of replicability made the overall offer situation consistent with the decisions of the Lazio Regional Administrative Court.

PRESUMED VIOLATIONS OF ANTITRUST LAW (CASE A-285)

In a judgment handed down on January 10, 2007 the Council of State partially upheld the cross appeal by the Communications Regulatory Authority against the decision of the Lazio Regional Administrative Court concerning fine no. 9472 of imposed by the Antitrust Authority on April 27, 2001 at the end of case A-285 for Telecom Italia's abuse of dominant position in the supply of ADSL services. The fine was equal to euro 59.4 million, amount that the Administrative Court's judgment reduced to about euro 29.4 million, which the Company paid in January 2002. The Council of State subsequently increased the fine to about euro 31.7 million. The financial statements for the year ended December 31, 2006 include the residual debt equal to approximately euro 2.5 million.

***

ANTITRUST PROCEEDING A-357

On February 23, 2005 the Antitrust Authority initiated an investigation of Tim Italia S.p.A. and Telecom Italia Mobile S.p.A. (now Telecom Italia S.p.A.), Vodafone Omnitel N.V. and Wind Telecomunicazioni S.p.A. to establish whether violations of Articles 81 and 82 of the European Community Treaty had been committed in relation to:

- refusal to grant alternative operators (MVNO, ESP and ATR) access to the mobile network;
- the offer to final business customers of integrated fixed/mobile telephony services at prices below the price of the termination service alone (offered to competitors as an intermediate factor);
- the offer exclusively to business customers of a technical solution (MSC PABX) permitting them to obtain more advantageous integrated fixed/mobile tariffs;
- the marketing practices adopted by Tim in relation to business customers.

The time limit for completion of the investigation, initially scheduled for December 14, 2006 has been extended to May 10, 2007. If the investigation should find one or more violations, the Antitrust Authority could impose a fine whose size would depend on their seriousness and duration.

ACTIONS UNDER ARTICLE 33 OF LAW 287/1990 CONCERNING THE MARKETING OF X-DSL SERVICES

After the completion of the above-mentioned Antitrust proceeding no. A-285 with the condemnation of Telecom Italia's conduct and the imposition of a fine, between 2001 and 2005 a number of firms brought actions for damages against the Company in relation to its alleged abuse of dominant position in the supply of X-DSL services.

The companies in question were Wind Telecomunicazioni, I.Net S.p.A., Cybernet Italia S.p.A., KPNQwest and ITnet S.p.A. In 2001 the proceedings were unified and the total damages claimed amounted to approximately euro 120 million.

In the past other operators (including Infostrada, Albacom and the Associazione Italiana Internet Provider) had brought similar actions and in 2003 Telecom Italia was condemned to pay damages of approximately euro 2 million (compared with requests totaling more than euro 87.5 million).

It can therefore be reasonably assumed, if the court remains faithful to the earlier judgment, that the damages awarded are likely to be much less than those claimed by the plaintiffs and Telecom Italia has accordingly set aside an appropriate amount to reserves.

SOCIAL SECURITY CONTRIBUTION RELIEFS GRANTED TO TIM S.p.A.

In a letter dated February 13, 2007 the National Social Security Institution (INPS) requested Telecom Italia to refund the social security contribution reliefs enjoyed by Tim S.p.A. between 1995 and 2001 in connection with the hiring of workers under on-the-job training contracts. According to INPS, granted under Italian law, constituted, on the basis of the criteria recently specified by the European Union, state aid that was incompatible with the standards of free competition of the European common market. INPS has asked the Company to refund a total of euro 9.6 million, including accrued interest.

The analyses that the Company has carried out so far have not revealed any elements indicating that the above-mentioned reliefs were irregular.

LEVY PURSUANT TO ARTICLE 20.2 OF LAW 448/1948

In a decision published on July 10, 2006 the Lazio Administrative Court upheld the compliance petition submitted by Telecom Italia and ordered the Ministry for the Economy and Finance and the Ministry for Communications, jointly and severally, to implement the decisions published in January 2005, in which the administrative court had upheld the appeals filed by Tim and Telecom Italia and ascertained the obligation for the government to return the amounts paid as a levy for 1999 under Article 20.2 of Law 448/1998 and the related interest accrued in the meantime (respectively euro 546 million and euro 100 million).
In September on behalf of the Ministries referred to above, the Avvocatura Generale dello Stato notified an appeal to the Council of State for the suspension of the enforceability and annulment of the administrative court's ruling. On November 7, 2006 the Council of State dismissed the request for a suspension and consequently the Ministry for the Economy and Finance paid the principal amount but not the interest, with the right to its restoration depending on the outcome of the appeal.

CECCHI GORI

With reference to the complex action brought by the Cecchi Gori Group against SEAT (now Telecom Italia Media) and in particular to the part involving the resolutions adopted on April 27, 2001 by the shareholders' meetings of Cecchi Gori Communications S.p.A. (now Holding Media Communications) approving the financial statements for the year ended December 31, 2000, the cancellation of the share capital to make good losses and the replenishment of the share capital, in November 2005 the Rome Court of Appeal dismissed the appeal filed by the Cecchi Gori Group against the judgment of the Rome Court dismissing the petition challenging the resolutions. The Rome Court of Appeal's judgment has been challenged before the Supreme Court.

In addition, in a judgment handed down in December 2006 the Rome Court of Appeal dismissed the action brought by the Cecchi Gori Group against the judgment in the first-level court dismissing the request to declare null the resolution of the extraordinary shareholders' meeting of Cecchi Gori Communications of August 11, 2000 concerning amendments to the company's bylaws. The Cecchi Gori Group has challenged the Rome Court of Appeal's judgment before the Supreme Court.
In March 2006 the Milan Court of Appeal dismissed the appeal by the Cecchi Gori Group from the ruling issued by the court of first instance rejecting the petition for annulment or cancellation of the act pledging the Cecchi Gori Communications shares owned by Cecchi Gori Media Holding. This judgment has also been challenged before the Supreme Court.
The following case remains pending before the Court of Milan: an action for damages for illicit extracontractual conduct by the Cecchi Gori Group in relation to the presumed prejudice caused by the alleged conduct of SEAT and by the directors it appointed to the board of Cecchi Gori Communications aimed at the removal of the majority shareholder of Cecchi Gori Media Holding. The case is currently suspended pending the decision of the Supreme Court on the other disputes.

BRAZIL

As already noted in last year's Annual Report, on April 28, 2005 important agreements were concluded serving:

- ✓ to settle a series of disputes in different venues involving Telecom Italia and Telecom Italia International versus respectively: (i) Brasil Telecom, for alleged abuses by the Group in extraordinary corporate actions undertaken by the Brazilian operator; and (ii) Telecom Italia International's partners in Solpart Participações (controller of Brasil Telecom through Brasil Telecom Participações) and Solpart, Brasil Telecom Participações and Brasil Telecom in connection with the agreement concluded on August 27, 2002 for the temporary reduction from 37.29% to 19% of the Group's interest in the ordinary capital of Solpart and the reduction – again temporary – of its governance rights, with an option for the repurchase of the aforesaid equity interest;
- ✓ to amend the shareholders' agreement among the shareholders of Solpart (Telecom Italia International, Techold e Timepart);
- ✓ to draw up a plan for the merger of Brasil Telecom Celular into Tim Brasil.

Reference was also made in the same Report to the opening of several disputes regarding the above-mentioned agreements in which the Telecom Italia Group was sometimes the plaintiff and sometimes the defendant, with reciprocal requests for damages, both before the Brazilian courts and in arbitration proceedings before the International Chamber of Commerce of Paris. These disputes are ongoing.
Other developments worthy of note include:

- the definitive dismissal of the requests put forward by the association of small shareholders of the listed Brazilian telecommunications companies (ANIMEC) to reconsider the decision of the Brazilian Antitrust Authority (CADE) recognizing the right of Telecom Italia International to be readmitted to the group controlling Solpart (with some restrictions), with the consequent right to appoint the independent members of the Boards of Directors of Solpart, Brasil Telecom Participaçoes and Brasil Telecom;
- following the termination of the agreement for the merger of Brasil Telecom Celular into Tim Brasil, application has been made for the closure of the related proceedings since the disputed matter no longer exists. In one of the two proceedings the judge has upheld the request, while in the second the judge has asked the parties whether they intend to settle the dispute.

CUBA

Since 2002 Banco Nacional de Comercio Exterior ("Bancomext") has accused ETECSA and Telan (majority shareholder of ETECSA, controlled by the Cuban government) of non-performance of alleged payment and guarantee obligations amounting to euro 300 million established in a series of contracts between ETECSA, Telan, BanCuba (Central Bank of Cuba), Intesa BCI and Bancomext.

These accusations were the subject (i) of an action brought by Bancomext in Italy before the Turin court and (ii) of an international arbitration proceeding initiated by Telan and ETECSA, in which they pleaded that performance was impossible owing to a Cuban legislative measure prohibiting actions aimed at satisfying Bancomext's claim.

In the award issued on August 5, 2004, the arbitration board:

- upheld ETECSA's argument that it was neither a debtor of Bancomext nor a guarantor of Telan;
- nonetheless determined that ETECSA was contractually obligated to satisfy the obligations vis-à-vis Bancomext deriving from the loan contract and therefore to restore the procedure envisaged for the payment of dividends belonging to Telan with a view to satisfying Bancomext.

This decision would oblige ETECSA to transfer around USD 147 million to Telan, paying the sum into an escrow account in Bancomext's name.

On May 3, 2005 Bancomext therefore notified the award to ETECSA and Telan, together with a request for payment of an amount equal to the dividends distributed to Telan from April 2002 on. The related enforcement proceedings, initially undertaken by Bancomext against Telecom Italia, Sparkle and Tim following the declaration of the award's effectiveness in Italy, were subsequently suspended, however.

In November 2005, at the conclusion of the first-level trial initiated by Bancomext before the Italian courts, the Court of Turin ordered ETECSA to pay Bancomext damages of USD 168 million and to restore the mechanism for the payment of dividends belonging to Telan, as contractually provided.

Following the publication of the decision of the Court of Turin (which ETECSA nonetheless appealed), in December 2005 Bancomext applied to the Court of Milan (i) to convert the precautionary sequestration of the Company's claims on ETECSA, which the Court of Turin had ordered in 2002 as a precautionary measure, into seizure and (ii) to assign Bancomext the sum of euro 2,8 million due to Telecom Italia, which was therefore paid to Bancomext in September 2006.

In October 2006, at BancoMext's request, the High Court of Justice Queen's Bench Division in London enforced the judgment of the Turin Court referred to above by issuing an attachment order covering all ETECSA's assets and claims in England and Wales up to GBP 100 million. ETECSA was also enjoined not to dispose of any other assets or claims, wherever located, up to the same amount.

Lastly, in November 2006 the Paris Court of Appeal upheld ETECSA's request to declare the above-mentioned arbitration reward null. Accordingly, ETECSA applied to the Turin Court of Appeal for the revocation of the provisional enforceability of the judgment of the Court of Turin.

GREECE

On January 23, 2007 Telecom Italia, among others, received notice of the action brought by TCS Capital Management LLC (TCS) before the United States District Court for the Southern District of New York.

TCS (previously a minority shareholder of Tim Hellas) has applied for the indemnification of the losses it allegedly incurred following the sale of Tim International's interest in Tim Hellas to some investment funds (which are also cited) and the subsequent cash-out merger carried out by the funds, allegedly to the detriment of the interests of the minority shareholders of Tim Hellas.

TCS has requested the court to ascertain Telecom Italia's violation of US law, which is applicable because Tim Hellas is listed on NASDAQ and to order it to pay punitive damages and legal expenses in an amount to be established during the trial.

OTHER LIABILITIES RELATED TO THE DISPOSAL OF ASSETS AND EQUITY INTERESTS

As part of the major disposals of assets and companies in 2006 and in prior years, the Telecom Italia Group undertook to indemnify the buyers in the event of the companies incurring certain liabilities, normally up to a percentage of the purchase price. The amounts in question mainly refer to contingent liabilities arising from guarantees contained in the contracts and disputes in the legal, tax, social security and labour law fields.

The financial statements for the year ended December 31, 2006 show euro 200 million of provisions set aside in respect of these potential obligations. The additional guarantees related to the above-mentioned disposals, which are considered to represent a remote risk, amounted to approximately euro 700 million.

The Telecom Italia Group also undertook to indemnify buyers in other cases for which no maximum amount was fixed, so that it is not possible to estimate the amount that the Company might be called upon to pay.

b) Contingent assets

APPEAL AGAINST PAYMENT OF LICENCE FEES FOR 1998

With reference to the appeals submitted by Telecom Italia and Tim regarding their right to the restitution of the licence fees they paid for 1998 (euro 386 million for Telecom Italia and euro 143 million for Tim, plus interest), in May the Lazio Administrative Court applied to the European Court of Justice for a ruling on the compatibility with Community law of Article 20 of Law 488/1998, which, in an already liberalized market, had extended the obligation to pay the licence fee to 1998. The Italian court considered this provision to be potentially in conflict with Directive 97/13 and therefore to fall within the scope of the European Court's decision on the illegitimacy of the levy provided for in Article 20(2) of Law 448/1998, as referred to above.

CONSIP TENDER

In May 2006 Fastweb was awarded the contract in the tender held by Consip in 2005 for fixed telephony, IP connectivity and satellite data transmission services for governmental bodies.

With an appeal filed with the Lazio Administrative Court on 6 July 2006 Telecom Italia applied for the suspension and annulment of the award in view of the evident anomalies in the economic conditions of Fastweb's bid. It also applied for the annulment of the Consip letters in which the application for access to the tender documents was granted only in part. In fact Fastweb had requested that access be denied to all the tender documentation or at least to the percentage division between local loop unbundling and carrier pre-selection services and the list showing the geographical distribution and date of takeover of unbundled lines. In examining the application for the suspension of the award, the court upheld the petition for access to the tender documents filed by Fastweb.

On the basis of the documentation subsequently acquired, Telecom Italia filed a document with additional grounds for opposing the acts of the tender committee.

On 13 November 2006 the court ordered a technical appraisal of the overall reliability of the assessment of non-abnormality put forward by the tender committee vis-à-vis Fastweb. The technical appraisal began in December 2006 and was completed with the filing of the related report on 28 March 2007.

H3G

In July 2006 Telecom Italia notified H3G Italia of the start of an arbitration proceeding on the basis of the arbitration clause contained in the agreements concluded between the parties in February 2004 and subsequently supplemented in May 2005. Among other things these agreements govern the prices for mobile network termination on a reciprocal basis.

The dispute has its origin in H3G's position regarding the contractual amounts payable, which it claims have been modified in its favour by the evolution of the regulatory framework

Consequently, Telecom Italia has called for verification of H3G's failure to fulfill its contractual obligations and the determination of the amount of the losses H3G must make good.

ACTIONS BROUGHT AGAINST OTHER OPERATORS FOR UNFAIR COMPETITION AND VIOLATION OF PRIVACY

In October 2006 Telecom Italia submitted an urgent petition to the Rome court, accusing Fastweb, Wind. and Tele2 of unfair competition. In particular it applied for the judge to declare that the three companies' telemarketing policies violated competition rules because they were based on indiscriminate telephone calls to Telecom Italia customers, including some whose numbers were "ex directory" and others who had not consented to such contacts (and who therefore should not have been contactable for telephone promotions).

Despite recognizing the legal validity of Telecom Italia's arguments in point of law, in December 2006 the court dismissed the petition on the grounds that it failed to demonstrate that Telecom Italia's competitors had actually used its customers' personal data without their prior consent. In January 2007 Telecom Italia therefore submitted an appeal against the court's order accompanied by the evidence whose absence had led to the dismissal of the petition by the lower court.

The circumstances that led to the above-mentioned petition have also been reported to the Privacy Regulator.

***

EMPLOYEE BENEFIT OBLIGATIONS UNDER LAW 58/1992

Pursuant to Law 58/1992 Telecom Italia is required to provide uniform social security coverage for all the employees of Stet, Sip, Italcable and Telespazio on their payrolls at 20 February 1992 and for all the employees transferred from the public sector to the former Iritel through the "Pension Fund for Public Telephony Employees", which on 1 January 2000 became part of the general Employee Pension Fund.

The total liability is still only estimated owing to disagreements with the National Social Security Institute (INPS) regarding the calculation of the amounts due and the fact that at 31 December 2006 INPS had not yet notified the Company of all the positions to be unified.

The dispute with INPS concerns how the criteria established by Law 29/1979 are to be applied for employees (except for those of the former Iritel) who had already applied for benefits under this law and which INPS has still not processed. The parties have agreed that the determination of the applicable provisions is to be settled through test appeals before the ordinary courts. While proceedings are pending, Telecom Italia has agreed to pay the amounts requested by INPS, subject to subsequent equalization adjustments if the Courts ultimately accept the Company's interpretation. The amounts due were calculated by INPS and are to be paid in 15 equal annual deferred instalments (including annual interest of 5%), starting when INPS formally submits its requests.

The sums due to social security institutions under this heading amount to euro 924 million (euro 881 million of principal and euro 43 million of accrued interest not yet paid), of which euro 215 million is due in the short-term.

c) Commitments and other guarantees

Guarantees provided amounted to euro 330 million, net of euro 180 million of counter-guarantees received, and consisted mainly of sureties provided by Telecom Italia on behalf of affiliates (euro 102 million) and others for medium and long-term loans.
In addition, the 47.80% interest in Tiglio I and the 49.47% interest in Tiglio II have been pledged to the banks that financed the two affiliates.

Purchase and sale commitments at 31 December 2006 amounted to euro 455 million and euro 2 million respectively and referred to the part of commitments not falling within the normal "operating cycle" of the Group still to be fulfilled.

The purchase commitments consisted mainly of:

- euro 164 million of property leasing rentals under contracts lasting more than 6 years;
- euro 242 of orders to suppliers of Telenergia in relation to the electricity supply agreements reached with Endesa for the three-year period 2004-06;
- euro 17 million for the purchase by Telecom Italia Media Broadcasting of systems and frequencies in Sicily.

Companies included in the scope of the consolidation issued letters of patronage for a total of euro 141 million, chiefly on behalf of affiliates to guarantee insurance polices, lines of credit and overdraft arrangements.

Guarantees provided by third parties for obligations of Group companies referred to loans (euro 1,934 million) and the performance of contracts (euro 295 million). The total included sureties issued by BBVA for euro 817 million, by Sanpaolo IMI for euro 420 million, by Sumitomo for euro 73 million, Bank of Tokyo - Mitsubishi UFJ for euro 86 million, and Banco Santander for euro 86 million in respect of EIB loans for the following projects: Tim Mobile Network, Telecom Italia Breitband Infrastruktur Deutschland and Telecom Italia Media Digital Network..

NOTE 28 – REVENUES

Revenues amount to euro 31,275 million, an increase of euro 1,356 million compared to 2005 (+ 4.5%). Details are as follows:

(millions of euro)		2006	2005
Sales:			
- telephone products		2,002	1,952
- other sales		388	362
	(A)	2,390	2,314
Services:			
- traffic		16,607	15,810
- subscription charges		8,111	8,133
- fees		400	359
- Value Added Services (VAS) – mobile telecommunications		1,967	1,641
- fixed fee for recharging prepaid cards		738	737
- other services		1,022	850
	(B)	28,845	27,530
Revenues on construction contracts	(C)	40	75
Total	(A+B+C)	31,275	29,919

Revenues from telecommunications services are presented gross of amounts due to other TLC operators, equal to euro 5,721 million (euro 4,829 million in 2005, +18.5%).

The increase in the amount due to other TLC operators reflects the positive impact of euro 262 million deriving from new changes in operations and regulations regarding the interconnection relationships among the mobile telephone operators in the Brazilian market starting from July 2006. Similarly, there was an increase in costs for the portion to be paid to other TLC operators.

For a breakdown of revenues by segment/geographical area, reference should be made to the Note "Segment information and geographical segment information".

NOTE 29 – OTHER INCOME

Other income amounts to euro 606 million, a decrease of euro 72 million compared to 2005 and consists of the following:

(millions of euro)	2006	2005
Compensation for late payment of regulated telephone services	91	105
Release of provisions and other liabilities	179	228
Recovery of costs of personnel and services rendered	60	56
Capital grants and grants related to income	42	47
Damage compensations and penalties	52	35
Other income	182	207
Total	606	678

NOTE 30 – PURCHASES OF MATERIALS AND EXTERNAL SERVICES

Purchases of materials and external services amount to euro 14,191 million, an increase of 9.7% compared to 2005 (euro 12,937 million). Details are as follows:

(millions of euro)		2006	2005
Purchases of materials and merchandise for resale	(A)	2,578	2,506
Costs of services:			
Revenues due to other TLC operators		5,721	4,829
Commissions, sales commissions and other selling expenses		1,511	1,263
Advertising and promotion expenses		584	593
Professional consulting and services		480	530
Utilities		421	308
Maintenance		350	339
Outsourcing costs for other services		267	256
Mailing and delivery expenses for telephone bills, directories and other materials to customers		106	90
Other service expenses		1,130	1,119
	(B)	10,570	9,327
Lease and rental costs:			
Property lease rents		560	641
TLC lease rent and rent for use of satellite systems		271	274
Other lease and rental costs		212	189
	(C)	1,043	1,104
Total	(A+B+C)	14,191	12,937

NOTE 31 – PERSONNEL COSTS

Personnel costs amount to euro 3,801 million, a decrease of euro 341 million (-8.2%) compared to 2005 (euro 4,142 million). The decrease is principally due to a reduction in accruals and expenses made in 2005 for employee termination benefit incentive plans and, to a lesser extent, the reduction in ordinary personnel costs (ordinary employee costs and temp work costs) which fell by euro 28 million (-0.8%).

Personnel costs consist of the following:

(millions of euro)		2006	2005
Personnel costs at payroll:			
Wages and salaries		2,625	2,600
Social security contributions		796	813
Employee severance indemnities		146	168
Other employee-related costs		71	88
	(A)	3,638	3,669
Temp work costs	(B)	55	52
Miscellaneous expenses for personnel and for other labor-related services rendered			
Remuneration of personnel other than employees		18	18
Cost and provision charges for termination benefit incentives		76	394
Other		14	9
	(C)	108	421
Total	(A+B+C)	3,801	4,142

Personnel costs include, among others, costs relating to defined contribution plans.

The decrease in the charge for employee severance indemnities is due to the effect of the actuarial calculation of the provision for employee severance indemnities and the turnover of personnel working at the Italian companies of the Group.
Other employee-related costs include euro 1 million for the valuation of stock options and euro 22 million for other benefits to employees.

The average equivalent number of salaried personnel, excluding those of discontinued operations/assets held for sale and including personnel with temp work contracts, in 2006, is 79,993 (79,869 in 2005). A breakdown by category is as follows:

(number)	2006	2005
Executives	1,384	1,541
Middle management	5,065	4,744
White-collars	70,748	70,375
Blue-collars	417	722
Total employees at payroll	**77,614**	**77,382**
Personnel with temp work contracts	2,379	2,487
Total employees	**79,993**	**79,869**

The number of employees at December 31, 2006, excluding those relating to discontinued operations/assets held for sale, is 83,209 (85,484 at December 31, 2005), with a decrease of 2,275.

Employees by segment are analyzed in the Note "Segment information and geographical segment information".

NOTE 32 – OTHER OPERATING EXPENSES

Other operating expenses amount to euro 1,543 million, an increase of euro 75 million compared to 2005. Details are as follows:

(millions of euro)	2006	2005
Impairment and charges for bad debts	564	521
Provision for risks and charges	107	71
TLC operating fees	236	181
Taxes on revenues of South American companies	222	178
Duties and indirect taxes	156	141
Association fees and dues	16	19
Other expenses	242	357
Total	**1,543**	**1,468**

NOTE 33 – CAPITALIZED INTERNAL CONSTRUCTION COSTS

Capitalized internal construction costs amount to euro 496 million, an increase of euro 25 million compared to 2005, and consist of the following:

(millions of euro)	2006	2005
Capitalized internal construction costs on:		
Intangible assets with a finite life	318	287
Property, plant and equipment owned	178	184
Total	**496**	**471**

NOTE 34 – DEPRECIATION AND AMORTIZATION

Depreciation and amortization charges amount to euro 5,487 million, an increase of euro 255 million compared to 2005. Details are as follows:

(millions of euro)		2006	2005
Amortization of intangible assets with a finite life:			
Industrial patents and intellectual property rights		1,760	1,414
Concessions, licenses, trademarks and similar rights		310	253
Other intangible assets		110	17
	(A)	2,180	1,684
Depreciation of tangible assets owned:			
Civil and industrial buildings		48	103
Plant and equipment		2,644	2,910
Manufacturing and distribution equipments		33	31
Aircrafts and ships		7	9
Other assets		446	363
	(B)	3,178	3,416
Depreciation of tangible assets held under finance leases:			
Civil and industrial buildings		99	93
Plant and equipment		1	1
Aircrafts and ships		4	4
Other assets		25	34
	(C)	129	132
Total	(A+B+C)	5,487	5,232

An analysis of depreciation and amortization by segment is presented in the Note "Segment information and geographical segment information".

The **amortization charge for intangible assets with a finite life** increased by euro 496 million partly due to higher capital expenditures for the development of systems and new services as well as the effect of the change in the exchange rates of the Brazilian companies in the Mobile Business Unit.
Moreover, starting from the 2003 financial statements, even though software is still amortized over 36 months, the starting date was changed to the date the asset effectively comes into use instead of at the start of the year. The effects of this change (euro 266 million) therefore fall in the year 2006 as opposed to 2005.

The **depreciation charge for tangible assets (owned and held in leasing)** decreased by euro 241 million due to the increase associated with the higher investments made in network infrastructure development and business support and the effect of the change in the exchange rates of the Brazilian mobile companies which was offset by the complete revision of the depreciation rates of the fixed and mobile networks.
This revision mainly referred to the power supply systems and air-conditioning systems, whose estimated useful life was changed from 8 to 10 years, and transmission installations, whose estimated life went from 7 to 8 years for the mobile network and from 7 to 9 years for the fixed network. This led to a reduction in the depreciation charge for 2006 of euro 319 million

NOTE 35 –GAINS/LOSSES REALIZED ON DISPOSALS OF NON-CURRENT ASSETS

Gains/losses realized on disposals of non-current assets amount to euro 95 million, a decrease of 147 million compared to 2005. Details are as follows:

(millions of euro)		2006	2005
Gains realized on disposals of non-current assets:			
Gains on the retirement/disposal of intangible and tangible assets		165	283
Gains on the disposal of investments in consolidated subsidiaries		27	-
	(A)	192	283
Losses incurred on disposals of non-current assets:			
Losses on the retirement/disposal of intangible and tangible assets		54	40
Losses on the disposal of business segments		9	-
Losses on the disposal of investments in consolidated subsidiaries		34	1
	(B)	97	41
Total gains (losses), net (A-B)		95	242

Gains (losses) realized on non-current assets totaling euro 95 million mainly include:

- euro 135 million for gains, net of transaction charges, relating to the additional sales of properties by the Group in 2006 to the closed-end real estate investment Funds Raissa and Spazio Industrial under the program for the sale of properties approved by the board of directors' meeting held on December 21, 2005. In 2005, the gain realized on the first part of the program amounted to euro 264 million;
- euro 27 million for the gain on the sale of the entire investment held in Ruf Gestion;
- euro 33 million for the loss on the sale of the entire investment in Telecom Italia Learning Services;
- euro 9 million for the loss on the sale of the "Radiomaritime Activities" business and the net capital loss of euro 25 million on the sale of other non-current assets.

NOTE 36 – IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS

The impairment losses amount to euro 21 million, a decrease of euro 7 millions compared to 2005. Details are as follows:

(millions of euro)		2006	2005
Impairment reversals on non-current assets:			
Impairment reversals on intangible assets			1
	(A)		1
Impairment losses on non-current assets:			
Impairment losses on goodwill		-	6
Other impairment losses on intangible assets		15	11
Other impairment losses on tangible assets		6	12
	(B)	21	29
Total	(A-B)	(21)	(28)

The impairment losses on non-current assets mainly refer to the Latin American Nautilus group following a revision of the prospects for the South American wholesale market. The impairment losses in 2005 included euro 6 million for the impairment of the goodwill relating to the Olivetti cash-generating unit and euro 10 million for the writedowns made by the companies of the Brazil Mobile Business Unit.

NOTE 37 – FINANCIAL INCOME

Financial income amounts to euro 3,041 million, a decrease of euro 103 million compared to 2005. Details are as follows:

(millions of euro)		2006	2005
Income from investments	(A)	240	95
Other financial income:			
Income from financial receivables classified as non-current assets		9	15
Income from securities other than investments, classified as non-current assets		14	-
Income from securities other than investments, classified as current assets		19	31
Income other than the above:			
Interest income		243	219
Foreign exchange gains		559	596
Income from fair value hedging derivatives		474	465
Reversal of the Reserve for fair value adjustments to cash flow hedging derivatives (interest rate component) to the statement of income		327	180
Income from non-hedging derivatives		34	80
Miscellaneous financial income		177	476
	(B)	1,856	2,062
Positive fair value adjustments:			
Fair value hedging derivatives		34	693
Underlying financial assets and liabilities of fair value hedging derivatives		767	167
Non-hedging derivatives		143	124
	(C)	944	984
Impairment reversals on financial assets	(D)	1	3
Total	(A+B+C+D)	3,041	3,144

Income from investments (euro 240 million) increased by euro 145 million compared to 2005 (euro 95 million) and mainly includes gains realized on the sale of the entire 4.99% holding in Neuf Télécom (euro 148 million) and the investment in Avea I.H.A.S (euro 72 million); in 2005, such income referred to gains on the sale of C-Mobil (euro 61 million), Intelsat (euro 2 million) and Golden Lines (euro 5 million).

Foreign exchange gains (euro 559 million) decreased by euro 37 million compared to 2005 (euro 596 million). This amount was reduced by euro 313 million for the foreign exchange losses originating from the Reversal of the Reserve for fair value adjustments to cash flow hedge derivatives to the statement of income (euro 21 million in 2005). The counterpart of foreign exchange gains is represented by foreign exchange losses which amount to euro 586 million in 2006 (euro 538 million in 2005). Additional information is provided in the Note "Financial expenses".

Income from fair value hedging derivatives (euro 474 million) increased by euro 9 million compared to 2005 (euro 465 million) and includes euro 444 million on CCIRS contracts and euro 30 million on IRS contracts.

The positive effect of the Reversal of the Reserve for fair value adjustments to cash flow hedge derivatives (interest rate component) to the statement of income (euro 327 million) increased by euro 147 million compared to 2005 (euro 180 million) and refers to CCIRS contracts for euro 269 million and IRS contracts for euro 58 million.

Income from non-hedging derivatives (euro 34 million) decreased by euro 46 million compared to 2005 (euro 80 million) and refers to CCIRS contracts for euro 7 million and IRS contracts for euro 21 million and other derivative contracts for euro 6 million.

Miscellaneous financial income (euro 177 million) decreased by euro 299 million compared to 2005 (euro 476 million) mainly due to the lower effect on income in 2006 (euro 121 million) compared to 2005 (euro 423 million) of the release to income of provisions recorded for sureties provided to the banks which had financed Avea I.H.A.S., since there was no longer a risk because the guarantees themselves were cancelled.

Positive fair value adjustments to fair value hedging derivatives (euro 34 million) decreased by euro 659 million compared to 2005 (euro 693 million). The counterpart of this amount is represented by negative fair value adjustments to the underlying financial assets and liabilities of fair value hedge derivatives which amount to euro 70 million (euro 689 million in 2005). Additional information is provided in the Note “Financial expenses”.

Positive fair value adjustments to the underlying financial assets and liabilities of fair value hedging derivatives (euro 767 million) increased by euro 600 million compared to 2005 (euro 167 million). The counterpart of this amount is represented by negative fair value adjustments to the corresponding fair value hedges which amount to euro 758 million in 2006 (euro 157 million in 2005). Additional information is provided in the Note “Financial expenses”.

Positive fair value adjustments to non-hedging derivatives (euro 143 million) increased by euro 19 million compared to 2005 (euro 124 million) and include, in particular, euro 30 million for the fair value adjustment of the call option on Sofora shares (euro 45 million in 2005).

NOTE 38 – FINANCIAL EXPENSES

Financial expenses amount to euro 5,014 million, a decrease of euro 117 million compared to 2005. Details are as follows:

(millions of euro)		2006	2005
Charges from investments	(A)	-	-
Interest expenses and other financial expenses:			
Interest expenses and other costs relating to bonds		1,889	2,056
Interest expenses to banks		363	296
Interest expenses to others		237	214
		2,489	2,566
Commissions		27	61
Foreign exchange losses		586	538
Charges from fair value hedging derivatives		364	264
Reversal of the Reserve for fair value adjustments of cash flow hedging derivatives (interest rate component) to the statement of income		326	255
Charges from non-hedging derivatives		69	170
Miscellaneous financial expenses		216	223
	(B)	4,077	4,077
Negative fair value adjustments:			
Fair value hedging derivatives		758	157
Underlying financial assets and liabilities of fair value hedge derivatives		70	689
Non-hedging derivatives		100	184
	(C)	928	1,030
Impairment losses on financial assets (investments and securities other than investments)	(D)	9	24
Total	(A+B+C+D)	5,014	5,131

Interest expenses and other financial expenses relating to bonds, banks and others (euro 2,489 million), decreased by euro 77 million compared to 2005 (euro 2,566 million) mainly as a result of a reduction in the average debt exposure. The reduction was partially offset by the negative effect of a rise in interest rates on a portion of floating-rate debt.

Foreign exchange losses (euro 586 million) increased by euro 48 million compared to 2005 (euro 538 million). Such amount was reduced by euro 23 million for the foreign exchange gains arising from the Reversal of the Reserve for fair value adjustments of cash flow hedge derivatives to the statement of income (euro 341 million in 2005). The counterpart of this amount is represented by Foreign exchange gains which amount to euro 559 million in 2006 (euro 596 million in 2005). Additional information is provided in the Note "Financial income".

Charges from fair value hedging derivatives (euro 364 million) increased by euro 100 million compared to 2005 (euro 264 million) and includes euro 292 million on CCIRS contracts and euro 72 million on IRS contracts.

The negative effect of the Reversal of the Reserve for fair value adjustments of cash flow hedge derivatives to the statement of income (euro 326 million) increased by euro 71 million compared to 2005 (euro 255 million) and refers to CCIRS contracts for euro 212 million and IRS contracts for euro 114 million.

Charges from non-hedging derivatives (euro 69 million) decreased by euro 101 million compared to 2005 (euro 170 million) and include euro 32 million on CCIRS contracts, euro 23 million on IRS contracts and euro 14 million on other derivative contracts.

Negative fair value adjustments to fair value hedging derivatives (euro 758 million) increased by euro 601 million compared to 2005 (euro 157 million). The counterpart of this amount is represented by the positive fair value adjustments to the underlying financial assets and liabilities of fair value hedging derivatives which amount to euro 767 million in 2006 (euro 167 million in 2005). Additional information is provided in the Note "Financial income".

Negative fair value adjustments to underlying financial assets and liabilities of fair value hedge derivatives (euro 70 million) decreased by euro 619 million compared to 2005 (euro 689 million). The counterpart of this amount is represented by the positive fair value adjustments to the corresponding fair value hedge derivatives which amount to euro 34 million in 2006 (euro 693 million in 2005). Additional information is provided in the Note "Financial income".

Negative fair value adjustments to non-hedging derivatives (euro 100 million) decreased by euro 84 million compared to 2005 (euro 184 million).

NOTE 39 - INCOME TAXES

Income taxes for the year ended December 31, 2006 and 2005 are detailed as follows:

(millions of euro)		2006	2005
Current taxes for the year		760	1,017
Current taxes for prior years		15	29
Reversal of prior years income tax liabilities		(93)	(37)
Total current taxes		**682**	**1,009**
Deferred taxes		1,837	1,386
Total income taxes on continuing operations	**(A)**	**2,519**	**2,395**
Current taxes for the year		-	23
Deferred taxes		-	8
Total income taxes on discontinued operations/assets held for sale	**(B)**	**-**	**31**
Total income taxes for the year	**(A+B)**	**2,519**	**2,426**

Incomes taxes on "discontinued operations/assets held for sale" are classified in the statement of income in "Net income/(loss) from discontinued operations/assets held for sale".

Income before taxes and the tax charge on income for the years ended December 31, 2006 and 2005 are summarized as follows:

(millions of euro)		2006	2005
Income before taxes:			
- from continuing operations		5,515	5,535
- from discontinued operations/assets held for sale		7	581
Total income before taxes		**5,522**	**6,116**
of which:			
- *Italy*		*5,296*	*5,789*
- *Abroad*		*226*	*327*
Current taxes:			
- *Italy*		*641*	*957*
- *Abroad*		*41*	*75*
Total current taxes	**(A)**	**682**	**1,032**
Deferred taxes:			
- *Italy*		*1,775*	*1,457*
- *Abroad*		*62*	*(63)*
Total deferred taxes	**(B)**	**1,837**	**1,394**
Total income taxes	**(A+B)**	**2,519**	**2,426**

(millions of euro)	2006	2005
Income taxes:		
- from continuing operations	2,519	2,395
- from discontinued operations/assets held for sale	-	31
Total income taxes	2,519	2,426

The reconciliation of the income taxes on the pretax income of the Group at the tax rate in force and the effective tax rate for the years ended December 31, 2006 and 2005 is the following:

(millions of euro)	2006		2005	
Income before taxes	5,522		6,116	
Taxes calculated at the 33% tax rate in force	1,822	*33%*	2,018	*33%*
Tax losses for the year not considered recoverable	127	*2%*	81	*1%*
Tax losses not considered recoverable in previous years and recovered during the year	(39)	*-1%*	(3)	-
Deferred tax benefits not recorded in prior years and considered recoverable during the year	(7)	-	(21)	-
Reversal of the reserve for deferred taxes	-	-	(136)	*-2%*
Non-deductible costs	57	*1%*	156	*3%*
Other net differences	31	*1%*	(180)	*-3%*
IRAP and other taxes calculated on a different basis other than income before taxes	528	*10%*	511	*8%*
Total effective taxes recognized to the statement of income	2,519	*46%*	2,426	*40%*

Subsequent to the enactment of Legislative Decree 10 dated February 15, 2007, it became possible to recover the withholding taxes unduly withheld by the Parent, Telecom Italia, on the companies of the Group residing in the European Union, for an amount of approximately euro 133 million. Therefore, this amount will be booked in the statement of income in the 2007 financial statements as deduction from the tax charge.

NOTE 40 – EARNINGS PER SHARE

The potential shares originating from the conversions of stock options and convertible bonds have an anti-dilutive effect and therefore the corresponding shares have not been considered in the calculation of earnings per share.

The additional dividends (at an invariable amount of euro 0.011) due conventionally to the savings shares were entirely allocated to continuing operations.

	2006	2005
BASIC AND DILUTED EARNINGS PER SHARE		
Net income attributable to equity holders of the Parent	3,014	3,216
Less: additional dividends per savings shares (euro 0.011 per share)	(66)	(65)
(millions of euro)	2,948	3,151
Weighted average number of ordinary and savings shares (million)	19,281	18,213
Basic and diluted earnings per share – ordinary shares	0.15	0.17
Plus: additional dividends per savings share (euro 0.011 per share)	0.01	0.01
Basic and diluted earnings per share – savings shares (euro)	0.16	0.18
BASIC AND DILUTED EARNINGS PER SHARE FROM CONTINUING OPERATIONS		
Net income from continuing operations	3,007	2,666
Less: additional dividends for savings shares	(66)	(65)
(millions of euro)	2,941	2,601
Weighted average number of ordinary and savings shares (millions)	19,281	18,213
Basic and diluted earnings per share from continuing operations — ordinary shares	0.15	0.14
Plus: additional dividend per savings share	0.01	0.01
Basic and diluted earnings per share from continuing operations — savings shares (euro)	0.16	0.15
BASIC AND DILUTED EARNINGS PER SHARE FROM DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE		
Net income from discontinued operations/assets held for sale (millions of euro)	7	550
Weighted average number of ordinary and savings shares (millions)	19,281	18,213
Basic and diluted earnings per share from discontinued operations/assets held for sale - ordinary shares (euro)	-	0,03
Basic and diluted earnings per share from discontinued operations/assets held for sale - savings shares (euro)	-	0,03

	2006	2005
Weighted average number of ordinary shares	13,254,860,233	12,283,195,845
Weighted average number of savings shares	6,026,120,661	5,930,204,164
Total	**19,280,980,894**	**18,213,400,009**

NOTE 41 - SEGMENT INFORMATION

a) Information by business segment

The disclosure by business segment has been modified to present the Brazil Mobile segment separately from the Domestic Mobile segment in light of the increasing importance of the Brazilian mobile business and the organizational changes that took place during 2006.
In order to facilitate the comparability of the data, the segment information presented for prior periods has been restated for purposes of comparison.

The accounting representation by business segment is as follows:

- Wireline
- Domestic Mobile
- Brazil Mobile
- Media
- Olivetti
- Other activities

CONSOLIDATED STATEMENT OF INCOME BY BUSINESS SEGMENT

(millions of euro)	Wireline		Domestic Mobile		Brazil Mobile		Media		Olivetti		Other activities		Adjustments and eliminations		Consolidated total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Third-party revenues	16,426	16,356	9,939	9,776	3,959	2,895	197	176	385	400	369	316	-	-	31,275	29,919
Intragroup revenues	1,369	1,478	271	300	5	5	10	4	55	52	1,194	1,005	(2,904)	(2,844)	-	-
Revenues by segment	**17,795**	**17,834**	**10,210**	**10,076**	**3,964**	**2,900**	**207**	**180**	**440**	**452**	**1,563**	**1,321**	**(2,904)**	**(2,844)**	**31,275**	**29,919**
Other income	269	302	177	162	65	30	13	11	27	22	102	227	(47)	(76)	606	678
Total operating revenues and other income	**18,064**	**18,136**	**10,387**	**10,238**	**4,029**	**2,930**	**220**	**191**	**467**	**474**	**1,665**	**1,548**	(2,951)	**(2,920)**	**31,881**	**30,597**
Purchases of materials and external services	(7,692)	(7,426)	(4,837)	(4,529)	(2,210)	(1,804)	(213)	(200)	(397)	(388)	(1,715)	(1,386)	2,873	2,796	(14,191)	(12,937)
Personnel costs	(2,635)	(2,827)	(469)	(548)	(208)	(159)	(76)	(75)	(91)	(100)	(324)	(456)	2	23	(3,801)	(4,142)
of which accrual for employee severance indemnities	*(110)*	*(122)*	*(17)*	*(30)*	*-*	*-*	*(3)*	*(3)*	*(4)*	*(5)*	*(12)*	*(8)*	*-*	*-*	*(146)*	*(168)*
Other operating expenses	(639)	(560)	(147)	(131)	(642)	(509)	(14)	(12)	(11)	(11)	(112)	(273)	22	28	(1,543)	(1,468)
of which charge for bad debts and provisions for risks and cherges	*(437)*	*(358)*	*(38)*	*(44)*	*(174)*	*(130)*	*(3)*	*(4)*	*(9)*	*(6)*	*(10)*	*(50)*	*-*	*-*	*(671)*	*(592)*
Changes in inventories	(6)	(30)	38	6	(19)	8	(1)	3	(1)	9	(3)	-	-	-	8	(4)
Capitalized internal construction costs	382	357	70	50	-	-	1	2	-	1	-	1	43	60	496	471
EBITDA	**7,474**	**7,650**	**5,042**	**5,086**	**950**	**466**	**(83)**	**(91)**	**(33)**	**(15)**	**(489)**	**(566)**	**(11)**	**(13)**	**12,850**	**12,517**
Depreciation and amortization	(3,010)	(3,125)	(1,296)	(1,224)	(930)	(645)	(55)	(38)	(18)	(16)	(235)	(248)	57	64	(5,487)	(5,232)
Gains (losses) on disposals of non-current assets	(47)	(25)	(3)	2	1	(2)	1	(1)	1	-	142	268	-	-	95	242
Impairment reversals (losses) on non-current assets	(21)	(12)	(1)	(8)	-	(9)	-	-	-	(7)	-	(1)	1	9	(21)	(28)
EBIT	**4,396**	**4,488**	**3,742**	**3,856**	**21**	**(190)**	**(137)**	**(130)**	**(50)**	**(38)**	**(582)**	**(547)**	**47**	**60**	**7,437**	**7,499**
Share of profits (losses) of associates and joint ventures accounted for using the equity method	(1)	2	-	-	-	-	-	-	-	-	52	21	-	-	51	23
Financial income															3,041	3,144
Financial expenses															(5,014)	(5,131)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES															**5,515**	**5,535**
Income taxes															(2,519)	(2,395)
NET INCOME FROM CONTINUING OPERATIONS															**2,996**	**3,140**
Net income from discontinued operations/assets held for sale															7	550
NET INCOME FOR THE YEAR															**3,003**	**3,690**
of which:															-	-
- **Net income attributable to equity holders of the Parent**															**3,014**	**3,216**
- Net income (loss) attributable to Minority interests															(11)	474

CAPITAL EXPENDITURE INFORMATION BY BUSINESS SEGMENT

(millions of euro)	Wireline		Domestic Mobile		Brazil Mobile		Media		Olivetti		Other activities		Adjustments and eliminations		Consolidated total	
	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005	2006	2005
Intangible assets	1,121	851	608	605	357	244	56	38	-	1	73	54	(28)	(8)	2,187	1,785
Tangible assets	1,881	1,972	538	671	342	598	29	27	10	18	127	102	-	-	2,927	3,388
Total capital expenditures	3,002	2,823	1,146	1,276	699	842	85	65	10	19	200	156	(28)	(8)	5,114	5,173

EMPLOYEES AT YEAR-END BY BUSINESS SEGMENT

(number)	Wireline		Domestic Mobile		Brazil Mobile		Media		Olivetti		Other activities		Consolidated total	
	12/31/06	12/31/05	12/31/06	12/31/05	12/31/06	12/31/05	12/31/06	12/31/05	12/31/06	12/31/05	12/31/06	12/31/05	12/31/06	12/31/05
Employees (*)	55,705	56,987	11,218	11,720	9,531	9,043	919	886	1,428	1,750	4,408	5,098	83,209	85,484

(*) Employees at year-end do not take into account those relating to discontinued operations/assets held for sale

OTHER INFORMATION BY BUSINESS SEGMENT

(milioni di euro)	Wireline		Domestic Mobile		Brazil Mobile		Media		Olivetti		Other activities		Adjustments and		Consolidated total	
	12/31/06	12/31/05	12/31/06	12/31/05	12/31/06	12/31/05	12/31/06	12/31/05	12/31/06	12/31/05	12/31/06	12/31/05	12/31/06	12/31/05	12/31/06	12/31/05
Operating assets by segment	34,597	35,561	34,714	35,797	5,379	5,627	646	591	323	305	2,476	4,113	(533)	(3,193)	77,602	78,801
Investments accounted for using the equity method	7	7	-	-	-	-	-	-	1	1	480	773	-	-	488	781
Discontinued operations/assets held for sale															235	528
Unallocated assets															11,132	15,900
Total assets															**89,457**	**96,010**
Operating liabilities by segment	9,210	9,646	3,542	4,467	1,277	1,605	189	201	257	252	1,059	2,659	(424)	(2,882)	15,110	15,948
Liabilities relating to discontinued operations/assets held for sale															-	285
Unallocated liabilities															47,249	52,792
Equity															27,098	26,985
Total Equity and Liabilities															**89,457**	**96,010**

Key economic and other data referring to discontinued operations:

(millions of euro)		Discontinued operations/assets held for sale: Mobile (1)	Media (2)	Entel Chile Group	IT Market	**Subtotal**	*Other, adjustments and eliminations (3)*	**Total**
Revenues	2006	121	-	-	-	121	(1)	**120**
	2005	734	126	238	289	1,387	(53)	**1,334**
EBITDA	2006	31	-	-	-	31	-	**31**
	2005	185	9	77	7	278	(34)	**244**
EBIT (3)	2006	15	-	-	-	15	(8)	**7**
	2005	60	4	36	(3)	97	506	**603**
Net income (loss) from discontinued operations/assets held for sale	2006	15	-	-	-	15	(8)	**7**
	2005	28	1	26	(11)	44	506	**550**
Capital expenditures	2006	10	-	-	-	10	-	**10**
	2005	87	3	27	5	122	-	**122**
Net financial debt	12/31/2006	-	-	-	-	-	-	**-**
	12/31/2005	90	16	-	-	106	-	**106**
Number of employees at year-end	12/31/2006	-	-	-	-	-	-	**-**
	12/31/2005	863	184	-	-	1,047	-	**1,047**

(1) Includes: Tim Hellas (sold at the beginning of June 2005), Tim Perù (sold in August 2005) and Digitel Venezuela (sold in May 2006).
(2) Gruppo Buffetti (sold in January 2006).
(3) Adjustments and eliminations relating to EBIT include:
- in 2006, the gain, net of the relative incidental charges and provisions for risks and charges, on the sale of Digitel Venezuela (euro 22 million), and a provision relating to Tim Hellas, a company sold in 2005 (euro 30 million);
- in 2005, the gain on the sale of Tim Hellas (euro 410 million, net of the relative incidental charges) and Tim Perù (euro 120 million) as well as other losses and incidental charges relating to the sale of the Finsiel group and Entel Chile group (euro 24 million).

b) Information by geographical segment

Geographical segment information on revenues by geographical location of the Group's customers:

(millions of euro)	2006	2005
Italy	23,306	23,754
Europe (excluding Italy)	2,946	2,265
Latin America	4,220	3,147
Other countries	803	753
Total	**31,275**	**29,919**

Operating assets by geographical segment:

(millions of euro)	12/31/2006	12/31/2005
Italy	70,152	71,070
Europe (excluding Italy)	1,780	1,724
Latin America	5,650	5,962
Other countries	20	45
Total	**77,602**	**78,801**

Capital expenditures in tangible and intangible assets by geographical segment:

(millions of euro)	2006	2005
Italy	3,918	3,992
Europe (excluding Italy)	467	313
Latin America	719	861
Other countries	10	7
Total	5,114	5,173

Employees by geographical segment:

(number)	Executives	Middle management	White collars	Blue collars	Personnel with temporary work contracts	Total 12/31/2006	Total 12/31/2005
Italy	1,207	4,277	61,262	431	1,646	68,823	71,987
Europe (excluding Italy)	41	442	2,262		626	3,371	2,820
Latin America	45	357	10,152		382	10,936	10,604
Other countries	9	36	34		-	79	73
Total	1,302	5,112	73,710	431	2,654	83,209	85,484

NOTE 42 - RELATED PARTY TRANSACTIONS

Related party transactions, including intragroup transactions, are neither unusual nor atypical but fall under the ordinary business operations of the companies of the Group. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm’s length.

The balances relating to transactions with related parties and the effects on the statement of income, the balance sheet and the statement of cash flows for the years ended December 31, 2006 and 2005 are presented in the following tables:

(millions of euro)	Transactions with related parties (amount) 2006	2005	Corresponding caption in financial statements (amount) 2006	2005	% impact of related parties 2006	2005
Revenues						
Of which attributable to transactions with:						
- associates and jointly controlled entities	270	336				
- subsidiaries, associates and jointly controlled entities	176	104				
- other related parties through directors, statutory auditors and key managers	18	33				
- pension funds						
	464	473				
Transactions of discontinued operations with related parties		(10)				
Net of discontinued operations	464	463	31,275	29,919	1.5	1.5
Other income						
Of which attributable to transactions with:						
- associates and jointly controlled entities	6	6				
- subsidiaries, associates and jointly controlled entities	1					
- other related parties through directors, statutory auditors and key managers						
- pension funds						
	7	6	606	678	1.2	0.9
Purchases of materials and external services						
Of which attributable to transactions with:						
- associates and jointly controlled entities	103	266				
- subsidiaries, associates and jointly controlled entities	61	36				
- other related parties through directors, statutory auditors and key managers	93	112				
- pension funds						
	257	414				
Transactions of discontinued operations with related parties		(5)				
Net of discontinued operations	257	409	14,191	12,937	1.8	3.2
Personnel costs						
Of which attributable to transactions with:						
- associates and jointly controlled entities						
- subsidiaries, associates and jointly controlled entities						
- other related parties through directors, statutory auditors and key managers						
- pension funds	25	23				
- remuneration to key managers	33	25				
	58	48	3,801	4,142	1.5	1.2
Other operating expenses						
Of which attributable to transactions with:						
- associates and jointly controlled entities						
- subsidiaries, associates and jointly controlled entities						
- other related parties through directors, statutory auditors and key managers	6					
- pension funds						
	6	0	1,543	1,468	0.4	…
Financial income						
Of which attributable to transactions with:						
- associates and jointly controlled entities	1	2				
- subsidiaries, associates and jointly controlled entities						
- other related parties through directors, statutory auditors and key managers						
- pension funds						
	1	2	3,041	3,144	…	0.1
Financial expenses						
Of which attributable to transactions with:						
- associates and jointly controlled entities	27	32				
- subsidiaries, associates and jointly controlled entities						
- other related parties through directors, statutory auditors and key managers						
- pension funds						
	27	32	5,014	5,131	0.5	0.6
Capital expenditures for intangible and tangible assets						
Of which attributable to transactions with:						
- associates and jointly controlled entities	144	147				
- subsidiaries, associates and jointly controlled entities	338	319				
- other related parties through directors, statutory auditors and key managers	61	69				
- pension funds						
	543	535	5,114	5,173	10.6	10.3
Dividends paid to third parties						
Of which attributable to transactions with:						
- associates and jointly controlled entities						
- subsidiaries, associates and jointly controlled entities						
- other related parties through directors, statutory auditors and key managers	348	264				
- pension funds		6				
	348	270	2,997	2,328	11.6	11.6

(millions of euro)	Transactions with related parties (amount)		Corresponding caption in financial statements (amount)		% impact of related parties	
	12/31/2006	12/31/2005	12/31/2006	12/31/2005	12/31/2006	12/31/2005
Net financial debt:						
Securities, financial receivables and other non-current financial assets						
Of which attributable to transactions with:						
- associates and jointly controlled entities	24	24				
- subsidiaries, associates and jointly controlled entities						
- other related parties through directors, statutory auditors and key managers						
- pension funds						
	24	24	691	996	3.5	2.4
Securities (Current assets)						
Of which attributable to transactions with:						
- associates and jointly controlled entities						
- subsidiaries, associates and jointly controlled entities						
- other related parties through directors, statutory auditors and key managers						
- pension funds						
	0	0	812	378	...	...
Financial receivables and other current financial assets						
Of which attributable to transactions with:						
- associates and jointly controlled entities	1					
- subsidiaries, associates and jointly controlled entities						
- other related parties through directors, statutory auditors and key managers						
- pension funds						
	1	0	433	509	0.2	...
Cash and cash equivalents						
Of which attributable to transactions with:						
- associates and jointly controlled entities	1	14				
- subsidiaries, associates and jointly controlled entities						
- other related parties through directors, statutory auditors and key managers						
- pension funds						
	1	14	7,219	10,323	...	0.1
Financial assets relating to discontinued operations/assets held for sale						
Of which attributable to transactions with:						
- associates and jointly controlled entities						
- subsidiaries, associates and jointly controlled entities						
- other related parties through directors, statutory auditors and key managers						
- pension funds						
	0	0	0	37	...	...
Non-current financial liabilities						
Of which attributable to transactions with:						
- associates and jointly controlled entities	239	279				
- subsidiaries, associates and jointly controlled entities						
- other related parties through directors, statutory auditors and key managers						
- pension funds						
	239	279	40,803	42,146	0.6	0.7
Current financial liabilities						
Of which attributable to transactions with:						
- associates and jointly controlled entities	148	124				
- subsidiaries, associates and jointly controlled entities						
- other related parties through directors, statutory auditors and key managers						
- pension funds						
	148	124	5,653	9,812	2.6	1.3
Financial liabilities relating to discontinued operations/assets held for sale						
Of which attributable to transactions with:						
- associates and jointly controlled entities						
- subsidiaries, associates and jointly controlled entities						
- other related parties through directors, statutory auditors and key managers						
- pension funds						
	0	0	0	143	...	...
Total net financial debt						
Of which attributable to transactions with:						
- associates and jointly controlled entities	361	365				
- subsidiaries, associates and jointly controlled entities						
- other related parties through directors, statutory auditors and key managers						
- pension funds						
	361	365	37,301	39,858	1.0	0.9

(millions of euro)	Transactions with related parties (amount)		Corresponding caption in financial statements (amount)		% impact of related parties	
	12/31/2006	12/31/2005	12/31/2006	12/31/2005	12/31/2006	12/31/2005
Other balance sheet captions:						
Miscellaneous receivables and other non-current assets						
Of which attributable to transactions with:						
- associates and jointly controlled entities	10	15				
- subsidiaries, associates and jointly controlled entities						
- other related parties through directors, statutory auditors and key managers						
- pension funds						
	10	15	871	825	1.1	1.8
Trade and miscellaneous receivables and other current assets						
Of which attributable to transactions with:						
- associates and jointly controlled entities	201	210				
- subsidiaries, associates and jointly controlled entities	14	12				
- other related parties through directors, statutory auditors and key managers	5	6				
- pension funds						
	220	228	8,748	8,856	2.5	2.6
Miscellaneous payables and other non-current liabilities						
Of which attributable to transactions with:						
- associates and jointly controlled entities						
- subsidiaries, associates and jointly controlled entities	23	10				
- other related parties through directors, statutory auditors and key managers						
- pension funds						
	23	10	1,857	2,113	1.2	0.5
Trade and miscellaneous payables and other current liabilities						
Of which attributable to transactions with:						
- associates and jointly controlled entities	99	116				
- subsidiaries, associates and jointly controlled entities	58	103				
- other related parties through directors, statutory auditors and key managers	27	43				
- pension funds	20	19				
	204	281	11,596	12,157	1.8	2.3

The economic, balance sheet and financial effects of related party transactions on the consolidated financial statements of the Telecom Italia Group at December 31, 2006 compared with those at December 31, 2005 are presented below.
The following tables present the major economic, balance sheet and financial transactions and balances between companies consolidated line-by-line on one hand and associates and jointly controlled companies on the other.

(millions of euro)	2006	2005	
Revenues	270	336	These mainly refer to revenues from Teleleasing S.p.A. euro 225 million (euro 230 million in 2005), LI.SIT. S.p.A. euro 12 million (euro 68 million in 2005), Shared Service Center Scrl euro 20 million (euro 22 million in 2005), ETECSA euro 8 million (euro 6 million in 2005), AVEA I.H.A.S. euro 1 million (euro 2 million in 2005), Nordcom S.p.A. euro 1 million (euro 2 million in 2005) and Siemens Informatica S.p.A. euro 1 million. 2005 included revenues from Golden Lines Ltd for euro 3 million
Other income	6	6	This mainly refers to cost recoveries for off-site personnel by certain subsidiaries and associates
Purchases of materials and external services	103	266	These refer mainly to costs for rent from Tiglio I S.r.l. euro 5 million (euro 10 million in 2005), Tiglio II S.r.l. euro 3 million (euro 12 million in 2005), for TLC services from ETECSA euro 6 million (euro 90 million in 2005), AVEA I.H.A.S. euro 2 million (euro 3 million in 2005), for maintenance and assistance contracts from Shared Service Center Scrl euro 27 million (euro 34 million in 2005), for software and computer materials and for maintenance and assistance contracts from Siemens Informatica S.p.A. euro 17 million (euro 52 million in 2005), for TLC equipment from Teleleasing S.p.A. euro 15 million (euro 23 million in 2005), for sponsorship costs from Luna Rossa Challenge 2007 S.L. euro 17 million (euro 17 million in 2005), for accessories and consumables from Baltea S.r.l. euro 4 million (euro 3 million in 2005) for remote medicine services from Telbios S.p.A. euro 5 million (euro 3 million in 2005) and for software services from Nordcom S.p.A. euro 2 million (euro 1 million in 2005). 2005 included costs for transport services from Eurofly Service S.p.A. for euro 3 million.
Financial income	1	2	This includes accrued interest income earned on loans made to certain associates
Financial expenses	27	32	These mainly refer to (i) interest expenses to Teleleasing S.p.A. euro 26 million (euro 23 million in 2005) for finance leases and (ii) interest expenses to Tiglio I S.r.l. euro 1 million (euro 4 million in 2005). 2005 included euro 4 million to Tiglio II S.r.l. for sale and leaseback transactions
Capital expenditures in tangible and intangible assets	144	147	These refer mainly to acquisitions of computer projects from Shared Service Center Scrl euro 77 million (euro 84 million in 2005), Siemens Informatica S.p.A. euro 65 million (euro 42 million in 2005) and Telbios S.p.A. euro 1 million (euro 1 million in 2005). 2005 also include euro 8 million from Value Team S.p.A.

(millions of euro)	12/31/2006	12/31/2005	
Securities, financial receivables and other non-current financial assets	24	24	These refer to medium/long-term loans made to Aree Urbane S.r.l. euro 24 million (euro 21 million at December 31, 2005). At December 31, 2005 there were also loans due from Tiglio II S.r.l. (euro 3 million)
Miscellaneous receivables and other non-current assets	10	15	These refer to receivables from LI.SIT S.p.A. euro 10 million for the residual additional paid-in capital paid (euro 15 million at December 31, 2005)
Trade and miscellaneous receivables and other current assets	201	210	These refer mainly to receivables from LI.SIT. S.p.A. euro 120 million (euro 109 million at December 31, 2005), Teleleasing S.p.A. euro 64 million (euro 75 million at December 31, 2005), Luna Rossa Challenge 2007 S.L. euro 10 million (euro 4 million at December 31, 2005), Shared Service Center Scrl euro 2 million (euro 4 million at December 31, 2005), ETECSA euro 2 million (euro 3 million al 12/31/2005), Telbios S.p.A. euro 1 million (euro 1 million at December 31, 2005) and Im.Ser S.r.l. euro 1 million. At December 31, 2005, there were also receivables from AVEA IHAS euro 8 million, Tiglio II S.r.l. euro 3 million, NordCom S.p.A. euro 1 million and Tiglio I S.r.l. euro 1 million
Financial receivables and other current financial assets	1	0	These refer to loans made to Aree Urbane S.r.l.
Cash and cash equivalents	1	14	These refer to treasury accounts with associates
Non-current financial liabilities	239	279	These refer to non-current financial payables for finance leases (i) to Teleleasing S.p.A. euro 231 million (euro 203 million at December 31, 2005) and (ii) for sale and leaseback transactions to Tiglio I S.r.l. euro 7 million (euro 43 million at December 31, 2005) and Tiglio II S.r.l. euro 1 million (euro 33 million at December 31, 2005)
Current financial liabilities	148	124	These refer to current financial payables for finance leases (i) to Teleleasing S.p.A. euro 143 million (euro 113 million at December 31, 2005) and (ii) for sale and leaseback transactions Tiglio I S.r.l. euro 4 million (euro 8 million at December 31, 2005) and Tiglio II S.r.l. euro 1 million (euro 3 million at December 31, 2005)
Trade and miscellaneous payables and other current liabilities	99	116	These mainly refer to payables, for supply transactions connected with operating and investment activities, to Siemens Informatica S.p.A. euro 48 million (euro 56 million at December 31, 2005), Shared Service Center Scrl euro 16 million (euro 18 million at December 31, 2005), LI.SIT S.p.A. euro 14 million mainly regarding accruals relating to the portion of deferred income from investments (euro 11 million at December 31, 2005), Teleleasing S.p.A. euro 3 million (euro 8 million at December 31, 2005), ETECSA euro 12 million (euro 11 million at December 31, 2005), Telbios S.p.A. euro 2 million (euro 2 million at December 31, 2005), Baltea S.r.l. euro 1 million (euro 1 million at December 31, 2005), Luna Rossa Challenge 2007 S.L. euro 1 million, Asscom S.r.l. euro 1 million and NordCom S.p.A. euro 1 million. At December 31, 2005 there were trade payables to AVEA I.H.A.S. euro 1 million, Tiglio I S.r.l. euro 2 million and Tiglio II S.r.l. euro 4 million

The Telecom Italia Group has also provided guarantees on behalf of associates for a total of euro 102 million (euro 276 million at December 31, 2005) of which euro 54 million is on behalf of Tiglio I S.r.l. (euro 54 million at December 31, 2005), euro 11 million on behalf of Aree Urbane S.r.l (euro 44 million at December 31, 2005), euro 25 million on behalf of Italtel Group (euro 31 million at December 31, 2005) and euro 12 million on behalf of other companies (euro 13 million at December 31, 2005). At December 31, 2005, there were guarantees provided on behalf of AVEA I.H.A.S. for euro 121 million and on behalf of Tiglio II S.r.l. per euro 13 million.

The following table presents the major economic, balance sheet and financial transactions and balances between companies consolidated line-by-line on one hand and companies controlled by associates and by jointly controlled companies on the other (the companies of the Italtel group, a related party through the investment in the parent Italtel Group S.p.A. and the companies of the Telecom Argentina group related through Sofora Telecomunicaciones S.A.). The companies of the Brasil Telecom Participaçoes S.A. group are considered related parties through Solpart Participaçoes S.A. from July 1, 2005 to October 1, 2006 since the investment in Solpart Participaçoes S.A. was transferred in October 2006 to Brasilco S.r.l., a newly-established Italian company held by a trust registered under British law of which Telecom Italia International is the beneficiary. This is described in greater detail in the Note "Other non-current assets".

(millions of euro)	2006	2005	
Revenues	176	104	These refer to revenues for telecommunications services from the Brasil Telecom Participaçoes group 158 million (euro 89 million in 2005), the Telecom Argentina group euro 16 million (euro 12 million in 2005) and the Italtel group euro 2 million (euro 3 million in 2005)
Other income	1	0	This mainly refers to cost recoveries for off-site personnel by certain subsidiaries and associates
Purchases of materials and external services	61	36	These refer (i) to costs for maintenance and assistance contracts from the Italtel group euro 25 million (euro 20 million at December 31, 2005); (ii) TLC service costs from the Brasil Telecom Participaçoes group euro 29 million (euro 10 million at December 31, 2005) and from the Telecom Argentina group euro 7 million (euro 6 million in 2005)
Capital expenditures in tangible and intangible assets	338	319	These refer to the purchase of telephone exchanges from the Italtel group

(millions of euro)	12/31/2006	12/31/2005	
Trade and miscellaneous receivables and other current assets	14	12	These refer to telephone services rendered to the Italtel group euro 1 million (euro 2 million at December 31, 2005) and receivables from the Telecom Argentina group connected with TLC activities for euro 13 million (euro 4 million at December 31, 2005). At December 31, 2005, there were also receivables of euro 6 million from the Brasil Telecom Participaçoes group
Miscellaneous payables and other non-current liabilities	23	10	These refer to the medium/long-term portion of the deferral relating to the supply of "IRU" transmission capacity to Telecom Argentina S.A.
Trade and miscellaneous payables and other current liabilities	58	103	These refer to payables, for the supply transactions connected with investment and operating activities, to the Italtel group euro 54 million (euro 100 million at December 31, 2005) and to the Telecom Argentina group for TLC activities euro 4 million (euro 2 million at December 31, 2005) of which euro 2 million represents the short-term portion of the deferral relating to the supply of "IRU" transmission capacity to Telecom Argentina S.A.

The following table presents the major economic, balance sheet and financial transactions and balances between companies consolidated line-by-line on one hand and parties related to the Telecom Italia S.p.A. through directors, statutory auditors and key managers of the company on the other.

(millions of euro)	2006	2005	
Revenues	18	33	These refer to (i) information system and computer services and energy services supplied to the Pirelli group euro 3 million (euro 3 million in 2005); (ii) telephone services supplied to the Pirelli group euro 8 million (euro 7 million in 2005), to the Edizione Holding group euro 5 million (euro 4 million in 2005), to Telepost euro 1 million (euro 1 million in 2005) and to related companies through Mr. Moratti euro 1 million (euro 2 million in 2005). In 2005, they included euro 16 million to the Unipol Group and euro 1 million to STMicroelectronics, which are no longer related parties in 2006
Purchases of materials and external services	93	112	These refer to R&D expenditures, purchases of modems and ADSL equipment, consulting and services regarding industrial property and real estate activities from the Pirelli group, euro 69 million (euro 72 million in 2005), Document Management services from Telepost euro 18 million (euro 21 million in 2005), sponsorship and content provider costs from F.C. Internazionale Milano S.p.A. - a related company through Mr. Moratti, euro 3 million (euro 5 million in 2005), commissions paid to Autogrill S.p.A (Edizione Holding group) for the sale of prepaid telephone cards euro 2 million (euro 2 million in 2005) and the supply of gas by Camfin euro 1 million. In 2005, they included euro 10 million relating to insurance services from the Unipol group and euro 2 million from STMicroelectronics, which are no longer related parties
Other operating expenses	6	0	These refer to commercial settlements with the Pirelli Group
Capital expenditures in tangible and intangible	61	69	These mainly refer to purchases of modems, cables and ADSL equipment from the Pirelli group

(millions of euro)	12/31/2006	12/31/2005	
Trade and miscellaneous receivables and other current assets	5	6	These mainly refer to the above-mentioned services for revenues from sales and services from the Pirelli Group euro 3 million (euro 2 million at December 31, 2005), to the Edizione Holding group euro 1 million (euro 2 at December 31, 2005) and to other companies euro 1 million (euro 2 million at December 31, 2005)
Trade and miscellaneous payables and other current liabilities	27	43	These mainly refer to payables for supply transactions connected both to the purchases and the performance of services both to the investment activities, to the Pirelli group, to the Pirelli group euro 20 million (euro 34 million at December 31, 2005), to Telepost for Document Management services euro 4 million (euro 7 million at December 31, 2005), to F.C. Internazionale Milano S.p.A. - a related company through Mr. Moratti, for sponsorship and content provider costs, euro 2 million. In 2005 they included euro 1 million of payables to STMicroelectronics, which is no longer a related party in 2006

The following table presents the major economic, balance sheet and financial transactions and balances between companies consolidated line-by-line on one hand and pension funds for employees of the companies of the Telecom Italia Group on the other.

(millions of euro)	2006	2005	
Personnel costs	25	23	These refer to the contribution made to pension funds of which euro 17 million for Telemaco (euro 16 million at December 31, 2005), euro 6 million for Fontedir (euro 5 million at December 31, 2005) and euro 2 million for other Italian and foreign pension funds (euro 1 million at December 31, 2005)

(millions of euro)	12/31/2006	12/31/2005	
Trade and miscellaneous payables and other current liabilities	20	19	These refer to contributions payable to pension funds of which euro 15 million for Telemaco (euro 14 million at December 31, 2005), euro 4 million for Fontedir (euro 4 million at December 31, 2005) and euro 1 million for other Italian and foreign pension funds (euro 1 million at December 31,2005)

The following is a brief description of the contents of the main contracts between the Telecom Italia Group and associates, jointly controlled companies, companies controlled by associates, companies controlled by companies subject to joint control and related parties through directors, statutory auditors and key managers.

Contracts with:

Avea I.H.A.S.
Revenue related
The contracts refer to international telecommunications services, particularly roaming by Avea customers on the Telecom Italia network, technical assistance services rendered and cost recoveries for off-site personnel of Telecom Italia at Avea.
Expense related
The contracts refer to interconnection fees for roaming traffic by Telecom Italia customers on the Avea network.

Baltea S.p.A
Expense related
The contracts refer to purchases of accessories and consumable stores for Olivetti S.p.A. photocopiers destined for resale.

EtecSA
Revenue related
The main contracts relate to:
- Telecom Italia Sparkle data traffic;
- technical assistance supplied by Telecom Italia S.p.A.;
- recovery of costs for off-site personnel.

Expense related
The main contracts relate to roaming traffic originated by Telecom Italia customers on the EtecSA network.

IN.VA S.p.A.
Revenue related
The main contracts refer to the supply of telephone and data transmission services.

LI.SIT S.p.A.
Revenue related
The contract provides for developing and implementing the computer and information network for the social health system of the Lombardy Region, making services available online to all the regional health structures by supplying:

- cards with microchips for all citizens and health operators in Lombardy;
- outsourcing services for the management of the Internet Data Center and hardware and software systems;
- professional and applications consulting for the implementation and management of the system.

Luna Rossa Challenge 2007 S.L.
Revenue related
The main contracts cover the supply of telephone and data transmission services.
Expense related
The main contracts refer to the sponsorship of the Luna Rossa sailboat during the XXXII America's Cup. According to these contracts, Telecom Italia Group became the Main Sponsor of Luna Rossa and Partner and Official Sponsor of the race. It also acquired the sublicense rights on the "Luna Rossa" trademark for certain categories of goods.

Nordcom S.p.A.
Revenue related
The main contracts refer to the supply of data network connections and software applications.
Expense related
The contract refers to the development of systems and computer solutions.

Shared Service Center S.c.a.r.l.
Revenue related
The main contracts refer to:

- the supply of telephone and data transmission services;
- the operation of the client's software applications at the Telecom Italia S.p.A. data center;
- the recovery of costs of off-site personnel and centralized expenses (management fee and expenses covered by agreement).

Expense related
The main contracts refer to the supply of computer and information services relating to:

- design, implementation, release, operation and management of portals, institutional sites, SAP and dedicated solutions;
- SAP application maintenance and service management services.

Siemens Informatica S.p.A.
Expense related
The main contracts cover:

- the supply of software services to Group companies;
- applications management services;
- support services for the operation of Telecom Italia S.p.A. OSS and BSS systems;
- the supply of support services for distributed computer technology ;
- applications software development and technical services for Telecom Italia S.p.A.

Teleleasing S.p.A.
Revenue related
The contracts relate to the application of the commercial cooperation agreement signed in 2000. By virtue of this agreement, Telecom Italia S.p.A. is committed to guaranteeing Teleleasing the role of preferential partner in the case of the purchase of goods under finance leases by its customers. Teleleasing S.p.A. purchases the equipment from Telecom Italia S.p.A. and signs the leasing contract with the customer; Telecom Italia S.p.A. sees to the collection of lease payments after having acquired the rights.
Expense related
The contracts refer both to the finance lease of telephone systems to Telecom Italia S.p.A. and its subsidiaries and the finance lease of a building.

Telbios S.p.A.
Revenue related
The main contracts cover the supply of telephone services and services for WBS activities.
Expense related
The main contracts refer to the supply of services, products and hardware systems and software for the remote medicine offering.

Tiglio I S.r.l.
Revenue related
The main contracts call for the supply of telephone services.
Expense related
The main contracts refer to:
- the lease of buildings (also premises housing telecommunications equipment) with a term of 21 years and the possibility of tacit renewal, unless notice of termination is given by Telecom Italia S.p.A., for successive periods of six years, at the same terms and conditions as originally agreed;
- the lease of buildings solely for office use, for standard lease periods.

Tiglio II S.r.l.
Expense related
The main contracts refer to:
- the lease of buildings (also premises housing telecommunications equipment) with a term of 19 years and the possibility of tacit renewal, unless notice of termination is given, by Telecom Italia S.p.A. for successive periods of six years, at the same terms and conditions as originally agreed;
- the lease of buildings solely for office use, for standard lease periods.

* * *

Brasil Telecom Participaçoes group
Revenue related
The contracts refer to telecommunications services, interconnection services in particular, and site sharing.
Expense related
These refer to telecommunications services, interconnection services in particular, site sharing and line leases.

Telecom Argentina group
Revenue related
The main contracts refer to technical assistance provided by Telecom Italia S.p.A. for broadband development and for the study and implementation of Value Added Services, as

well as data transmission and voice services and the supply of "IRU" transmission capacity by Telecom Italia Sparkle.
Expense related
The contracts relate to international telecommunications services and roaming.

Italtel Group
Revenue related
The main contracts provide for the supply of telephone and data transmission services.
Expense related
The main contracts provide for the supply and maintenance of traditional switching and innovative switching (VoIP) equipment and the relative services, as well as the supply of innovative devices and their maintenance for the data networks using CISCO technology.

* * *

Camfin S.p.A.
Revenue related
The main contracts refer to the supply of telephone and data transmission services.
Expense related
The contract refers to the supply of gas with the company Cam Gas S.p.A..

Edizione Holding group
Revenue related
The main contracts provide for the supply of telephone and data transmission services that are operated by outsourcing with dedicated assistance.
Expense related
The main contracts refer to commissions paid to Autogrill S.p.A. for the sale of prepaid telephone cards and occupancy charges for public telephones located at their structures.

F.C. Internazionale Milano S.p.A.
Revenue related
The main contracts call for the supply of telephone and data transmission services.
Expense related
The main contracts refer to costs for the sponsorship and the rights to diffuse content regarding the sports events of the company F.C. Internazionale Milano (Inter) by Telecom Italia S.p.A.. The sponsorship contract particularly provides for the possibility of using the Inter brand and logo for all advertising activities and the sale of mobile telephone products, the participation of Inter in the Trofeo TIM and the visibility of the TIM brand during the Inter championship and Coppa Italia/TIM Cup games at home.

Pirelli & C. S.p.A.
Revenue related
The main contracts provide for the supply of telecommunications and computer and information services.
Expense related
The main contracts refer to:

- consulting and services contract regarding patent rights;
- defining strategies regarding patent rights;
- determination of the competitive positioning of the various businesses of the Telecom Italia Group in comparison with similar business of the competition;
- assistance in negotiations over partnerships, licenses and cooperation contracts;
- litigation and analyses of patents of the competition;
- obtaining patents (drawing up documents, filings in Italy and outside Italy, continuation during the stages of examination, challenges and conflicts);

- control over costs by project and/or by business;
- training of technicians;
- management of a database for patent data and relative reports ;
- control over results reached;
- patent research;
- filing and classification of important documents regarding patents;
- brands, including their management (research, filings in Italy and outside Italy, renewals, challenges, disputes, licenses inside and outside the Group):
- technical cooperation between Telecom Italia S.p.A. and Pirelli in the areas of optical devices and advanced telecommunications networks. The contract provides:
  1. with regard to the results of research for which patents are not filed, three areas of competence which have been identified as follows:
     - ✓ simple and complex devices, competence of Pirelli;
     - ✓ networks and services, competence of Telecom Italia S.p.A.;
     - ✓ subsystems, joint competence of Telecom Italia S.p.A. – Pirelli.
  2. with regard to patents resulting from research, ownership is joint, with the understanding that each party must give the other a license on the respective portion of ownership according to the following format:
     - ✓ Pirelli grants Telecom Italia S.p.A. an exclusive license which can be sublicensed for patents for use in the “Networks and Services” area,
     - ✓ Telecom Italia S.p.A. grants Pirelli an exclusive license which can be sublicensed for patents for use in the “Devices” area; each of the parties is required to pay the other party 50% of the consideration from any sublicenses granted.

Furthermore, Pirelli is obliged to sell, under an exclusive arrangement, any optical devices for telecommunications that use patents deriving from the research projects, for a period of one year from the completion of the single project. However, the parties may agree upon alternative solutions which ensure a similar or substitute advantage to Telecom Italia S.p.A.;

- supply of user apparatus for network access and broadband services;
- cooperation agreement concerning joint initiatives. Under this contract, Pirelli has developed two research projects for Telecom Italia S.p.A.: one relating to the “Distributed Sensor Network” and the second to “Third-generation poles for the wireline network”. The agreements state that Telecom Italia S.p.A. is entitled to ownership of the rights to the intellectual properties deriving from the work established in the contracts where they are:
  a) exclusively applicable to telecommunications networks and/or telecommunications services or components of telecommunications networks which technical appendices of the projects identify as their specific objective, such as cards of the SIM-card type or network poles, and
  b) characterized by the inclusion of specific chemical compositions and/or treatments using specific chemical processes.

<u>Pirelli & C. Real Estate S.p.A.</u>
Revenue related
The contracts provide for the supply of call center services, data transmission services and electrical energy.
Expense related
The contracts refer to project management (development of real estate projects), property management (administrative management of lease contracts) and agency services (commercial management of owned and leased buildings) and maintenance of air-conditioning systems.
Furthermore, Pirelli & C. Real Estate has a 35% stake in the capital of the companies which hold the closed-end real estate investment funds Raissa and Spazio Industriale (to which properties were contributed as part of the real estate transaction approved by the board of

directors on December 21, 2005) and hold control of the management companies (Pirelli & C. Real Estate SGR and Pirelli & C. Real Estate SGR Opportunities) of the above real estate funds.

Telepost S.p.A.

Revenue related

The main contracts call for the supply of telephone services.

Expense related

The main contracts refer to:

- the management of services connected with incoming and outgoing correspondence;
- outgoing correspondence generated on files with printing by a specialized center;
- management of the distribution of correspondence,
- management of the paper archives and management of all photocopy machines.

***

Pension funds

Expense related

The payables refer mainly to Telemaco and Fontedir for:

- payment of contributions by both Telecom Italia S.p.A. and the employee;
- supply of personal information records of the associated employees by Telecom Italia S.p.A..

For the other minor funds (BYBLOS, LABORFOND, etc), the payables refer to payments made for contributions.

***

Remuneration to key managers

"Key managers", that is, those persons having authority and responsibility, directly or indirectly, for planning, management and control of the activities of Telecom Italia, including directors, are as follows:

Directors:	
Marco Tronchetti Provera (*)	Chairman
Guido Rossi (**)	Chairman
Carlo Orazio Buora	Chief Executive Officer Executive Deputy Chairman as from September 15, 2006
Riccardo Ruggiero	Chief Executive Officer General Manager
Managers:	
Gustavo Bracco	Head of Group Human Resources, Organization and Security Function
Enrico Parazzini	Head of Group Finance, Administration and Control Function Head of Media Business Unit Chief Executive Officer of Telecom Italia Media S.p.A.
Massimo Castelli	Head of Market Development in Operations
Francesco Chiappetta	General Counsel Head of Group Corporate and Legal Affairs Function
Luca Luciani	Head of Sales & Customer Services in Operations
Giuseppe Sala (***)	General Manager Head of Top Client and Customer Services in Operations
Stefano Pileri	Chief Technology Officer Head of Technology in Operations
Ramon Grijuela (****)	Head of Top Clients in Operations
Germanio Spreafico	Head of Purchasing

(*) up to September 15, 2006
(**) from September 16, 2006
(***) up to May 31, 2006
(****) from September 11, 2006

The total compensation recorded on the accrual basis by Telecom Italia S.p.A. or by companies controlled by the Group in respect of key managers amounted to euro 33 million, divided as follows :

(millions of euro)	2006	2005
Short-term compensation	(*)19	(*) 23
Long-term compensation	4	2
Employment termination benefit incentives	10	-
	33	25

(*) Of which euro 0.3 million paid by the subsidiary TI Media S.p.A..

NOTE 43 - STOCK OPTION PLANS OF THE TELECOM ITALIA GROUP

At December 31, 2006, the existing stock option plans relate to options that give the right to the subscription of Telecom Italia ordinary shares (including the options granted at the time by TIM S.p.A.) and Telecom Italia Media ordinary shares.

During 2006, no new stock option plans were introduced; options were last granted in 2005 and referred to the Stock Option Plan Telecom Italia Media S.p.A..

The stock option plans of the Group are described below.

Telecom Italia S.p.A. Stock Option Plans

With respect to the Telecom Italia stock option plans, account should be taken of the mergers that previously took place and which are described below:

- merger of Telecom Italia S.p.A. into Olivetti S.p.A.: starting from the date the merger came into effect (August 4, 2003), the holders of the options of the merged company and the merging company preserved the corresponding subscription rights. However, the number of shares that could originally be subscribed under the respective plans (one share for each option) was changed on the basis of the assignment ratio established for the shareholders of the two companies. In particular, each option of the pre-merger Telecom Italia S.p.A. stock option plans allows the subscription of 3.300871 new Telecom Italia ordinary shares post-merger, whereas each option of the Olivetti S.p.A. stock option plans, now all ended, allowed the subscription of 0.471553 new Telecom Italia S.p.A. ordinary shares post-merger. Accordingly, the subscription price of each Telecom Italia ordinary share resulting from the exercise of the option was adjusted for each plan, dividing the exercise price of the options already determined by the respective assignment ratio;
- merger of TIM S.p.A. into Telecom Italia S.p.A.: starting from the date the merger came into effect (June 30, 2005), the holders of the options of the merged company preserved the corresponding subscription rights. However, the number of shares that could originally be subscribed under the TIM S.p.A. plans (one share for each option) was changed on the basis of the exchange ratio established for the shareholders of TIM S.p.A. Therefore, each option of the pre-merger TIM S.p.A. stock option plans allows the subscription of 1.73 Telecom Italia S.p.A. ordinary shares post-merger, Accordingly, the subscription price of each Telecom Italia ordinary share resulting from the exercise of the options was adjusted for each plan, dividing the exercise price of the options already determined by the exchange ratio.

In describing the stock option plans, for the purpose of rendering the representation of the options homogeneous with that of the underlying subscribable shares to which they correspond, and to facilitate their measurement on the basis of the relative subscription prices,

the Group has used the concept of "equivalent options". By "equivalent options" is meant a quantity of options equal to those that would be necessary for the subscription of Telecom Italia ordinary shares post-merger to the extent of one share for each option exercised, or, more simply, a quantity of options equal to the number of Telecom Italia ordinary shares subscribable post-merger.
In this manner, the weighted average prices and the exercise prices indicated below, since they refer, depending on the cases, to the list prices of the assignable shares (eventually adjusted following the above mergers) or equivalent options, are consistent and directly comparable among each other.

The Telecom Italia stock option plans for the period from December 31, 2005 to December 31, 2006 are presented below.

- In the meeting held on September 11, 2000, the Telecom Italia S.p.A. board of directors approved the introduction of the "Stock Option Plan 2000", with 51,430,000 options granted at an exercise price of euro 13.815 per option. Such options, following the merger of Telecom Italia S.p.A. into Olivetti S.p.A., corresponded to 169,763,796 equivalent options, at an exercise price of euro 4.185259 per equivalent option.
  The options were divided into three lots of 15,460,000 options each (51,031,466 equivalent options), vesting, respectively, in July 2001, 2002 and 2003 and an extraordinary fourth lot of 5,050,000 options (16,669,399 equivalent options) vesting in July 2003. The Stock Option Plan 2000 provides for different expiration dates depending on the date the options vest: the first lot expired in July 2006, the second expires in June 2007, the third lot and the extraordinary lot in June 2008. For each of the first three lots, the options vested on condition that a performance parameter was met which was linked to the ratio of the arithmetic mean of the official market prices of Telecom Italia ordinary shares (considered over a specific period of time) to the arithmetic mean of the corresponding values of the Dow Jones Eurostoxx for the Telecommunications sector. The first and second lots met the performance criteria and, consequently, the options vested. The third lot and the extraordinary lot did not meet the performance criteria and, therefore, such options did not vest and were forfeited in 2003.
  At December 31, 2005, 10,699,996 options of the Stock Option Plan 2000 were outstanding and corresponded to 35,319,216 equivalent options. In July 2006, the deadline for exercising the first lot expired and the rights relating to 5,349,998 options were forfeited.
  At December 31, 2006, 5,349,998 options of the Stock Option Plan 2000 are outstanding and correspond to 17,659,608 equivalent options, at an exercise price equal to euro 4.185259 per equivalent option.
  At the end of 2006 and 2005, the market price of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

- In the meeting held on July 27, 2001, the Telecom Italia S.p.A. board of directors approved the introduction of the "Stock Option Plan 2001", with 67,025,000 options granted to managers and middle management of the Group at an exercise price of euro 10.488 per option. Such options, following the merger of Telecom Italia S.p.A. into Olivetti S.p.A., correspond to 221,240,879 equivalent options, at an exercise price of euro 3.177343 per equivalent option.
  The options were divided into two lots of 33,512,500 options each, vesting, respectively, in April 2002 and 2003, expiring, respectively, in April 2007 and 2008. For each of the two lots, the options vested on condition that a performance parameter was met which was linked to the ratio of the arithmetic mean of the official market prices of Telecom Italia ordinary shares (considered over a specific period of time) to the arithmetic mean of the corresponding values of the Dow Jones Eurostoxx for the Telecommunications sector. The

first lot met the performance criteria and, consequently, the options vested. The second lot, instead, did not meet the performance criteria and, therefore, such options did not vest and were forfeited in 2003.
At December 31, 2005, 31,862,500 options, of the Stock Option Plan 2001 were outstanding and corresponded to 105,173,383 equivalent options. During 2006, the rights to 15,000 options lapsed due to the termination of employment.
At December 31, 2006, 31,847,500 options are outstanding and correspond to 105,123,871 equivalent options, at an exercise price equal to euro 3.177343 per equivalent option.
At the end of 2006 and 2005, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

- In the meeting held on February 13, 2002, the Telecom Italia S.p.A. board of directors approved the introduction of the "Stock Option Plan 2002 Top", with 11,800,000 options granted to sixteen top managers of the Group at an exercise price of euro 9.203 per option. Such options, following the merger of Telecom Italia S.p.A. into Olivetti S.p.A., correspond to 38,950,278 equivalent options, at an exercise price of euro 2.788052 per equivalent option.
  The options of the "Stock Option Plan 2002 Top" were not subject to reaching performance parameters and vested by February 2005 and expire in February 2010.
  At December 31, 2005 and December 31, 2006, 9,480,001.33 options of Stock Option Plan 2002 Top were outstanding and corresponded to 31,292,243 equivalent options, at an exercise price equal to euro 2.788052 per equivalent option.
  At the end of 2006 and 2005, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.
  In the meeting held on March 26, 2002, the Telecom Italia S.p.A. board of directors considered the objective ineffectiveness of the Stock Option Plan 2000 Top as an incentive and as a means of retaining management loyalty, in relation to the exercise price of the options compared to the general market trend of the stock market. As a result, the Board approved the introduction of the "Stock Option Plan 2002", set aside for management of the Group who were already grantees of the Stock Option Plan 2000 and other managers hired after July 27, 2001 (starting date of the Stock Option Plan 2001). The grantees of the original Stock Option Plan 2000, on condition of voluntarily relinquishing the relative options, could take part in the new plan. The options of the "Stock Option Plan 2002" were not subject to reaching performance parameters and vested by March 2005 and expire in March 2010.

  The options were granted as follows:
  1. in March 2002, 29,958,000 options were granted at an exercise price of euro 9.665 per option. Such options, following the merger of Telecom Italia S.p.A. into Olivetti S.p.A., correspond to 98,887,493 equivalent options, at an exercise price of euro 2.928015 for each equivalent option.
     At December 31, 2005, 19,905,053.50 options granted in March 2002 were outstanding and corresponded to 65,703,601 equivalent options. During 2006, 4,104,000 options lapsed due to the termination of employment.
     At December 31, 2006, 15,801,053.50 options are outstanding and correspond to 52,156,879 equivalent options, at an exercise price equal to euro 2.928015 per equivalent option .
     At the end of 2006 and 2005, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.
  2. in August 2002, 840,000 options were granted at an exercise price of euro 7.952 per option. Such options, following the merger of Telecom Italia S.p.A. into Olivetti S.p.A.,

correspond to 2,772,723 equivalent options, at an exercise price equal to euro 2.409061 per equivalent option.
At December 31, 2005, 719,000.43 options granted in August 2002 were outstanding and corresponded to 2,373,319 equivalent options, at an exercise price equal to euro 2.409061 per equivalent option. During 2006, 49,000 options lapsed due to the termination of service.
At December 31, 2006, 670,000.43 options are outstanding and correspond to 2,211,577 equivalent options, at an exercise price equal to euro 2.409061 per equivalent option.
At the end of 2006, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option whereas at the end of 2005 it was higher.

The stock option plans awarded at the time by TIM (pre-merger with Telecom Italia S.p.A.) for the period from December 31, 2005 to December 31, 2006 are described below.

- In the meeting held on December 22, 1999, the TIM S.p.A. board of directors approved the introduction of the “Stock Option Plans 2000-2002”, with 21,210,000 options granted at an exercise price of euro 6.42 per option. Such options, following the merger of TIM S.p.A. into Telecom Italia S.p.A., correspond to 36,693,300 equivalent options, at an exercise price of euro 3.710983 per equivalent option.
  The options can be exercised subject to reaching an objective minimum parameter to be measured with reference to the results achieved by the company in terms of E.V.A. (Economic Value Added), net of financial investments, compared to the minimum measurement indicated in the annual budget, respectively, in the years 1999, 2000 and 2001. The parameter was reached and, consequently, the options vested by the end of 2002 and expire in December 2008.
  At December 31, 2005, 11,735,653 options of the Stock Option Plans 2000-2002 are outstanding and corresponded to 20,302,679 equivalent options, are outstanding . During 2006, the rights to 1,939,997 lapsed due to the termination of employment.
  At December 31, 2006, 9,795,656 options are outstanding and correspond to 16,946,391 equivalent options, at an exercise price equal to euro 3.710983 per equivalent option.
  At the end of 2006 and 2005, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

- In the meeting held on February 12, 2002, the TIM S.p.A. board of directors approved the introduction of the “Stock Option Plans 2002-2003”, with 25,510,000 options granted to managers and employees at an exercise price of euro 5.67 per option. Such options, following the merger of TIM S.p.A. into Telecom Italia S.p.A., correspond to 44,132,300 equivalent options, at an exercise price of euro 3.277457 per equivalent option.
  The options of the Stock Option Plans 2002-2003 were not subject to reaching performance parameters and vested by the end of December 2003 and expire in December 2008.
  At December 31, 2005, 22,025,000 options of the Stock Option Plans 2002-2003 were outstanding and corresponded to 38,103,250 equivalent options. During 2006, the rights to 4,630,000 options lapsed due to the termination of employment.
  At December 31, 2006, 17,395,000 options are outstanding and correspond to 30,093,350 equivalent options, at an exercise price equal to euro 3.277457 per equivalent option.
  At the end of 2006 and 2005, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

- In the meeting held on May 6, 2002, the TIM S.p.A. board of directors approved the introduction of the “Stock Option Plans 2003-2005” set aside for management of the

Group who already held options in the Stock Option Plans 2001-2003 and the Supplementary Plans 2001-2003 and new grantees. The grantees who already held options in the previous plans could take advantage of the new plans, on condition of voluntarily relinquishing the relative options beforehand. The Stock Option Plans 2003-2005 provided for 50,057,000 options to be granted at an exercise price equal to euro 5.07 per option. Such options, following the merger of TIM S.p.A. into Telecom Italia S.p.A., correspond to 86,598,610 equivalent options, at an exercise price of euro 2.930636 per equivalent option. Of the total options, 48,142,000 were granted to grantees of the previous plans and 1,915,000 were granted to new grantees.

The options of the Stock Option Plans 2003-2005 were not subject to reaching performance parameters and vested by December 2004 and expire in December 2010.

At December 31, 2005, 1,915,900 options of the Stock Option Plans 2003-2005 were outstanding and corresponded to 3,314,507 equivalent options. During 2006, the rights to 230,000 options lapsed due to the termination of employment.

At December 31, 2006, 1,685,900 options are outstanding and correspond to 2,916,605 equivalent options, at an exercise price equal to euro 2.930636 per equivalent option .

At the end of 2006 and 2005, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

Movements in TIM stock option plans for the period from December 31, 2004 to June 30, 2005, effective date of the merger of TIM into Telecom Italia are presented in the following table.

	Number of options	Weighted average price per option (euro)
Options outstanding at December 31, 2004	**45,132,319**	**5.87**
Exercised	(5,945,100)	5.07
Lapsed [1]	(1,136,666)	5.90
Options outstanding at June 30, 2005	**38,050,553**	5.99
Equivalent options at June 30, 2005[2]	*65,827,457*	*3.46*

(1) These options lapsed since they could no longer be exercised as a result of the termination of employment and/or other reasons (e.g. relinquished by the interested party).

(2) Equivalent number of options and relative weighted average price deriving from the application of the TIM - Telecom Italia conversion ratio equal to 1.73.

Movements in all Telecom Italia stock option plans for the period from December 31, 2004 to December 31, 2006 (including plans granted by Tim S.p.A.) are presented in the following table:

	Number of equivalent options	Weighted average price per equivalent option (euro)
Options outstanding at December 31, 2004	**253,230,091**	**3.18**
Lapsed at January 1, 2005	(755,890)	3.02
Exercised	(9,174,215)	2.83
Lapsed [1]	(4,623,274)	3.04
Expired and forfeited [2]	(2,921,970)	4.82
Equivalent options coming from the merged company TIM S.p.A. [3]	65,827,456	3.46
Equivalent options outstanding at December 31, 2005	**301,582,198**	**3.24**
Lapsed [1]	(25,522,066)	3.14
Expired and forfeited [2]	(17,659,608)	4.19
Equivalent options outstanding at December 31, 2006	**258,400,524**	**3.19**

(1) These equivalent options lapsed since they could no longer be exercised as a result of the termination of employment and/or other reasons (e.g. relinquished by the interested party).

(2) These equivalent options expired since they were not exercised during the stated period or were forfeited since they did not become vested because of failure to reach the performance parameters.

(3) Equivalent number of options coming from the merged company TIM S.p.A. outstanding at June 30, 2005 (effective date of the merger with Telecom Italia S.p.A.).

The following tables present, with reference to the Telecom Italia stock option plans outstanding at December 31, 2006 and 2005, grouped by the range of exercise price, the residual weighted average life and the weighted average grant price of the equivalent options:

Range of grant price (euro)	Equivalent options outstanding at December 31, 2006			Equivalent options exercisable at December 31, 2006	
	Equivalent options	Residual weighted average life (years)	Weighted average grant price (euro)	Equivalent options	Weighted average grant price (euro)
2.41	2,211,577	2.27	2.41	2,211,577	2.41
2.78 – 2.94	86,365,727	2.34	2.88	86,365,727	2.88
3.17 – 3.72	152,163,612	0.82	3.26	152,163,612	3.26
4.19	17,659,608	0.50	4.19	17,659,608	4.19
	258,400,524			258,400,524	

Range of grant price (euro)	Equivalent options outstanding at December 31, 2005			Equivalent options exercisable at December 31, 2005	
	Equivalent options	Residual weighted average life (years)	Weighted average grant price (euro)	Equivalent options	Weighted average grant price (euro)
2.41	2,373,319	3.30	2.41	2,373,319	2.41
2.78 – 2.94	100,310,351	3.34	2.88	100,310,351	2.88
3.17 – 3.72	163,579,312	1.90	3.27	163,579,312	3.27
4.19	35,319,216	1.00	4.19	35,319,216	4.19
	301,582,198			301,582,198	

Telecom Italia Media S.p.A. Stock Option Plans

All the options in the stock option plans of Telecom Italia Media give the right to subscribe to a quantity of Telecom Italia Media ordinary shares equal to the number of options exercised, at a specific exercise price.

The Telecom Italia Media stock option plans for the period from December 31, 2005 to December 31, 2006 are presented below.

- In the meeting held on May 17, 2002, the Telecom Italia Media S.p.A. (formerly Seat S.p.A.) board of directors approved the introduction of the “Key People Plan”, with 46,400,000 options granted at an exercise price of euro 0.8532.
  The rights of the Key People Plan vested by May 2005 and expire in May 2008.
  At December 31, 2005 and December 31, 2006, 2,250,000 options were outstanding.
  At the end of 2006 and 2005, the market price of Telecom Italia Media ordinary shares was lower than the exercise price.

- In the meeting held on February 23, 2005, the Telecom Italia Media S.p.A. board of directors approved the introduction of the “Plan 2005”, set aside for employees in service at Telecom Italia Media and its subsidiaries, identified on the basis of their specific responsibilities and/or expertise who were already grantees of the Stock Option Plan 2000-2002 and the Key People Plan. The grantees of the previous plans, on condition of voluntarily relinquishing the relative options beforehand, could take part in the new plan. The previous plans, however, remain in place at the same conditions, procedures and regulations for the employee grantees of the other Companies of the Telecom Italia Group, for retired employees and for employees of the Media Business Unit who did not relinquish the options.
  Under the Plan 2005, 39,725,000 options were granted at an exercise price of euro 0.3826.
  The options are divided into three lots, respectively of 15,890,000, 11,917,500 and 11,917,500 options, vesting, respectively, in July 2005, January 2006 and January 2007 and all expiring in December 2008.
  At December 31, 2005, 25,254,830 options were outstanding. During the first half of 2006, 6,100,000 options were exercised and 1,872,500 options lapsed as a result of the termination of service.
  At December 31, 2006, 17,282,330 options were outstanding.
  At the end of 2005, the market price of Telecom Italia Media ordinary shares was higher than the exercise price, while at the end of 2006, the market price was lower.

  On February 23, 2005, at the same time the options relating to the Plan 2005 were granted, the fair value of these options was determined, using the binomial CRR model on the basis of the following variables:
  - average price of the share resulting from the exercise of the options: euro 0.3826 (average of the official market prices of Telecom Italia Media ordinary shares from January 23, 2005 to February 23, 2005 – opening and closing dates included);
  - exercise price: equal to the price of the share resulting from the exercise of the options (euro 0.3826);
  - volatility: at the date of valuation, the historical volatility of the stock of 37.30% was used;
  - option period: 3.85 years (from February 23, 2005 to December 31, 2008), corresponding to the end of the life of the option);

- expected dividends: zero, on the basis of the consideration that Telecom Italia Media up to February 23, 2005 has never paid out dividends;
- risk-free interest rate: the rate on Italian Government securities (BTP) was considered, interpolated at the expiration date of the option: December 31, 2008. Therefore, a rate of 2. 82% was applied.

The fair value was determined as euro 0.1246 per option.

Movements in all Telecom Italia Media stock option plans from December 31, 2004 to December 31, 2006 are presented in the following table.

	Number of options	Weighted average price per option (in euro)
Options outstanding at December 31, 2004	**15,840,313**	**0.87**
Granted	39,725,000	0.38
Exercised	(11,005,170)	0.38
Expired and forfeited[1]	(234,073)	1.22
Lapsed[2]	(16,821,240)	0.77
Options outstanding at December 31, 2005	**27,504,830**	**0.42**
Exercised	(6,100,000)	0.38
Lapsed[2]	(1,872,500)	0.38
Options outstanding at December 31, 2006	**19,532,330**	**0.44**

(1) These equivalent options expired since they were not exercised during the stated period or were forfeited since they did not become vested because of failure to reach the performance parameters.
(2) These options lapsed since they could no longer be exercised as a result of the termination of employment and/or for other reasons (e.g. relinquished by the interested party).

The following tables present, with reference to the stock option plans outstanding at December 31, 2006 and 2005, grouped by the range of exercise price, the residual weighted average life and the weighted average price of the option grants:

Range of grant price (euro)	Options outstanding at December 31, 2006			Options exercisable at December 31, 2006	
	Options	Residual weighted average life (years)	Weighted average grant price (euro)	Options	Weighted average grant price (euro)
0.38	17,282,330	2.50	0.38	7,569,830	0.38
0.85	2,250,000	1.92	0.85	2,250,000	0.85
	19,532,330			**9,819,830**	

At December 31, 2006, 19,532,330 options were outstanding, of which 9,819,830 were exercisable at that date. The remaining 9,712,500 will become exercisable starting from January 2007.

Range of grant price (euro)	Options outstanding at December 31, 2005			Options exercisable at December 31, 2005	
	Options	Residual weighted average life (years)	(euro)	Options	Residual weighted average life (years)
0.38	25,254,830	3.00	0.38	4,044,830	0.38
0.85	2,250,000	2.42	0.85	2,250,000	0.85
	27,504,830			**6,294,830**	

NOTE 44 – SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Details of non-recurring items

The effect of non-recurring events and transactions on the net income for the year, equity, net financial debt and cash flows of the Telecom Italia Group is set out below in accordance with Consob communication DEM/6064293 dated July 28, 2006.

The effect of non-recurring events and transactions in 2006 is as follows:

(millions of euro)		Equity	Net income for the year	Net financial debt	Cash flows (*)
Amount - financial statements	**(A)**	**27,098**	**3,003**	**37,301**	**(2,982)**
Corporate reorganization costs		(8)	(8)	13	(13)
Industrial reconversion costs		(13)	(13)	13	(13)
Supplementary Antitrust fine		(2)	(2)	-	
Gains on sales of properties to Funds		84	84	(296)	296
Gain on sale of Ruf Gestion		27	27	(51)	40
Loss on sale of Telecom Italia Learning Services		(33)	(33)	17	(29)
Loss on sale of “Radiomaritime activities”		(5)	(5)	-	-
Release of Avea I.H.A.S. provisions		91	91	-	-
Gain on sale of Avea I.H.A.S.		72	72	(82)	196
Gain on sale of Neuf Télécom		148	148	(199)	199
Gains on other sales			2	-	
Sundry financial expenses		(4)	(4)	-	-
Reimbursement of TLC operating fee		-	-	(546)	546
Payment of antitrust fine		-	-	115	(115)
Total effect – excluding effect of discontinued operations / assets held for sale	**(B)**	**359**	**359**	**(1,016)**	**1,107**
Effect of discontinued operations/assets held for sale	**(C)**	**(3)**	**(8)**	**(411)**	**301**
Figurative amount - financial statements	**(A-B-C)**	**26,742**	**2,652**	**38,728**	**(4,390)**

(*) Cash flows refer to the increase (decrease) in cash and cash equivalents during the year.

The impact of non-recurring items on the individual lines of the statement of income is as follows:

(millions of euro)	2006 (a)	2005 (b)	Change (a – b)
Other income:			
Release of provision for risk regarding antitrust fine	-	37	(37)
Personnel costs:			
Expenses for mobility agreements Law 223/91 and extraordinary manager termination benefit incentives	-	(273)	273
Purchases of materials and external services, Other operating expenses:			
Settlement with Opportunity	-	(50)	50
Corporate reorganization costs	(13)	(4)	(9)
Industrial reconversion costs	(13)	-	(13)
Supplementary Antitrust fine	(2)	-	(2)
IMPACT OF NON-RECURRING INCOME (EXPENSES) ON EBITDA	(28)	(290)	262
Gains (losses) realized on non-current assets:			
Gains on sales of properties to funds	135	264	(129)
Gain on sale of Ruf Gestion	27	-	27
Loss on sale of Telecom Italia Learning Services	(33)	-	(33)
Loss on sale of “Radiomaritime activities”	(9)	-	(9)
IMPACT OF NON-RECURRING INCOME (EXPENSES) ON EBIT	92	(26)	118
Financial income (expenses):			
Release of Avea I.H.A.S. provisions	121	423	(302)
Gain on sale of Avea I.H.A.S.	72	-	72
Gain on sale of Neuf Télécom	148	-	148
Gain on sale of CMobil	-	61	(61)
Gain on sale of Intelsat and Golden Lines	-	7	(7)
Other gains	2	18	(16)
Sundry financial expenses	(4)	-	(4)
IMPACT OF NON-RECURRING INCOME (EXPENSES) ON INCOME BEFORE TAXES FROM CONTINUING OPERATIONS	431	483	(52)
Effect of income taxes	(72)	(40)	(32)
Effect of discontinued operations	(8)	506	(514)
IMPACT OF NON-RECURRING INCOME (EXPENSES) ON NET INCOME FOR THE YEAR	351	949	(598)

NOTE 45 – POSITIONS OR TRANSACTIONS DERIVING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

In accordance with Consob Communication dated July 28, 2006, a statement is made to the effect that in 2006 there were no atypical and/or unusual transactions, as defined by the Communication itself.

NOTE 46 - OTHER INFORMATION

a) Exchange rates used to translate foreign currency financial statements (1)

(local currency units per euro 1)		Year-end exchange rates (balance sheet) 12/31/2006	12/31/2005	Average exchange rates for the year (statement of income) 2006	2005
Europe					
CHF	Swiss franc	1.60690	1.55510	1.57294	1.54822
GBP	Pound sterling	0.67150	0.68530	0.68178	0.68379
TRY	Turkish lira (*)	1.85150	1.58750	1.79800	1.67000
North America					
CAD	Canadian dollar	1.52810	1.37250	1.42361	1.50924
USD	U.S. dollar	1.31700	1.17970	1.25552	1.24436
Central and South America					
VEB	Venezuelan bolivar (*)	2,831.55000	2,536.35500	2,699.36800	2,628.83494
BOB	Bolivian boliviano	10.45698	9.37862	9.97464	9.99316
PEN	Peruvian nuevo sol	4.20782	4.05522	4.10882	4.09907
ARS	Argentinean peso	4.03265	3.57685	3.86013	3.63771
CLP	Chilean peso	701.30250	604.59625	666.01290	695.98714
COP	Colombian peso	2,948.10450	2,695.67349	2,963.62507	2,886.68182
MXN	Mexican peso	14.26970	12.58303	13.68708	13.54809
BRL	Brazilian real	2.81575	2.76132	2.73341	3.02888
Other countries					
HKD	Hong Kong dollar	10.24090	9.14740	9.75391	9.67904
SGD	Singapore dollar	2.02020	1.96280	1.99387	2.07066
ILS	Israeli shekel	5.54786	5.42426	5.59097	5.57951
JPY	Japanese yen	156.93000	138.90000	146.02074	136.84625

(1) Source: data processed by the Central European Bank, Reuters and major Central Banks.
(*) For high-inflation countries (Turkey and Venezuela), the year-end exchange rate is used to translate the statement of income up to December 31, 2005.

b) Research and development

During the year 2006, research and development activities by the Telecom Italia Group were mainly carried out by the "Innovation & Engineering Services" function (ex-Telecom Italia Lab) under Operations, also in collaboration with Pirelli Labs, and by Olivetti S.p.A..

The total costs incurred in 2006 amount to approximately euro 133 million (euro 180 million in the prior year) and are represented by external costs, labor costs of dedicated staff and depreciation and amortization.
Such costs were mainly incurred by the Wireline and Mobile Business Units.

The research activities expensed during the year amount to euro 76 million (euro 128 million in 2005). The activities relating to development, which became available for use during the year, were capitalized to the network or to software costs for an amount equal to euro 57 million (euro 52 million in 2005).

Research and development activities conducted by the Telecom Italia Group are detailed in the Report on Operations in the “Sustainability Section under “Research, Development and Innovation ”.

c) Operating leases

Revenue-related

The Group has signed lease contracts for direct connections, in particular numeric and analog lines, offered under wholesale plans to interconnecting operators.
At December 31, 2006, the amount of lease installments receivable on non-cancelable lease contracts, which decreased from last year due to the fact that the expiration dates of the relative contracts were reduced by one year, is the following:

(millions of euro)	12/31/2006	12/31/2005
Within 1 year	10	152
From 2 to 5 years	-	88
Total	10	240

Expense-related

The Group has signed lease contracts for buildings (for periods from 6 to 9 years) and lines. At December 31, 2006, the amount of lease installments payable on non-cancelable lease contracts is the following:

(millions of euro)	12/31/2006	12/31/2005
Within 1 year	355	233
From 2 to 5 years	788	716
Beyond 5 years	323	311
Total	1,466	1,260

d) Directors’ and statutory auditors’ remuneration

The total remuneration to which the directors and statutory auditors of Telecom Italia S.p.A. are entitled in 2006, for carrying out such functions in the Parent and in other consolidated companies, amounts to euro 13 million for the directors and euro 1 million for the statutory auditors.

NOTE 47 –EVENTS SUBSEQUENT TO DECEMBER 31, 2006

- Revolving Credit Facility expiring 2012

  On January 15, 2007, euro 2 billion of the remaining available syndicated credit line expiring in March 2007 was cancelled and at the same time the revolving credit facility of euro 6 billion expiring in 2012 was increased by the same amount. The new amount of the revolving credit facility is therefore equal to euro 8 billion.

  As a result of the above, Telecom Italia S.p.A. has kept its unused committed credit lines at euro 6.6 billion and extended the average term of the facility.

- "Bersani" Decree (Decree Law 7 dated January 31, 2007)

  In January 2007, the Italian Government enacted the “Bersani” Decree (Decree Law 7 dated January 31, 2007) which establishes the elimination of the fixed top-up cost for recharging prepaid phone cards. It also prohibits fixing a date for the expiration of the remaining prepaid credit on the card and eliminates certain penalties for rescinding from the subscription contract with mobile operators before expiration. Telecom Italia has estimated the potential negative impact of the "Bersani Decree" on revenues and EBITDA for 2007 in euro 350-400 million. This figure takes into account the effect of the potential changes in market share (as a result of pricing policies), the flexibility with respect to traffic volumes, the possible variation in retail rates and the efficiencies attainable on recharging costs.

- Repayment of Telecom Italia S.p.A. 5.625% bonds due 2007
  On February 1, 2007, at maturity, Telecom Italia repaid the 5.625% bonds of Euro 1,250 million.

- Finalization of the acquisition of the AOL Internet activities in Germany from Time Warner
  On February 28, 2007, the transaction was finalized for the purchase by the Telecom Italia Group of the assets relating to the Internet access business in Germany (broadband and narrowband) from the Time Warner / AOL Group. The total internet access portfolio has approximately 2.1 million customers. The consideration paid was euro 655 million.
  The transaction, which was approved in November 2006 by the European antitrust authority, was concluded after the seller provided proof of the definitive completion of the process to simplify the corporate chain which constituted the last condition to finalizing the transaction.
  At the same time the internet access business was purchased, a 5-year commercial partnership was also sealed with the Time Warner / AOL group which will involve the creation of a dedicated portal under a joint brand, managed by AOL, which will represent the home page for Telecom Italia's entire customer base in Germany. A revenue-sharing mechanism is also envisaged which will be based on the number of visits to that portal and the use of the services offered with proceeds estimated at approximately euro 20 million for the Telecom Italia Group.
  The valuations necessary for purposes of that allocation, at February 28, 2007, of the cost of the business combination to the acquired assets and liabilities is currently in progress.

NOTE 48 – LIST OF COMPANIES OF THE TELECOM ITALIA GROUP

In accordance with Consob resolution 11971 dated May 14, 1999, as amended and Consob Communication DEM/6064293 dated July 28, 2006, the list of significant companies and investments held by the Group is provided herein.

The list is divided by type of investment, consolidation method and business segment.

The following is indicated for each company: name, head office, country, the share capital in the original currency, in addition to the percentage holding of share capital, the percentage of voting rights in the ordinary shareholders' meeting if different than the percentage holding of share capital, and which companies hold the investment.

List of companies consolidated on a line-by-line basis

Name		Currency	Share Capital	% Ownership	% of voting rights	Held by
WIRELINE						
TELECOM ITALIA S.p.A. (WIRELINE BUSINESS)						
BBEYOND B.V. (telecommunications services)	AMSTERDAM (HOLLAND)	EUR	18,000	100.0000		BBNED N.V.
BBNED N.V. (telecommunications services)	AMSTERDAM (HOLLAND)	EUR	82,430,000	99.9939 0.0061		TELECOM ITALIA INTERNATIONAL N.V. BBNED N.V.
ELETTRA TLC S.p.A. (services rendered in connection with submarine cable systems for telecommunications)	ROME (ITALY)	EUR	10,329,200	70.0000		MEDITERRANEAN NAUTILUS S.A.
HANSENET TELEKOMMUNIKATION GmbH (telecommunications services)	HAMBURG (GERMANY)	EUR	91,521,500	100.0000		TELECOM ITALIA DEUTSCHLAND HOLDING GmbH
I.T. TELECOM S.r.l. (other software development and software consulting)	POMEZIA (ROME) (ITALY)	EUR	7,000,000	100.0000		TELECOM ITALIA S.p.A.
INTERCALL S.A. (telecommunications services and sale of prepaid phone cards)	PARIS CEDEX 90 (FRANCE)	EUR	807,060	88.6342		LIBERTY SURF GROUP S.A.
LATIN AMERICAN NAUTILUS ARGENTINA S.A. (installation and maintenance of submarine cable systems)	BUENOS AIRES (ARGENTINA)	ARS	9,998,000	95.0000 5.0000		LATIN AMERICAN NAUTILUS Ltd LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS BOLIVIA S.r.l. (installation and maintenance of submarine cable systems)	LA PAZ (BOLIVIA)	BOB	6,730,600	99.9985 0.0015		LATIN AMERICAN NAUTILUS S.A. LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS BRASIL Ltda (installation and maintenance of submarine cable systems)	RIO DE JANEIRO (BRAZIL)	BRL	63,900	99.9999 0.0001		LATIN AMERICAN NAUTILUS BRASIL PARTICIPACOES Ltda LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS BRASIL PARTICIPACOES Ltda (holding company)	RIO DE JANEIRO (BRAZIL)	BRL	2,058,168	100.0000		LATIN AMERICAN NAUTILUS Ltd
LATIN AMERICAN NAUTILUS CHILE S.A. (installation and maintenance of submarine cable systems)	SANTIAGO (CHILE)	CLP	9,265,000,000	100.0000		LATIN AMERICAN NAUTILUS Ltd
LATIN AMERICAN NAUTILUS COLOMBIA Ltda (installation and maintenance of submarine cable systems)	BOGOTA' (COLOMBIA)	COP	240,225,000	100.0000		LATIN AMERICAN NAUTILUS Ltd
LATIN AMERICAN NAUTILUS Ltd (installation and maintenance of submarine cable systems)	DUBLIN (IRELAND)	USD	1,000,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS MEXICO S.A. (installation and maintenance of submarine cable systems)	MEXICO, D.F. (MEXICO)	MXN	100,000	99.9900 0.0100		LATIN AMERICAN NAUTILUS Ltd LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS PANAMA S.A. (installation and maintenance of submarine cable systems)	PANAMA	USD	10,000	100.0000		LATIN AMERICAN NAUTILUS Ltd
LATIN AMERICAN NAUTILUS PERU' S.A. (installation and maintenance of submarine cable systems)	LIMA (PERÙ)	PEN	56,704,995	100.0000		LATIN AMERICAN NAUTILUS Ltd
LATIN AMERICAN NAUTILUS S.A. (holding company)	LUXEMBOURG (LUXEMBOURG)	USD	55,500,000	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA FINANCE S.A.
LATIN AMERICAN NAUTILUS SERVICE Inc. (installation and maintenance of submarine cable systems)	FLORIDA (USA)	USD	10,000	100.0000		LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS St. Croix LLC (installation and maintenance of submarine cable systems)	VIRGIN ISLANDS (USA)	USD	10,000	100.0000		LATIN AMERICAN NAUTILUS Ltd
LATIN AMERICAN NAUTILUS USA Inc. (installation and maintenance of submarine cable systems)	FLORIDA (USA)	USD	20,000	100.0000		LATIN AMERICAN NAUTILUS Ltd
LATIN AMERICAN NAUTILUS VENEZUELA C.A. (installation and maintenance of submarine cable systems)	CARACAS (VENEZUELA)	VEB	51,709,000	100.0000		LATIN AMERICAN NAUTILUS Ltd
LIBERTY SURF COMMUNICATIONS LTD (in liquidation) (internet services)	LONDON (UK)	GBP	1,000	100.0000		LIBERTY SURF NETWORK B.V.
LIBERTY SURF GROUP S.A.S. (internet services)	PARIS (FRANCE)	EUR	282,559,451	100.0000		TELECOM ITALIA S.p.A.
LIBERTY SURF NETWORK B.V. (in liquidation) (internet services)	AMSTERDAM (HOLLAND)	EUR	20,001	100.0000		LIBERTY SURF GROUP S.A.S
LOQUENDO SOCIETA' PER AZIONI (research, development and marketing of technologies and equipment regarding voice synthesis recognition and/or interaction)	TURIN (ITALY)	EUR	3,573,741	99.9846		TELECOM ITALIA S.p.A.
MATRIX S.p.A. (Internet services)	MILAN (ITALY)	EUR	1,100,000	100.0000		TELECOM ITALIA S.p.A.
MED-1 (NETHERLANDS) B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	18,200	100.0000		MED-1 SUBMARINE CABLES Ltd
MED-1 ITALY S.r.l.. (installation and management submarine cable systems in Italian seas)	ROME (ITALY)	EUR	548,477	100.0000		MED-1 (NETHERLANDS) B.V.
MED-1 SUBMARINE CABLES Ltd (installation and management of cable Lev)	RAMAT GAN (ISRAEL)	ILS	55,886,866	99.9123		TELECOM ITALIA SPARKLE S.p.A.
MEDITERRANEAN NAUTILUS BV (holding company)	AMSTERDAM (HOLLAND)	EUR	18,003	100.0000		MEDITERRANEAN NAUTILUS Ltd
MEDITERRANEAN NAUTILUS GREECE Ltd (installation and management of submarine cable systems)	ATHENS (GREECE)	EUR	111,600	100.0000		MEDITERRANEAN NAUTILUS B.V.
MEDITERRANEAN NAUTILUS Inc. (telecommunications services)	DELAWARE (USA)	USD	500	100.0000		MEDITERRANEAN NAUTILUS B.V.
MEDITERRANEAN NAUTILUS ISRAEL Ltd (TLC services, installation and management of submarine cable systems)	TEL AVIV (ISRAEL)	ILS	1,000	100.0000		MEDITERRANEAN NAUTILUS B.V.
MEDITERRANEAN NAUTILUS ITALY S.p.A. (installation and management of submarine cable systems)	ROME (ITALY)	EUR	3,100,000	100.0000		MEDITERRANEAN NAUTILUS B.V.
MEDITERRANEAN NAUTILUS Ltd (installation and management of submarine cable systems)	DUBLIN (IRELAND)	USD	153,259	100.0000		MEDITERRANEAN NAUTILUS S.A.
MEDITERRANEAN NAUTILUS S.A. (holding company)	LUXEMBOURG (LUXEMBOURG)	EUR	100,000,000	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA FINANCE S.A.
MEDITERRANEAN NAUTILUS TELEKOMÜNIKASYON HIZMETLERI TICARET ANONIM SIRKETI (telecommunications services)	ISTANBUL (TURKEY)	TRY	350,000	99.9988 0.0003 0.0003 0.0003 0.0003		MEDITERRANEAN NAUTILUS B.V. MEDITERRANEAN NAUTILUS Ltd MEDITERRANEAN NAUTILUS ITALY S.p.A. MEDITERRANEAN NAUTILUS ISRAEL Ltd MEDITERRANEAN NAUTILUS GREECE Ltd
PATH.NET S.p.A. (networking systems and telecommunications)	ROME (ITALY)	EUR	25,800,000	100.0000		TELECOM ITALIA S.p.A.

TELECOM ITALIA DEUTSCHLAND HOLDING GmbH (holding company)	HAMBURG (GERMANY)	EUR	25,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA NETHERLANDS B.V. (telecommunications services)	AMSTERDAM (HOLLAND)	EUR	18,200	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA S.A.S. (Internet access provider)	PARIS CEDEX 09 (FRANCE)	EUR	3,478,234	100.0000		LIBERTY SURF GROUP S.A.S.
TELECOM ITALIA SAN MARINO S.p.A. (telecommunications services in San Marino)	FALCIANO (REP. OF S. MARINO)	EUR	1,808,000	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA S.p.A.
TELECOM ITALIA SPAIN SL UNIPERSONAL (telecommunications services)	MADRID (SPAIN)	EUR	2,003,096	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE OF NORTH AMERICA, INC. (telecommunications and promotional services)	NEW YORK (USA)	USD	15,550,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE S.p.A. (public and private telecommunication services management)	ROME (ITALY)	EUR	200,000,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA SPARKLE SINGAPORE PTE. LTD (telecommunications services)	SINGAPORE	USD	500,000	99.9998 0.0002		TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA SPARKLE OF NORTH AMERICA, Inc.
TELECONTACT CENTER S.p.A. (telemarketing services)	NAPLES (ITALY)	EUR	770,000	100.0000		TELECOM ITALIA S.p.A.
TELEFONIA MOBILE SAMMARINESE S.p.A. (mobile telephony services)	BORGO MAGGIORE (REP. OF S. MARINO)	EUR	78,000	51.0000		TELECOM ITALI A SAN MARINO S.p.A.
TELEMEDIA INTERNATIONAL USA Inc. (telecommunications services)	NEW JERSEY (USA)	USD	154,022,890	100.0000		TMI - TELEMEDIA INTERNATIONAL Ltd
THINX-SM TELEHOUSE INTERNET EXCHANGE S.r.l (housing and hosting)	GUALDICCIOLO (REP. OF S. MARINO)	EUR	25,800	99.9999 0.0001		TELECOM ITALI A SAN MARINO S.p.A. TELECOM ITALIA SPARKLE S.p.A.
TI BELGIUM S.P.R.L. - B.V.B.A (telecommunications services)	BRUSSELS (BELGIUM)	EUR	3,000,000	99.9967		TELECOM ITALIA SPARKLE S.p.A.
TI GERMANY GmbH (telecommunications services)	FRANKFURT (GERMANY)	EUR	25,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SWITZERLAND GmbH (telecommunications services)	ZURICH (SWITZERLAND)	CHF	2,000,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI TELECOM ITALIA (AUSTRIA) TELEKOMMUNICATIONDIESTE Gmbh (telecommunications services)	VIENNA (AUSTRIA)	EUR	2,735,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI UNITED KINGDOM Ltd (telecommunications services)	LONDON (UK)	GBP	4,150,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TIS FRANCE S.A.S. (telecommunications services)	PARIS CEDEX (FRANCE)	EUR	3,295,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TMI - TELEMEDIA INTERNATIONAL Ltd (telecommunications services)	LONDON (UK)	EUR GBP	3,983,254 1	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TMI TELEMEDIA INTERNATIONAL DO BRASIL Ltda (telecommunications services)	SAO PAOLO (BRAZIL)	BRL	2,589,317	100.0000		TMI - TELEMEDIA INTERNATIONAL Ltd

DOMESTIC MOBILE

TELECOM ITALIA S.p.A. (MOBILE BUSINESS)

BRAZIL MOBILE

TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A. (holding company)	RIO DE JANEIRO (BRAZIL)	BRL	10,948,214,541	100.0000		TIM INTERNATIONAL N.V.
TIM CELULAR S.A. (mobile telephony operator)	SAO PAOLO (BRAZIL)	BRL	8,434,645,238	100.0000		TIM PARTICIPAÇÕES S.A.
TIM NORDESTE S.A. (mobile telephony operator)	JABOATAO DOS GUARARAPES (BRAZIL)	BRL	1,585,220,696	100.0000		TIM CELULAR S.A.
TIM PARTICIPAÇÕES S.A. (holding company for operating companies providing mobile network services)	RIO DE JANEIRO (BRAZIL)	BRL	7,512,709,900	69.6703	######	TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.

MEDIA

BEIGUA S.r.l. (purchase, sale, management and maintenance of installation for the repair and distribution of radio and TV broadcasting)	ROME (ITALY)	EUR	51,480	51.0004		TI MEDIA BROADCASTING S.r.l.
GIALLO VIAGGI. It S.r.l. (in liquidation) (research, design, development, production of information and telematic products for tourism)	MILAN (ITALY)	EUR	10,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
HOLDING MEDIA & COMUNICAZIONE PUBBLICITA' S.r.l. (in liquidation) (purchase/sale of ad space and management of advertising on radio/TV stations)	ROME (ITALY)	EUR	10,000	100.0000		HOLDING MEDIA E COMUNICAZIONE H.M.C. S.p.A.
HOLDING MEDIA E COMUNICAZIONE H.M.C. S.p.A. (production, marketing on TV and press)	ROME (ITALY)	EUR	5,064,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
MTV ITALIA S.r.l. (services in the field of radio and TV broadcasting, production and sale of radio, TV and cinema programs)	ROME (ITALY)	EUR	12,151,928	51.0000		TELECOM ITALIA MEDIA S.p.A.
MTV PUBBLICITA' S.r.l. (advertising agency)	MILAN (ITALY)	EUR	10,400	100.0000		MTV ITALIA S.r.l.
SCS COMUNICAZIONE INTEGRATA S.p.A. (in liquidation) (marketing and communication consulting)	ROME (ITALY)	EUR	600,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
TELECOM ITALIA MEDIA S.p.A. (management of all activities connected with the handling of information)	ROME (ITALY)	EUR	100,510,259	65.7069 2.2471	###### 2.2846	TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.
TELECOM MEDIA NEWS S.p.A. (multimedia journalistic information)	ROME (ITALY)	EUR	120,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
TELECOM ITALIA MEDIA BROADCASTING S.r.l. (purchase, sale, management and maintenance of installation for the repair and distribution of radio and TV broadcasting)	ROME (ITALY)	EUR	15,000,000	100.0000		TELECOM ITALIA MEDIA S.p.A.

OLIVETTI

ADVALSO S.p.A. (planning, production and servicing of telecommunication services and product)	IVREA (TURIN) (ITALY)	EUR	500,000	100.0000	OLIVETTI S.p.A
CONSORZIO MAEL (participation in bids and competitions held by public and private entities)	ROME (ITALY)	EUR	52,000	60.0000 40.0000	OLIVETTI S.p.A TIEMME SISTEMI S.r.l.
DIASPRON DO BRASIL S.A. (in liquidation) (manufacture and export of typewriters and printers)	SAO PAOLO (BRAZIL)	BRL	5,135,417	100.0000	OLIVETTI DO BRASIL S.A.
MULTIDATA S.A. ELETRONICA INDUSTRIA E COMERCIO (in liquidation) (manufacture and export of typewriters and printers)	MANAUS (BRAZIL)	BRL	5,583,350	100.0000	OLIVETTI DO BRASIL S.A.
OLIVETTI ARGENTINA S.A.C.e.I. (in liquidation) (sale and maintenance of office equipment)	BUENOS AIRES (ARGENTINA)	ARS	7,590,000	100.0000	OLIVETTI INTERNATIONAL B.V.
OLIVETTI AUSTRIA G.m.b.H (sale of office equipment and accessories)	VIENNA (AUSTRIA)	EUR	36,336	100.0000	OLIVETTI INTERNATIONAL B.V.
OLIVETTI CHILE S.A.(in liquidation) (sale and maintenance of office equipment, accessories and software)	SANTIAGO (CHILE)	CLP	2,574,015,843	100.0000	OLIVETTI INTERNATIONAL B.V.
OLIVETTI COLOMBIANA S.A. (in liquidation) (sale of office and industrial equipment)	BOGOTA' (COLOMBIA)	COP	2,500,000,000	90.5288 9.4700 0.0001	OLIVETTI INTERNATIONAL B.V. OLIVETTI S.p.A OLIVETTI CHILE S.A.(in liquidation)
OLIVETTI DE PUERTO RICO, Inc. (office equipment in the United States and Central America)	SAN JUAN (PUERTO RICO)	USD	1,000	100.0000	OLIVETTI INTERNATIONAL B.V.
OLIVETTI DEUTSCHLAND GmbH (sale of office equipment and holding company)	NURNBERG (GERMANY)	EUR	25,600,000	100.0000	OLIVETTI INTERNATIONAL B.V.
OLIVETTI DO BRASIL S.A. (manufacture and sale of typewriters, accessories, spare parts and assistance)	SAO PAOLO (BRAZIL)	BRL	111,660,625	96.6446 3.3554	OLIVETTI INTERNATIONAL B.V. OLIVETTI MEXICANAS.A.(in liquidation)
OLIVETTI ENGINEERING S.A. (product research and development based on ink-jet technology)	YVERDON LES BAINS (SWITZERLAND)	CHF	100,000	100.0000	OLIVETTI I-JET S.P.A.
OLIVETTI ESPANA S.A. (sale and maintenance of office equipment, consulting and telematic network management)	BARCELONA (SPAIN)	EUR	1,229,309	99.9863	OLIVETTI INTERNATIONAL B.V.
OLIVETTI FRANCE S.A. (sale of office equipment and software)	PUTEAUX (FRANCE)	EUR	2,200,000	100.0000	OLIVETTI INTERNATIONAL B.V.
OLIVETTI I-JET S.P.A. (manufacture and sale of products and accessories for office equipment)	ARNAD (AOSTA) (ITALY)	EUR	15,000,000	100.0000	OLIVETTI S.p.A
OLIVETTI INTERNATIONAL B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	355,027,092	100.0000	OLIVETTI S.p.A
OLIVETTI MEXICANAS.A. (in liquidation) (manufacture and sale, import-export of typewriters, adding machines, accessories and spare parts, technical assistance services)	MEXICO CITY (MEXICO)	MXN	34,637,065	99.9999 0.0001	OLIVETTI INTERNATIONAL B.V. OLIVETTI S.p.A
OLIVETTI S.p.A (manufacture and sale of products and accessories for office equipment)	IVREA (TURIN) (ITALY)	EUR	154,000,000	100.0000	TELECOM ITALIA S.p.A.
OLIVETTI TECNOST NEDERLAND B.V. (in liquidation) (sale of office equipment and accessories)	LEIDERDORP (HOLLAND)	EUR	6,468,280	100.0000	OLIVETTI INTERNATIONAL B.V.
OLIVETTI UK Ltd (sale of office equipment)	MILTON KEYNES (UK)	GBP	6,295,712	100.0000	OLIVETTI INTERNATIONAL B.V.
TIEMME SISTEMI S.r.l. (electric, electromechanical, electronic equipment and related systems)	CARSOLI (L'AQUILA) (ITALY)	EUR	1,040,000	100.0000	OLIVETTI S.p.A
TIESSE S.c.p.A. (installation and assistance for electronic, computer, telematic and telecommunication equipment)	ROME (ITALY)	EUR	103,292	42.0000 19.0000	OLIVETTI S.p.A TIEMME SISTEMI S.r.l.
TOP SERVICE S.p.A. (electronic diagnostics and repairs of computer products)	MODUGNO (BARI) (ITALY)	EUR	293,618	91.2069	OLIVETTI S.p.A

OTHER ACTIVITIES

ASCAI SERVIZI S.r.l. (in liquidation) (insurance mediation)	ROME (ITALY)	EUR	73,337	64.9599	SAIAT SOCIETA' ATTIVITA'INTERMEDIE AUSILIARIE TLC P.A.
DATACOM S.A. (data transmission services)	LA PAZ (BOLIVIA)	BOB	66,938,200	99.9991	ENTEL S.A. - EMPRES.A. NACIONAL DE TELECOMUNICACIONES
DOMUS ACADEMY S.P.A. (specialized design courses)	MILAN (ITALY)	EUR	140,000	67.3336	TELECOM ITALIA S.p.A.
EMSA Servizi S.p.A (in liquidation) (real estate services management)	ROME (ITALY)	EUR	5,000,000	100.0000	TELECOM ITALIA S.p.A.
ENTEL S.A. - EMPRES.A. NACIONAL DE TELECOMUNICACIONES (telecommunications services)	LA PAZ (BOLIVIA)	BOB	1,280,898,800	50.0000	ETI - EURO TELECOM INTERNATIONAL N.V.
ETI - EURO TELECOM INTERNATIONAL N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	50,050	100.0000	ICH - INTERNATIONAL COMMUNICATION HOLDING N.V.
ICH - INTERNATIONAL COMMUNICATION HOLDING N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	50,000	100.0000	TELECOM ITALIA INTERNATIONAL N.V.
IRIDIUM ITALIA S.p.A. (in liquidation) (satellite telecommunications services)	ROME (ITALY)	EUR	2,575,000	65.0000	TELECOM ITALIA S.p.A.
NETESI S.p.A. (in liquidation) (telecommunications and multimedia services)	MILAN (ITALY)	EUR	434,715	100.0000	TELECOM ITALIA S.p.A.
O&B COSTRUZIONI GENERALI S.r.l. (in liquidation) (real estate purchases, exchanges and sales)	IVREA (TURIN) (ITALY)	EUR	100,000	50.1000	OLIVETTI MULTISERVICES S.p.A.
OFI CONSULTING S.r.l. (administrative consulting)	IVREA (TURIN) (ITALY)	EUR	95,000	100.0000	TELECOM ITALIA S.p.A.
OLIVETTI GESTIONI IVREA S.p.A. (in liquidation) (real estate services)	IVREA (TURIN) (ITALY)	EUR	1,300,000	100.0000	TELECOM ITALIA S.p.A.
OLIVETTI HOLDING B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	15,882,770	100.0000	TELECOM ITALIA FINANCE S.A.
OLIVETTI MULTISERVICES S.p.A. (real estate management)	MILAN (ITALY)	EUR	20,337,161	100.0000	TELECOM ITALIA S.p.A.

OLIVETTI SYSTEMS TECHNOLOGY CORPORATION (in liquidation) (real estate management)	YOKOHAMA (JAPAN)	JPY	100,000,000	100.0000	TELECOM ITALIA FINANCE S.A.
OMS HOLDING B.V. (in liquidation) (financing)	AMSTERDAM (HOLLAND)	EUR	20,000	100.0000	OLIVETTI MULTISERVICES S.p.A.
PROGETTO ITALIA S.p.A. (development and improvement of the Teleco Italia brand)	MILAN (ITALY)	EUR	1,000,000	100.0000	TELECOM ITALIA S.p.A.
SAIAT SOCIETA' ATTIVITA' INTERMEDIE AUSILIARIE TLC P.A. (financing)	TURIN (ITALY)	EUR	35,745,120	100.0000	TELECOM ITALIA S.p.A.
SATURN VENTURE PARTNERS Llc (financing)	DELAWARE (USA)	USD	25,806,100	56.9600 17.8482	TELECOM ITALIA LAB S.A. TELECOM ITALIA S.p.A.
TECNOSERVIZI MOBILI S.r.l. (management of movable assets)	ROME (ITALY)	EUR	26,000	51.0000	TELECOM ITALIA S.p.A.
TECO SOFT ARGENTINA S.A. (in liquidation) (design, development and sale of software)	BUENOS AIRES (ARGENTINA)	ARS	12,000	99.9917	TELECOM ITALIA S.p.A.
TELECOM ITALIA AMERICA LATINA S.A. (telecommunications and promotional services)	SAO PAOLO (BRAZIL)	BRL	43,614,072	99.9996	TELECOM ITALIA S.p.A.
TELECOM ITALIA AUDIT AND COMPLIANCE SERVICES scarl (internal auditing for the Telecom Italia Group)	MILAN (ITALY)	EUR	2,750,000	81.8182 18.1818	TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
TELECOM ITALIA CAPITAL S.A. (financing)	LUXEMBOURG (LUXEMBOURG)	EUR	2,336,000	99.9999 0.0001	TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.
TELECOM ITALIA FINANCE S.A. (financing)	LUXEMBOURG (LUXEMBOURG)	EUR	542,090,241	100.0000	TELECOM ITALIA S.p.A.
TELECOM ITALIA INTERNATIONAL N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	2,399,483,000	100.0000	TELECOM ITALIA S.p.A.
TELECOM ITALIA LAB S.A. (holding company)	LUXEMBOURG (LUXEMBOURG)	USD	163,870	99.9939 0.0061	TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.
TELENERGIA S.r.l. (import, export, purchase, sale and exchange of electrical energy)	ROME (ITALY)	EUR	50,000	100.0000	TELECOM ITALIA S.p.A.
TELSI Unlimited (financing company)	LONDON (UK)	GBP	499,661,807	100.0000	TELECOM ITALIA FINANCE S.A.
TELSY ELETTRONICA E TELECOMUNICAZIONI S.p.A. (manufacturing and sale of systems for encrypted telecommunications)	TURIN (ITALY)	EUR	390,000	100.0000	TELECOM ITALIA S.p.A.
TI AUDIT LATAM S.A. (internal auditing)	SAO PAOLO (BRAZIL)	BRL	1,500,000	69.9996 30.0000	TELECOM ITALIA AUDIT AND COMPLIANCE SERVICES scarl TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
TIM INTERNATIONAL N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	555,431,000	100.0000	TELECOM ITALIA S.p.A.
TRAINET S.p.A. (in liquidation) (development, operation and sales of teleteaching systems)	ROME (ITALY)	EUR	674,446	100.0000	TELECOM ITALIA S.p.A.

List of companies accounted for by the equity method

Name	Head Office	Currency	Share Capital	% Ownership	% of voting rights	Held by
ARCHEO S.p.A. (in liquidation) (services)	BARI (ITALY)	EUR	464,400	25.0000		OFI CONSULTING S.r.l.
AREE URBANE S.r.l. (real estate)	MILAN (ITALY)	EUR	307,717	31.6508 0.9700		TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
ASSCOM INSURANCE BROKERS S.r.l (insurance mediation)	MILAN (ITALY)	EUR	100,000	20.0000		TELECOM ITALIA S.p.A.
BALTEA S.r.l. (manufacture and sale of office equipment and computer and telecommunications services)	IVREA (TURIN) (ITALY)	EUR	2,220,000	49.0000		OLIVETTI S.p.A
BROAD BAND SERVICE S.A. (production and sales of multimedia services)	SERRAVALLE (REP.OF S.MARINO)	EUR	258,000	20.0000		TELECOM ITALIA SAN MARINO S.p.A.
CONSORZIO E O (in liquidation) (professional training)	ROME (ITALY)	EUR	19,107	50.0000		TELECOM ITALIA S.p.A.
CONSORZIO S.I.A.R.C. (in liquidation) (supply of information products and services)	NAPLES (ITALY)	EUR	25,821	30.0000		TELECOM ITALIA S.p.A.
CONSORZIO SCUOLA SUPERIORE ALTA FORMAZIONE UNIVERSITARIA FEDERICO II (in liq) (professional training)	NAPLES (ITALY)	EUR	127,500	20.0000		TELECOM ITALIA S.p.A.
CONSORZIO TURISTEL (online tourism services)	ROME (ITALY)	EUR	77,460	33.3300		TELECOM ITALIA S.p.A.
Empresa de Telecomunicaciones de Cuba S.A. ETEC-SA (telecommunications services)	HAVANA (CUBA)	USD	1,749,313,080	27.0030		TELECOM ITALIA INTERNATIONAL N.V.
IM.SER S.p.A. (real estate management)	TURIN (ITALY)	EUR	367,200	40.0000		TELECOM ITALIA S.p.A.
IN.VA. S.p.A. (information systems)	AOSTA (ITALY)	EUR	520,000	40.0000		TELECOM ITALIA S.p.A.
INTERCALL HELLAS (telecommunications services and sale of prepaid telephone cards)	ATHENS (GREECE)	EUR	496,696	29.4099		INTERCALL S.A.
ITALTEL GROUP S.p.A. (holding company)	MILAN (ITALY)	EUR	115,459,344	19.3733		TELECOM ITALIA FINANCE S.A.
LI.SIT. - LOMBARDIA INTEGRATA SERVIZI INFOTELEMATICI PER IL TERRITORIO S.p.A. (information, TLC services and products for the local public administration)	MILAN (ITALY)	EUR	6,500,000	24.2000		TELECOM ITALIA S.p.A.
LUNA ROSSA CHALLENGE 2007 S.L. (promotion, organization of sailboat races include the America's Cup)	VALENCIA (SPAIN)	EUR	4,000,000	49.0000		TELECOM ITALIA S.p.A.
LUNA ROSSA TRADEMARK Sarl (purchase, management, development of intellectual property rights)	LUXEMBOURG (LUXEMBOURG)	EUR	20,000,000	49.0000		TELECOM ITALIA S.p.A.
MIAECONOMIA S.r.l. (publishing in the field of personal finance)	ROME (ITALY)	EUR	1,000,000	30.0000		MATRIX S.p.A
MOVENDA S.p.A. (technological platforms for the development of mobile Internet services)	ROME (ITALY)	EUR	133,333	24.9998		TELECOM ITALIA LAB SA
NAUTILUS SCARL (professional training)	ROME (ITALY)	EUR	30,000	20.0000		MEDITERRANEAN NAUTILUS Ltd
NAVIGATE CONSORTIUM (terrestrial and satellite network integration)	MILAN (ITALY)	EUR	582,716	20.0000		TELECOM ITALIA S.p.A.
NORDCOM S.p.A. (application service provider)	MILAN (ITALY)	EUR	5,000,000	42.0000		TELECOM ITALIA S.p.A.
OCN -TRADING S.r.l. (in liquidation) (trading company)	IVREA (TURIN) (ITALY)	EUR	40,800	40.0000		TELECOM ITALIA S.p.A.
PERSEO S.r.l. (purchase, sale, exchange, rent, administration, maintenance of movable goods registered for any use and destination)	MILAN (ITALY)	EUR	20,000	50.0000		TELECOM ITALIA S.p.A.
RETAIL NETWORK SERVICES B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	15,129,484	37.2691		OLIVETTI S.p.A
SHARED SERVICE CENTER Scarl (planning, design, installation running of computer services)	MILAN (ITALY)	EUR	1,756,612	45.4545 4.5455		TELECOM ITALIA S.p.A. OLIVETTI S.p.A
SIEMENS INFORMATICA S.p.A. (supply of innovating solutions in the field of electronic and mobile business)	MILAN (ITALY)	EUR	6,192,000	49.0000		TELECOM ITALIA S.p.A.
SOFORA TELECOMUNICACIONES S.A. (holding company)	BUENOS AIRES (ARGENTINA)	ARS	439,702,000	32.5000 17.5000		TELECOM ITALIA S.p.A. TELECOM ITALIA INTERNATIONAL N.V.
TELBIOS S.p.A. (technological services supporting the health sector)	MILAN (ITALY)	EUR	2,458,330	31.0345		TELECOM ITALIA S.p.A.
TELEGONO S.r.l. (real estate management)	ROME (ITALY)	EUR	1,000,000	40.0000		TELECOM ITALIA S.p.A.
TELELEASING - LEASING DI TELECOMUNICAZIONI E GENERALE S.p.A. (financial leasing of real estate and other assets)	MILAN (ITALY)	EUR	9,500,000	20.0000		SAIAT SOCIETA' ATTIVITA'INTERMEDIE AUSILIARIE TLC P.A.
TIGLIO I S.r.l. (real estate management)	MILAN (ITALY)	EUR	5,255,704	45.6991 2.1027		TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
TIGLIO II S.R.L. (real estate management)	MILAN (ITALY)	EUR	6,185,288	49.4707		TELECOM ITALIA S.p.A.
UBA-NET S.A. (in liquidation) (teleteaching systems)	BUENOS AIRES (ARGENTINA)	ARS	12,000	50.0000		TRAINET S.p.A. (in liquidation)
WEMACOM TELEKOMMUNIKATION GmbH (telecommunications services)	SCHWERIN (GERMANY)	EUR	60,000	25.0000		HANSENET TELEKOMMUNIKATION GmbH

Other significant investments in accordance with Consob resolution No. 11971 dated May 14, 1999

Name	Head Office	Currency	Share Capital	% Ownership	% of Voting	Held by
ATESIA - Telemarketing Comunicazione Telefonica e Ricerche di Mercato S.p.A. (telemarketing)	ROME (ITALY)	EUR	3,150,406	19.9000		TELECOM ITALIA S.p.A.
CEFRIEL S.r.l. (updating and research in the electronic engineering sector)	MILAN (ITALY)	EUR	100,000	11.6000		TELECOM ITALIA S.p.A.
CELL-TEL S.p.A. (telecommunications equipment, plant, systems)	IVREA (TURIN) (ITALY)	EUR	500,000	15.0000		OLIVETTI S.p.A
FIN.PRIV. S.r.l. (financing)	MILAN (ITALY)	EUR	20,000	14.2900		TELECOM ITALIA S.p.A.
IFM INFOMASTER S.p.A. (planning and development of call center solutions)	GENOA (ITALY)	EUR	161,765	12.0000		TELECOM ITALIA LAB S.A.
INNOVIS S.p.A. (computer, online and telecommunications equipments and services)	IVREA (TURIN) (ITALY)	EUR	325,000	15.0000		OLIVETTI S.p.A.
INSULA S.p.A. (telecommunications services)	VENICE-MESTRE (ITALY)	EUR	2,064,000	12.0000		TELECOM ITALIA S.p.A.
ITALBIZ.COM Inc. (telecommunications services)	CALIFORNIA (USA)	USD	4,720	19.5000		TELECOM ITALIA MEDIA S.p.A
LEGACY LLH Ltd (ex Leisure Link Ltd) (manufacture of gaming and leisure-time machines)	STAFFORDSHIRE (UK)	GBP	7,809,179	11.4700		TELECOM ITALIA FINANCE S.A.
NEW SATELLITE RADIO S.r.l. (production and realization of radio-tv channel and program)	MILAN (ITALY)	EUR	10,000	12.7200		TELECOM ITALIA S.p.A.
OGER TELECOM LIMITED (investment holding company)	DUBAI (ARAB EMIRATES)	USD	4,343,436,360	10.3600		TIM INTERNATIONAL N.V.
PIEDMONT INTERNATIONAL S.A. (financing)	LUXEMBOURG (LUXEMBOURG)	USD	10,507,500	17.1300	10.3000	TELECOM ITALIA FINANCE S.A.
TWICE SIM S.p.A. (investment services)	MILAN (ITALY)	EUR	8,450,000	14.2300		TELECOM ITALIA MEDIA S.p.A.
USABLENET Inc (development of software for the analysis of web site usability)	DELAWARE (USA)	USD	4	18.1081		TELECOM ITALIA LAB S.A.

ERNST & YOUNG

Reconta Ernst & Young S.p.A.
Via della Chiusa, 2
20123 Milano

Tel. (+39) 02 722121
Fax (+39) 02 72212037
www.ey.com

INDEPENDENT AUDITORS' REPORT
pursuant to article 156 of Legislative Decree of February 24, 1998, No. 58
(Translation from the original Italian text)

To the Shareholders of
Telecom Italia S.p.A.

1. We have audited the consolidated financial statements of Telecom Italia S.p.A. and subsidiaries (the "Telecom Italia Group") as of and for the year ended December 31, 2006, comprising the consolidated balance sheet, the consolidated statements of income, changes in equity and cash flows and the related explanatory notes. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2. We conducted our audit in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the consolidated financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For our opinion on the consolidated financial statements for the prior year, which are presented for comparative purposes, reference should be made to our report dated March 22, 2006.

3. In our opinion, the consolidated financial statements present clearly and give a true and fair view of the financial position, results of operations, changes in equity and cash flows of Telecom Italia Group as of December 31, 2006, and for the year then ended in accordance with IFRS as adopted by the European Union and the standards issued in accordance with article 9 of Legislative Decree No. 38/2005.

Milan, Italy
March 26, 2007

Reconta Ernst & Young S.p.A.
Signed by - Nadia Locati, Partner

TELECOM ITALIA S.P.A.
SEPARATE FINANCIAL STATEMENTS

Contents

BALANCE SHEETS

ASSETS

(euro)	note	12.31.2006	of which related parties	12.31.2005	of which related parties
NON-CURRENT ASSETS					
Intangible assets					
Goodwill	5)	40,013,044,756		39,184,081,648	
Intangible assets with a finite life	6)	4,896,648,936		1,679,516,967	
		44,909,693,692		40,863,598,615	
Tangible assets					
Property, plant and equipment owned	7)	12,475,638,961		10,665,533,995	
Assets held under finance leases	7)	1,512,524,788		1,557,592,762	
		13,988,163,749		12,223,126,757	
Altre attività non correnti	8)				
Investments		10,913,207,938		16,110,160,855	
Securities, financial receivables and other non-current financial assets		670,144,843	139,533,000	646,742,610	24,262,000
Miscellaneous receivables and other non-current assets		541,742,569	13,824,000	1,089,310,304	612,435,000
Deferred tax assets	9)	714,163,237		2,398,677,475	
		12,839,258,587		20,244,891,244	
TOTAL NON-CURRENT ASSETS (A)		**71,737,116,028**		**73,331,616,616**	
CURRENT ASSETS					
Inventories	10)	124,849,172		75,574,397	
Trade and miscellaneous receivables and other current assets	11)	6,852,642,718	442,012,000	6,450,815,837	1,381,058,000
Current income tax assets	12)	258,293,118		299,629,773	
Financial receivables and other current financial assets	13)	265,704,104	12,050,000	195,848,587	64,000
Cash and cash equivalents	14)	5,207,976,162	89,458,000	6,601,126,269	602,606,000
TOTAL CURRENT ASSETS (B)		**12,709,465,274**		**13,622,994,863**	
TOTAL ASSETS (A+B)		**84,446,581,302**		**86,954,611,479**	

EQUITY AND LIABILITIES

(euro)	note	12.31.2006	of which related parties	12.31.2005	of which related parties
EQUITY					
- Share capital issued		10,673,764,057		10,668,131,550	
less: Treasury shares		(699,608)		(699,608)	
- Share capital		10,673,064,449		10,667,431,942	
- Reserve for Additional paid - in - capital		1,689,040,449		6,464,727,718	
- Legal reserve		2,134,750,014		1,953,493,714	
- Other reserves					
. Reserve L.D. No. 124/1993, ex art. 13		391,352		391,352	
. Reserve D.P.R. No. 917/1986, ex art. 74		5,749,710		5,749,710	
. Reserve for capital grants		602,258,805		537,726,934	
. Reserve for inflation adjustments - Law No. 413, 12/30/1991		1,128,827		1,128,827	
. Reserve ex art.1, comma 469, law 266/2005 - law 342/2000		315,842,091		-	
. Other		3,185,916,808		1,796,345,066	
Total Other reserves		4,111,287,593		2,341,341,889	
- Retained earnings (accumulated losses), including net income (loss) for the year		5,915,406,023		1,100,726,616	
TOTAL EQUITY (A)	15)	**24,523,548,528**		**22,527,721,879**	
NON-CURRENT LIABILITIES					
Non-current financial liabilities	16)	40,069,092,181	21,441,053,000	41,139,876,024	20,901,428,000
Employee severance indemnities and other employee-related provisions	18)	1,142,650,533		1,104,478,994	
Deferred tax liabilities	9)	133,842,193		-	
Provisions for risks and charges	19)	646,190,966		392,807,736	
Miscellaneous payables and other non-current liabilities	20)	1,679,959,716	121,040,000	1,879,864,273	100,851,000
TOTAL NON-CURRENT LIABILITIES (B)		**43,671,735,589**		**44,517,027,027**	
CURRENT LIABILITIES					
Current financial liabilities	16)	6,689,236,239	3,899,888,000	12,868,815,659	10,374,112,000
Trade and miscellaneous payables and other current liabilities	21)	9,436,885,659	739,948,000	7,032,138,342	1,244,788,000
Current income tax liabilities	22)	125,175,287		8,908,572	
TOTAL CURRENT LIABILITIES (C)		**16,251,297,185**		**19,909,862,573**	
TOTAL LIABILITIES (D=B+C)		**59,923,032,774**		**64,426,889,600**	
TOTAL EQUITY AND LIABILITIES (A+D)		**84,446,581,302**		**86,954,611,479**	

STATEMENTS OF INCOME

(euro)	note	Year 2006	of which related parties	Year 2005	of which related parties
Revenues	25)	22,720,672,767	835,814,000	15,913,257,740	1,377,756,000
Other income	26)	405,091,852	31,022,000	421,596,594	51,344,000
Total operating revenues and other income		**23,125,764,619**		**16,334,854,334**	
Purchases of materials and external services	27)	(9,180,350,262)	(1,436,542,000)	(6,481,967,770)	(2,254,947,000)
Personnel costs	28)	(3,003,608,461)	(22,843,000)	(2,907,305,636)	(18,058,000)
Other operating expenses	29)	(750,851,195)	(9,518,000)	(715,075,005)	(34,544,000)
Changes in inventories	30)	5,391,178		(30,515,534)	
Capitalized internal construction costs	31)	413,585,953		277,323,423	
OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) OF NON-CURRENT ASSETS (EBITDA)		10,609,931,832		6,477,313,812	
of which net impact of non-recurring items	40)	*(2,500,000)*		*(276,625,000)*	
Depreciation and amortization	32)	(3,934,598,994)		(2,940,595,131)	
Gains (losses) on disposals of non-current assets (1)	33)	110,140,567		262,158,612	
Impairment reversals (losses) on non-current assets	34)	(3,782,195)		(7,700,000)	
OPERATING INCOME (EBIT)		6,781,691,210		3,791,177,293	
of which net impact of non-recurring items	40)	*129,726,000*		*2,219*	
Financial income	35)	2,882,341,002	2,033,178,000	2,241,821,756	1,498,065,000
Financial expenses	36)	(3,414,487,607)	(1,290,868,000)	(3,276,628,873)	(1,281,141,000)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES		6,249,544,605		2,756,370,176	
of which net impact of non-recurring items	40)	*170,938,000*		*57,462,000*	
Income taxes	37)	(2,105,968,014)		(922,787,150)	
NET INCOME FOR THE YEAR		4,143,576,591		1,833,583,026	
of which net impact of non-recurring items	40)	*90,753,000*		*13,840,000*	

STATEMENTS OF CHANGES IN EQUITY

CHANGES IN EQUITY IN 2005

(euro)	Share capital	Reserve for additional paid-in capital	Other	Retained earnings, including net income for the year	Total
Balance at December 31, 2004 under Italian GAAP	8,864,857,176	120,380,400	4,809,448,060	3,015,876,256	16,810,561,892
Adoption of IFRS	(1,515,364)	(57,826,498)	(325,013,811)	(1,724,220,418)	(2,108,576,091)
Balance at December 31, 2004 under IFRS	8,863,341,812	62,553,902	4,484,434,249	1,291,655,838	14,701,985,801
Movements in equity during the year:					
Fair value adjustment of financial assets available for sale:					
Unrealized gains (losses) on fair value adjustments			52,939,608		52,939,608
Fair value adjustment of hedging instruments:					
Unrealized gains (losses) from fair value adjustments of cash flow hedging derivativies			(190,311,438)		(190,311,438)
Gains (losses) transferred to the statement of operations			145,846,587		145,846,587
Tax effect			14,672,631		14,672,631
Total net gains (losses) for the year recognized directly in equity (a)			23,147,388		23,147,388
Net gains (losses) for the year recognized in the statement of operations (b)				1,833,583,026	1,833,583,026
Total net gains (losses) for the year (a+b)			23,147,388	1,833,583,026	1,856,730,414
Dividends paid				(1,923,237,248)	(1,923,237,248)
Conversion of bonds	487,782,140	1,640,430,369	(315,349,808)		1,812,862,701
Exercise of stock options	5,861,574	23,338,971			29,200,545
Tim Italia merger and tender offer	1,309,630,659	4,736,014,007			6,045,644,665
Other movements	815,756	2,390,470	102,603,774	(101,275,000)	4,535,000
Balance at December 31, 2005 under IFRS	10,667,431,941	6,464,727,718	4,294,835,603	1,100,726,616	22,527,721,879

CHANGES IN EQUITY IN 2006

(euro)	Share capital	Reserve for additional paid-in capital	Other	Retained earnings, including net income for the year	Total
Balance at December 31, 2005 under Italian GAAP	10,668,131,549	1,669,188,158	4,756,397,787	4,874,376,812	21,968,094,306
Adoption of IFRS	(699,607)	4,795,539,560	(461,562,184)	(3,773,650,196)	559,627,573
Balance at December 31, 2005 under IFRS	10,667,431,941	6,464,727,718	4,294,835,603	1,100,726,616	22,527,721,879
Application of art. 7 of Legislative Decree 38/2005		(4,795,539,560)	1,021,889,364	3,773,650,196	
Balance at January 1, 2006 under IFRS	10,667,431,941	1,669,188,158	5,316,724,967	4,874,376,812	22,527,721,879
Movements in equity during the year:					
Fair value adjustment of financial assets available for sale:					
Unrealized gains (losses) on fair value adjustments			66,001,084		66,001,084
Fair value adjustment of hedging instruments:					
Unrealized gains (losses) from fair value adjustments of cash flow hedging derivativies			(6,721,148)		(6,721,148)
Gains (losses) transferred to the statement of operations			263,497,953		263,497,953
Other movements:			597,599		597,599
Tax effect			(88,335,226)		(88,335,226)
Total net gains (losses) for the year recognized directly in equity (a)			235,040,262		235,040,262
Net gains (losses) for the year recognized in the statement of operations (b)				4,143,576,591	4,143,576,591
Total net gains (losses) for the year (a+b)			235,040,262	4,143,576,591	4,378,616,853
Dividends paid				(2,783,063,808)	(2,783,063,808)
Conversion of bonds	5,632,507	19,852,292	(3,785,498)		21,699,301
Exercise of stock options					
Tim Italia merger and tender offer			378,574,304		378,574,304
Other movements			319,483,572	(319,483,572)	(0)
Balance at December 31, 2006 under IFRS	10,673,064,448	1,689,040,450	6,246,037,606	5,915,406,023	24,523,548,528

STATEMENTS OF CASH FLOWS

(thousands of euro)	note	Year 2006	Year 2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income from continuing operations		4,143,577	1,833,583
Adjustments to reconcile net income from continuing operations to cash flows generated by (used in) operating activities:			
Depreciation and amortization		3,934,599	2,940,595
Impairment (reversals) losses of non-current assets (including investments)		325,269	380,310
Net change in deferred tax assets and liabilities		1,729,521	1,382,607
Net (gains) losses realized on disposals of non-current assets (including investments)		(64,751)	(238,825)
Change in employee severance indemnities and other employee-related provisions		(117,830)	186,046
Change in other operating assets/liabilities:			
Change in inventories		1,144	37,911
Change in trade receivables and net receivables on construction contracts		(138,317)	411,897
Change in trade payables		286,436	(218,297)
Net change in miscellaneous receivables/payables and other assets/liabilities		(261,123)	(920,071)
CASH FLOWS GENERATED BY (USED IN) OPERATING ACTIVITIES (A)		**9,838,525**	**5,795,756**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions of intangible assets on an accrual basis	6)	*(1,537,046)*	*(741,767)*
Acquisitions of tangible assets on an accrual basis	7)	*(2,187,544)*	*(1,687,503)*
Total acquisitions of intangible and tangible assets on an accrual basis (*)		(3,724,590)	(2,429,270)
Change in amounts due to fixed asset suppliers		*319,379*	*307,611*
Total acquisitions of intangible and tangible assets on a cash basis		(3,405,211)	(2,121,659)
Acquisitions of investments and businesses (I)	8)	(149,129)	(15,701,068)
Acquisition of cash and cash equivalent as a result of the mergers with Tim Italia and Nuova Tin.it		1,354,493	
Change in financial receivables and other financial assets		(70,656)	(45,439)
Proceeds on the distribution of dividends by Telecom Italia Media	8)	361,654	
Proceeds on sale/repayments of intangible, tangible and other non-current assets (II)		414,868	1,532,174
CASH FLOWS GENERATED BY (USED IN) INVESTING ACTIVITIES (B)		**(1,493,981)**	**(16,335,992)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in current financial liabilities and others liabilities		(3,403,108)	1,238,357
Proceeds from non-current financial liabilities (including current portion)		6,512,474	14,938,459
Repayments of non-current financial liabilities (including current portion)		(9,695,258)	(3,368,477)
Proceeds from equity instruments			29,200
Dividends paid (distribution of reserves included) (*)		(2,782,728)	(1,922,980)
CASH FLOWS GENERATED BY (USED IN) FINANCING ACTIVITIES (C)		**(9,368,620)**	**10,914,559**
AGGREGATE CASH FLOWS (D=A+B+C)		**(1,024,076)**	**374,323**
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (E)		**5,812,567**	**5,438,244**
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (F=D+E)		**4,788,491**	**5,812,567**

(I) Net of change in payables following the related acquisition.
(II) Net of change in receivables following the related disposal.

(*) of which Related Parties

(thousands of euro)	Year 2006	Year 2005
Total acquisitions of intangible and tangible assets on an accrual basis	(511,447)	(528,512)
Dividends paid (distribution of reserves included)	(365,781)	(282,019)

ANALYSIS OF NET CASH AND CASH EQUIVALENTS:

(thousands of euro)	Year 2006	Year 2005
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR:		
Cash and cash equivalents	6,601,126	6,007,554
Bank overdrafts repayable on demand	(788,559)	(569,310)
	5,812,567	**5,438,244**
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR:		
Cash and cash equivalents	5,207,976	6,601,126
Bank overdrafts repayable on demand	(419,485)	(788,559)
	4,788,491	**5,812,567**

ADDITIONAL CASH FLOW INFORMATION:

(thousands of euro)	Year 2006	Year 2005
Income taxes (paid) received	(647,180)	(586,725)
Interest expense paid	(2,334,590)	(1,606,340)
Interest income received	511,460	368,630
Dividends received	2,167,152	1,403,787

NOTE 1 – FORM AND CONTENT AND OTHER GENERAL INFORMATION

Form and content

Telecom Italia S.p.A. is a corporation organized under the laws of the Republic of Italy, with its head office in Milan (Italy). Telecom Italia S.p.A. operates in Italy in the communications sector and, particularly, in telephone and data services on fixed lines, for final customers (retail) and other providers (wholesale), in the development of fiber optic networks for wholesale customers, in innovative broadband services, in Internet services and in domestic mobile telecommunications.

Following the coming into force of European Union Regulation 1606/2002 and the national laws implementing that Regulation, starting from January 1, 2006, Telecom Italia S.p.A. adopted International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board and endorsed by the European Union, in the preparation of its separate financial statements. The designation IFRS also includes all effective International Accounting Standards (IAS) as well as all interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), comprising those previously issued by the Standing Interpretations Committee (SIC). The separate financial statements have also been prepared in accordance with existing Italian legislation, Consob Resolutions 15519 and 15520 of July 27, 2006, as well as Consob Communication DEM/6064293 of July 28, 2006. For purposes of comparability for the year 2005 in accordance with the requirements of IAS 1 (Presentation of financial statements).

Since the adoption of IFRS for the preparation the 2005 consolidated financial statements of the Telecom Italia Group required the transition to the new standards as at January 1, 2004, as a result of that conversion, Telecom Italia S.p.A. has recognized the assets and liabilities in its separate financial statements at the same amounts used in the consolidated financial statements, except for items that were adjusted on consolidation. Since the separate financial statements at December 31, 2005 prepared in accordance with IFRS are also presented for comparison purposes, a reconciliation between Italian GAAP and IFRS has been prepared for the equity at January 1, 2005 (the date of transition to IFRS for the separate financial statements) and at December 31, 2005 and for the net income for the year 2005, together with the related comments, in the Note – Transition to International Financial Reporting Standards (IFRS)). The effects of the transition to IFRS are the result of changes in accounting principles and, consequently, are recognized in the opening equity at January 1, 2005. In the transition to IFRS, the estimates previously formulated in accordance with Italian GAAP have been maintained, unless the adoption of IFRS has required the formulation of estimates in accordance with different methods.

The separate financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets held for trading and derivative instruments at fair value through the statement of income. The carrying amounts of hedged assets and liabilities have been adjusted to reflect the changes in fair value of the hedged risks (fair value hedge).

Moreover, the Company did not elect the early adoption of any IFRS in 2006.

The preparation of separate financial statements is mandatory pursuant to the provisions contained in article 2423 of the Italian Civil Code.

Financial statement formats

The financial statement formats adopted are consistent with those indicated in IAS 1. In particular:

- the balance sheet has been prepared by classifying the assets and liabilities according to "current and non-current";
- the statement of income has been prepared by classifying the operating costs by nature of expense, since this form of presentation is considered more appropriate and representative of the specific business of the company, conforms to internal reporting and is in line with the industrial sector of reference;
- the statement of changes in equity has been prepared in conformity with the IAS 1;
- the statement of cash flows has been prepared by presenting financial flows from operating activities according to the "indirect method", as permitted by IAS 7.

All amounts are expressed in thousands of euro, unless otherwise indicated.

Furthermore, as required by Consob resolution 15519 dated July 27, 2006, in the statement of income by nature, income and expenses relating to non-recurring transactions or events which infrequently occur during the normal course of business operations and the relative effects have been shown separately.
In particular, they refer to:

- income / expenses from the sale of properties;
- income / expenses from the sale of business segments and investments included under non-current assets;
- any income / expenses from reorganizations connected with extraordinary corporate-related transactions (mergers, demergers, acquisitions and other corporate-related transactions);
- any income / expenses from fines levied by regulatory agencies (the National Regulatory Authority (NRA), the Antitrust Authority etc.).

Again in reference to the above Consob resolution, the amounts of balances or transactions with related parties are shown separately by caption in the balance sheet and the statement of income.

Seasonal factors affecting revenues

a) Wireline
The trend of revenues from basic subscription charges and traffic relating to fixed telecommunications was not significantly affected by seasonal factors in 2006 and 2005. However, the promotional campaigns launched in 2006 had a positive effect on product sales.

b) Mobile
The trend of voice traffic revenues relating to the mobile telephone business is not influenced by seasonal factors related to market campaigns. These campaigns, however, have an effect on the revenues from sales and marginally also on revenues from Valued Added Services (VAS). Nevertheless, there are seasonal phenomena relating to the number of holidays during the months or periods in the reporting calendar.

NOTE 2 – ACCOUNTING POLICIES

Business combinations and goodwill

In the case of the acquisition of companies or business segments from third parties, also through mergers or conferrals, the identifiable assets, liabilities and contingent liabilities acquired are recorded at fair value at the date of acquisition.

The positive difference or excess of the cost of acquisition over the Company's interest in the fair value of those assets and liabilities is classified as goodwill and recorded in the balance sheet as an intangible asset with an indefinite life. The negative difference or excess of fair value over cost ("negative goodwill") is recognized in the statement of income at the date of acquisition.

Goodwill is originally recorded at cost and is subsequently reduced only for accumulated impairment losses.

In accordance with IAS 36 (*Impairment of assets*), goodwill is tested for impairment annually, or more frequently, if specific events or changes in circumstances indicate that it may be impaired. However, impairment losses of goodwill are not reversed when the underlying assumptions no longer exist. For additional details, please refer to the following *Impairment of assets – Goodwill.*

When a part or the entire investment previously acquired is sold, the corresponding amount of goodwill is taken into account in calculating the gain or loss on sale.

In the context of IFRS First-time adoption, the Company elected not to apply IFRS 3 (*Business Combinations*) retrospectively to the business combinations that occurred before January 1, 2004; as a consequence, goodwill arising on acquisitions before that date has been retained at the previous Italian GAAP amounts, subject to being tested for impairment at that date and except for possible effects arising from the application of the new standards.

Merger transactions

With regard to merger transactions, in the absence of a Standard or a specific Interpretation on the matter and referring to IAS 8 (*Accounting policies, changes in accounting estimates and errors*), the Company has applied the following accounting treatment:

- Mergers which are acquisitions of controlling interests: these transactions are accounted for in accordance with IFRS 3, as described previously for "Business combinations".
- Mergers with the acquisition of minority interests in companies already controlled: these transactions are accounted for using the Parent entity extension method in which goodwill is recognized for an amount equal to the excess of the acquisition cost over the carrying amount of the assets and liabilities acquired.
- Mergers of controlled companies: these transactions, for the percentage of ownership held prior to the merger, are accounted for at the carrying amount. The excess of the carrying amount of the investment over the equity of the merged company is recognized as goodwill for an amount not in excess of the goodwill recorded in the consolidated financial statements.

Intangible assets

Development costs

Costs incurred internally for the development of new products and services represent intangible assets (mainly costs for software development) or tangible assets. Such costs are capitalized only if all the following conditions are met: the project is technically feasible and the Company intends to complete the asset and make it available for internal use or sale; the ability of the Company to use or sell the asset; the existence of a market for the products or services provided by the asset or the ability to use the asset internally; the availability of adequate technical and financial resources to complete the development and sale or internal use of the products or services deriving from the asset; and the ability of the Company to measure reliably the expenditures attributable to the asset during the development phase.
Capitalized development costs comprise only expenditures that can be attributed directly to the development process and are amortized systematically from the start of production over the estimated product or service life.

Other intangible assets with a finite life

Other purchased or internally-generated intangible assets are recognized as assets in accordance with IAS 38 (*Intangible assets*), where it is probable that the use of the asset will generate future economic benefits and where the cost of the asset can be determined reliably.
Such assets are recorded at purchase or development cost, or, for those assets existing at January 1, 2004, at the deemed cost which for certain assets is the revalued cost, and amortized on a straight-line basis over their estimated useful lives. Intangible assets with finite useful lives are also tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired.
Amortization is calculated on a straight-line basis over the estimated useful life of the assets. The amortization rates are reviewed yearly and revised if the current estimated useful life is different from that estimated previously. The effect of such changes is recognized in the statement of income prospectively.

Tangible assets – Property, plant and equipment owned

Property, plant and equipment owned is stated at acquisition or production cost or, for those assets existing at January 1, 2004, at the deemed cost which for some assets is the revalued cost. Subsequent expenditures are capitalized only if they increase the future economic benefits embodied in the related item of property, plant and equipment. All other expenditures (including interest expenses directly attributable to the acquisition or construction of the asset) are expensed as incurred.
Cost also includes the present value of the expected costs of decommissioning the asset and restoring the site if a legal or constructive obligation exists. The corresponding present value of the liability is recognized in the period in which the obligation arises in a balance sheet provision under the provisions for risks and charges. These capitalized costs are depreciated and charged to the statement of income over the useful life of the related tangible assets.
Depreciation of property, plant and equipment owned is calculated on a straight-line basis over the estimated useful life of the assets.
Land, including the land appurtenant to the buildings, is not depreciated.
These depreciation rates are reviewed yearly and revised if the current estimated useful live is different from that estimated previously. The effect of such changes is recognized in the statement of income prospectively.

In 2006, a complete review of the useful lives of tangible assets was undertaken basically in relation to the following:

- integration of fixed and mobile telecommunications (merger of Tim Italia in Telecom Italia);
- planning of a New Generation Network (NGN) to support the domestic broadband services market.

Specifically, technical evaluations of tangible assets grouped by the usual homogeneous categories (buildings, telecommunications plan, cables, end terminations and equipment) were made and account was taken of technological innovation and market evolution.

The above review of the depreciation rates led to reduction in the depreciation charge for the year 2006 of euro 319,230 thousand and, assuming that other existing conditions remain the same, a reduction in the depreciation charge of euro 193,039 thousand in 2007 and euro 158,709 thousand in 2008.

The depreciation rates used in 2006 and 2005 are the following:

	Depreciation rates	
	Year 2006	Year 2005
Civil and industrial buildings	3.7%	3.3%
Plant and equipment	7.6%	8.5%
Manufacturing and distribution equipment	20.8%	22.3%
Other assets	13.6%	22.8%

Tangible assets - Assets held under finance leases

Assets held under finance leases, in which the Company retains substantially all the risks and rewards of ownership, are recognized as assets of the Company at their fair value or, if lower, at the present value of the minimum lease payments, including bargain purchase options. The corresponding liability payable to the lessor is included in the balance sheet in financial liabilities.
Furthermore, gains realized on sale and leaseback transactions that are recorded under the finance method are deferred over the shorter of the lease term and the remaining useful life of the asset.
Since there is no reasonable certainty over the acquisition of the ownership of the asset at the end of lease period, assets held under finance leases are depreciated over the shorter of the lease term and their useful lives.
Leases where the lessor retains substantially all the risks and rewards of ownership of the assets are accounted for as operating leases. Operating lease rentals are charged to the statement of income on a straight-line basis over the lease term.

Impairment of assets

Goodwill

Goodwill is tested for impairment at least once a year to assess the recoverable amount of the asset.
The test is conducted in conjunction with the planning process, near the end of every year. Therefore, the date of testing is the year-end closing date of the financial statements. Goodwill acquired and allocated during the year is tested for impairment by the end of the year in which the acquisition and allocation took place.

To test for impairment, goodwill is allocated, at the date of acquisition, to each cash-generating unit or group of cash-generating units which is expected to benefit from the acquisition. Allocation is made to the lowest level at which goodwill is monitored for management purposes. This minimum level must never be at a higher level than the business segment determined in accordance with IAS 14 (*Segment Reporting*).

If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the statement of income. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite life. The recoverable amount of a cash-generating unit, or group of cash-generating units, to which goodwill is allocated, is the higher of fair value less costs to sell and its value in use.

In calculating the value in use, the pre-tax estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. The future cash flows are derived from the Company plans approved by the board of directors which generally cover a period of three years, except where longer-term projections are required such as in the case of start-up activities. The long-term growth rate used to estimate the end amount of the cash-generating unit (or group of cash-generating units) is assumed not to be higher than the average long-term growth rate of the segment, country or market in which the cash-generating unit (or group of cash-generating units) operate.

Future cash flows are estimated by referring to the current operating conditions of the cash-generating unit and, therefore, do not include either benefits originating from future restructuring for which the entity is not yet committed, or future investments for the improvement or optimization of the cash-generating unit.

For the purpose of calculating impairment, the carrying amount of the cash-generating unit is established based on the same criteria used to determine the recoverable amount of the cash-generating unit, excluding surplus assets (that is, financial assets, deferred tax assets and net assets held for sale) and includes the goodwill attributable to minority interests.

After conducting the goodwill impairment test for the cash-generating unit (or group of cash-generating units), a second level of impairment testing is carried out which includes the corporate assets which do not generate positive cash flows and which cannot be allocated by a reasonable and consistent criteria to the single units. At this second level, the total recoverable amount of all cash-generating units or groups of cash-generating units is compared to the carrying amount of all cash-generating units (or groups of cash-generating units), including also the net assets of those cash-generating units to which no goodwill was allocated and the corporate assets.

When the conditions that gave rise to an impairment loss no longer exist, the original amount of goodwill is not reinstated, as set forth in IAS 36 (*Impairment of assets*).

Intangible and tangible assets with a finite life

During the year, the Company assesses whether there are any indications of impairment of tangible assets and intangible assets with a finite life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, increases in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Company over market capitalization.

If there are any indications of an impairment of either tangible assets or intangible assets with a finite life, the carrying amount of the assets is reduced to the relative recoverable amount. The recoverable amount of an asset is the higher of fair value less costs to sell and its value in

use. In calculating the value in use, the pre-tax estimated future cash flows are discounted to present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. An impairment loss is recognized in the statement of income.
When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, up to the carrying amount that would have been recorded had no impairment loss been recognized. A reversal of an impairment loss is recognized as income in the statement of income.

Financial instruments

In the context of IFRS First-time adoption, Telecom Italia elected to adopt IAS 32 (*Financial instruments: disclosure and presentation*) and IAS 39 (*Financial instruments: recognition and measurement*) at January 1, 2004 instead of applying the standards from the year beginning January 1, 2005. Furthermore, as allowed by IFRS 1, the designation of financial instruments as a financial asset "at fair value through the statement of income" or "available for sale" or a financial liability valued at "fair value through the statement of income" has been carried out at January 1, 2004 instead of at the date of initial recognition.

Investments

Investments in subsidiaries, associates and jointly controlled companies are valued at cost adjusted by impairment losses. Whenever the reasons which led to an impairment no longer apply, the carrying amount of the investment is increased up to the relative original cost. This reversal is recorded as income in the statement of income.

Investments in other companies are classified upon acquisition as available-for-sale financial assets in current or non-current assets or as "financial assets at fair value through the statement of income" in current assets. Such investments are valued at fair value or at cost in the case of unlisted companies or investments whose fair value is not reliable or cannot be determined reliably, adjusted by any impairment losses, as required by IAS 39 (*Financial instruments: recognition and measurement*).
Changes in the value of investments classified as available-for-sale, if valued at cost, are recognized directly in the statement of income; those valued at fair value are recognized in a specific equity reserve until the financial asset is disposed of or impaired at which time the equity reserve is reversed to the statement of income.
Changes in the value of investments classified as assets at fair value through the statement of income are recognized directly in the statement of income.

Receivables and loans

Receivables and loans classified both as non-current and current assets are measured at amortized cost.
Receivables with maturities of over one year which bear no interest or an interest rate significantly lower than market rates are discounted using market rates.

Cash and cash equivalents

Cash and cash equivalents are recorded, according to their nature, at nominal value or amortized cost.
Cash includes cash on hand and valuables.
Cash equivalents are short-term and highly liquid investments that are readily convertible to known amounts of cash, are subject to an insignificant risk of changes in value, and whose original maturity or the remaining maturity at the date of purchase does not exceed 3 months.

Impairment of financial assets

Assessments are made regularly as to whether there is any objective evidence that a financial asset or a group of financial assets may be impaired. If any such evidence exists, an impairment loss is recognized in the statement of income for the year.

Financial liabilities

Financial liabilities include financial debt, including advances received on the assignment of accounts receivable and other financial liabilities such as derivatives and financial lease obligations.
Financial liabilities other than derivatives are initially recognized at fair value less transaction costs and are subsequently measured at amortized cost. The amortized cost is represented by the initial amount of the financial instrument net of repayments of principal already made, adjusted (up or down) on the basis of the amortization (using the effective interest method) of any differences between the initial amount and the amount at maturity.
Compound financial instruments represented by bonds convertible into shares of the issuer are recognized by dividing the debt and the call option: the debt is included in financial liabilities using the amortized cost method while the call option amount, computed as the difference between the fair value of the debt and the nominal amount of the financial instrument, is classified in a specific equity reserve (Other equity instruments).
Financial liabilities hedged by derivative instruments designed to manage exposure to changes in fair value of the liabilities are measured at fair value in accordance with the hedge accounting principles of IAS 39. Gains and losses arising from re-measurement at fair value, to the extent of the hedged component, are recognized in the statement of income and are offset by the effective portion of the gain or loss arising from re-measurement at fair value of the hedging instrument.
Financial liabilities hedged by derivative instruments designed to manage exposure to variability in cash flows are measured at amortized cost in accordance with the hedge accounting principles of IAS 39.

Derivative financial instruments

Derivative financial instruments are used by Telecom Italia to manage its exposure to exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within prefixed operational limits.
In accordance with IAS 39, derivative financial instruments qualify for hedge accounting only when:

a) at the inception of the hedge there is formal designation and documentation of the hedging relationship;
b) the hedge is expected to be highly effective;
c) its effectiveness can be reliably measured;
d) it is highly effective throughout the financial reporting periods for which the hedge is designated.

All derivative financial instruments are measured at fair value in accordance with IAS 39.
When derivative financial instruments qualify for hedge accounting, the following accounting treatment applies:

- Fair value hedge – Where a derivative financial instrument is designated as a hedge of the exposure to changes in fair value of an asset or liability due to a particular risk, the gain or loss from re-measuring the hedging instrument at fair value is recognized in the statement of income. The gain or loss on the hedged item attributable to the hedged risk adjusts the carrying amount of the hedged item and is recognized in the statement of income.
- Cash flow hedge – Where a derivative financial instrument is designated as a hedge of the exposure to variability in cash flows of an asset or liability or a highly probable forecasted transaction, the effective portion of any gain or loss on the derivative financial instrument is recognized directly in a specific equity reserve (Reserve for fair value adjustments of hedge instruments). The cumulative gain or loss is removed from equity and recognized in the statement of income at the same time as the hedged transaction affects the statement of income. The gain or loss associated with the ineffective portion of a hedge is recognized in the statement of income immediately. If the hedged transaction is no longer probable, the cumulative unrealized gains or losses included in the equity reserve are immediately recognized in the statement of income.

If hedge accounting is not appropriate, gains or losses arising from the measurement of the fair value of derivative financial instruments are directly recognized in the statement of income.

Sales of receivables

During the first half of 2006, Telecom Italia sold a significant part of its receivables through the securitization program which ended on July 25, 2006.
In December 2005, the securitization program was partly restructured by a “Master DPP Transfer Agreement” (or Framework Agreement for the sale of the Deferred Purchase Price (DPP)) signed between Telecom Italia S.p.A. and certain financial institutions under which the DPP on Telecom Italia S.p.A. receivables relating to invoices issued between October 1, 2005 and May 31, 2006 were sold without recourse to such financial institutions.
Consequently, as a result of the sale of the DPP without recourse, the risks and rewards of ownership of such receivables were transferred in full to the financial institutions which, having taken over control of the Special Purpose Entity (SPE) according to the criteria established in SIC – 12, consolidate TI Securitisation Vehicle S.r.l. (TISV).

Starting in June 2006, Telecom Italia put into place contracts for the sale of the same kind of receivables under the law on factoring, Law 52/91. These sales are characterized by the transfer of all the risks and rewards of ownership of the receivables to third parties and thus meet IFRS requirements for their derecognition. Specific servicing contracts, by virtue of which the buyer institutions conferred a mandate to Telecom Italia for the collection and management of the receivables, leave the current Company/customer relationship unaffected.
Moreover, other types of receivables are sold by Telecom Italia with factoring transactions which, in the majority of cases, meet IFRS requirements for asset derecognition.
In some cases, however, certain receivables sold to factoring companies do not meet IFRS requirements for derecognition. These particularly refer to sales made primarily in prior years and generally regard receivables due from the tax authorities for income taxes that were legally sold without recourse but which required a first loss guarantee by the seller up to a limited amount or included a continuing significant exposure to the cash flows arising from the receivables sold. In these cases, since the risks were not substantially transferred to the third parties, the receivables sold remain in the financial statements and a corresponding financial liability is recorded for the same amount.

Receivables for construction contracts

Construction contracts, regardless of the duration of the contracts, are recognized in accordance with the stage of completion and classified as receivables in current assets. Losses on such contracts, if any, are recorded in full in the statement of income when they become known.

Inventories

Inventories – consisting of merchandise for resale and supplies of technical materials and spare parts for operations and maintenance – are stated at the lower of cost and estimated realizable value, with cost being determined on a weighted average cost (by single movement) basis.
The carrying amount of inventories is reduced by provisions for obsolete or slow-moving stocks and takes into account their expected future use and estimated realizable value.

Employee benefits

Provision for employee severance indemnities

The Provision for employee severance indemnities, mandatory for Italian companies pursuant to art. 2120 of the Italian Civil Code, is considered a defined benefit plan under IFRS and is based, among other things, on the employees' years of service and the remuneration earned by the employee during the service period.
In accordance with IAS 19, the amount of provision to be recognized in the financial statements is determined by actuarial calculations using the Projected Unit Credit Method. As allowed by IFRS 1 and IAS 19, Telecom Italia has elected, in the context of IFRS first-time adoption and for subsequent years, to recognize all actuarial gains and losses in the statement of income as they arise.
The expenses relative to the increase in the present value of the severance indemnity obligation, as the time for payment of the benefit comes closer, are included in Personnel costs in the statement of income.

Stock compensation plans

Stock option plans granted starting from January 1, 2005 are recognized in accordance with IFRS 2 (*Share-based Payment*).
The Company elected to apply the exemptions provided by paragraph 25B of IFRS 1 and, therefore, did not apply IFRS 2 to stock option plans granted before November 7, 2002, where the terms and conditions of such plans had not changed.
For the valuation of stock option plans, the Company uses the binomial "Cox-Ross-Rubenstein (CRR)" model. This model calculates the possible values which the underlying stock can assume over the life of the option.

The Company provide additional benefits to certain managers and employees through stock compensation plans (stock options). In accordance with IFRS 2 (*Share-based Payment*), employee stock options are measured at fair value at the grant date using models that take account of circumstances applicable at the grant date (option exercise price, vesting period, current price of the underlying shares, expected share price volatility, expected dividends and interest rate for a risk-free investment over the option term).
If the right vests after a certain period of time and/or upon attainment of certain performance conditions (vesting period), the total stock option amount must be apportioned prorata over the vesting period and recorded in equity under "Other equity instruments", with a contra-entry

recorded in the statement of income in “Personnel costs” (given that this is non-monetary consideration intended to enhance employee loyalty and provide an incentive to improve business performance).
At the end of each year, the previously determined fair value of each option is not restated or updated, but maintained in equity. However, at that date, the Company reviews the estimated number of options that will vest until expiry based on the number of employees who will have exercise rights. The change in estimate must be deducted from or added to “Other equity instruments” with a contra-entry recorded in the statement of income in “Personnel costs”.
When the option expires, the amount reflected in “Other equity instruments” is reclassified as follows: the portion relating to exercised options is reclassified to “Additional paid-in capital” and the portion relating to non-exercised options is reclassified under “Retained earnings (accumulated losses), including net income (loss) for the year”.

Provisions for risks and charges

The Company records provisions for risks and charges when it has an actual obligation, legal or constructive, to a third party, as a result of a past event, when it is probable that an outflow of Company resources will be required to satisfy the obligation and when a reliable estimate of the amount of the obligation can be made.
Changes in estimates are reflected in the statement of income in the year in which the changes occur.

Treasury shares

Treasury shares are recognized as a deduction from equity. In particular, the nominal amount of treasury shares is reported as a deduction from the share capital issued while the excess portion of cost at acquisition over the nominal amount is presented as a reduction of “Other reserves”.

Foreign currency transactions

Transactions in foreign currencies are recorded at the foreign exchange rate prevailing at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rate prevailing at the balance sheet date. Exchange differences arising from the settlement of monetary items or from their conversion at rates different from those at which they were initially recorded during the year or in previous financial statements, are recognized in the statement of income.

Revenue recognition

Revenues are recognized to the extent that it is probable that the economic benefits will flow to the Company and the revenues can be reliably measured. Revenues are stated net of discounts, allowances, and returns. Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators.
Revenues from services rendered are recognized in the statement of income according to the prorata performance of the transaction and only when the outcome of the service rendered can be estimated reliably. Revenues from the activation of telephone services (and related costs) are deferred over the expected duration of the relationship with the customer (mainly 8 years for retail customers and 3 years for wholesale customers).
Revenues from prepaid traffic are recorded on the basis of the minutes used at the contract price per minute. Deferred income for unused minutes is recorded in “Trade and miscellaneous payables and other current liabilities”. When customers recharge their prepaid cards they pay a

fixed amount as Recharging income. The revenues from Recharging income and the relative costs (amounts paid to resellers, banks and other parties), with the latter not exceeding the Recharging income, are deferred over the period between two subsequent recharges (about one month).

Starting from the year 2006, following the introduction of new types of contracts which bind the customer to Telecom Italia for periods of 24 months, otherwise a penalty is applied, the Company capitalizes directly attributable subscriber acquisition costs to intangible assets and recognizes them in the statement of income over the period of the underlying contract. These costs represent commissions for the sales network and subsidies for the purchase of handsets and are capitalized when the following conditions are met:

- the costs can be clearly identified;
- there is a contract binding the customer for a specific period of time;
- it is probable that the amount of the costs will be recovered through the sales generated by the service contract, or, where the customer rescinds from the contract in advance, through the collection of the penalty.

In all other cases, subscriber acquisition costs are expensed when incurred.
Revenues from construction contracts are recognized based on the percentage of completion method.

Research costs

Research costs are charged directly to the statement of income in the year incurred.

Taxes

Income taxes include all taxes calculated on the basis of the taxable income of the Company, including relative incidental expenses of a non-financial nature (e.g. penalties). The relative interest expenses are recognized in “Financial expenses”.
Income taxes are recognized in the statement of income except to the extent that they relate to items directly charged or credited to equity, in which case the related income tax effect is recognized in equity.
Other taxes, other than income taxes, are included in operating expenses.
Deferred tax assets/liabilities are provided using the “Balance sheet liability method”. They are calculated on all temporary differences that arise between the tax base of an asset or liability and the carrying amounts in the separate financial statements except for non tax-deductible goodwill.
Deferred tax assets relating to unused tax loss carryforwards and tax credits are recognized to the extent that it is probable that future profits will be available against which they can be utilized. Current and deferred tax assets and liabilities are offset when the income taxes are levied by the same tax authority and where there is a legally enforceable right of offset. Deferred tax assets and liabilities are determined based on enacted tax rates in the respective jurisdictions in which the Company operates that are expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled.

Dividends

Dividends received are recognized in the statement of income on the accrual basis, that is, in the year in which the right to the receivable arises following the resolution by the shareholders’ meeting for the distribution of dividends of the investee companies.
Dividends payable are reported as a change in equity in the year in which they are approved by the shareholders’ meeting.

Use of estimates and judgments

The preparation of separate financial statements and related disclosures that conform to IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. Actual results could differ from those estimates. Estimates and measurements are used to arrive at the recoverable amount of non-current assets (including goodwill), revenues, bad debt accruals, obsolete and slow-moving inventories, depreciation and amortization, employee benefits, taxes, restructuring provisions and other accruals and provisions. Estimates and assumptions are reviewed periodically and the effects of any changes are reflected immediately in the statement of income.
In the absence of a Standard or an Interpretation that specifically applies to a transaction, management uses its judgment as to which accounting methods to adopt to disclose relevant and reliable information so that the financial statements:

- represent a true and fair view of the financial position, operating result and cash flows of the Company;
- reflect the economic substance of transactions;
- are neutral;
- are prudent;
- are complete in all material respects.

New Standards and Interpretations endorsed by the European Union effective beginning on January 1, 2006

Amendments to IAS 19 – Employee benefits

Such amendments, endorsed by the European Union in November 2005 (Regulation EC 1910-2005), provide, among other things, the option of recognizing actuarial gains and losses in full in the period in which they occur, not in the statement of income but directly in a specific reserve in equity.
Telecom Italia did not elect this option and recognizes all actuarial gains and losses immediately in the statement of income in the year in which they occur.

IFRIC 4 – Determining whether an arrangement contains a lease

Such Interpretation, endorsed by the European Union in November 2005 (Regulation EC 1910-2005), states that if an arrangement does not have the legal form of a lease but contains a lease, such lease should be classified as a finance or operating lease in accordance with IAS 17 (Leasing).
The application of this Interpretation did not have any effect on the separate financial statements at December 31, 2006.

Amendments to IAS 39 – Application of the fair value option

Such amendments, endorsed by the European Union in November 2005 (Regulation EC 1864-2005), restrict the use of the "fair value option" to designate every financial asset or liability as measured at fair value through the statement of income. Such change in the Standard restricts the use of this option to those financial instruments which meet the following conditions:

- the designation according to the fair value option significantly eliminates or reduces an accounting mismatch;
- a group of financial assets, financial liabilities or both are managed and their performance is valued on a fair value basis in accordance with a documented risk or investment management strategy;
- an instrument contains an implicit derivative which meets specific conditions.

Telecom Italia elected to use the fair value option only for assets and liabilities which are effectively held for trading starting from January 1, 2006. The adoption of these amendments had no effect on the separate financial statements of the Company at December 31, 2006.

Amendments to IAS 39 and IFRS 4 – Financial guarantee contracts

Such amendments, endorsed by the European Union in January 2006 (Regulation EC 108-2006), extend the scope of the IAS 39 to include the recognition of financial guarantee contracts by the issuer (guarantor). However, if an issuer has previously stated explicitly that such contracts are considered as insurance contracts and has accounted for them as such, it may elect to apply either IAS 39 or IFRS 4 to such financial guarantee contracts.
Telecom Italia has elected to measure the guarantees in accordance with IAS 39 and consequently the introduction of this amendment did not produce an impact on the separate financial statements at December 31, 2006.

IFRIC 6 - Liabilities arising from participating in a specific market – Waste electrical and electronical equipment

Such Interpretation, endorsed by the European Union in January 2006 (Regulation EC 108–2006), was published after the adoption of the European Union Directive on Waste Electrical and Electronic Equipment (WE&EE) which requires member states to implement a regulated system for the collection, treatment, recovery and ecologically correct decommissioning of the waste of electrical and electronic equipment. This Interpretation provides guidelines on the recognition of liabilities for such waste management in the financial statements of producers of electrical equipment based on the sales of such equipment to private households before August 13, 2005 (so-called historical waste). IFRIC 6 has clarified that what triggers the recognition of an accrual for the management costs of such waste, in accordance with IAS 37 (*Provisions, contingent liabilities and contingent assets*), is participation in the market during the measurement period. Consequently, since the obligation arises only on condition that a share of the market exists during the measurement period, the time frame for recognition can be independent of the specific period in which the activities for the management of the waste were undertaken and the relative costs were incurred. The Italian government has not as yet enacted the necessary decrees for implementation: therefore, in the absence of a reference framework, the Company is not currently able to evaluate the impact, if any, of the application of this Interpretation on the financial statements.

New Standards and Interpretations endorsed by the European Union but not yet effective

As required by IAS 8 (*Accounting policies, changes in accounting estimates and errors*) the IFRS in effect from January 1, 2007 or subsequently are indicated below and briefly illustrated.

IFRS 7 - Financial instruments: disclosures

This Standard, endorsed by the European Union in January 2006 (Regulation EC 108-2006), completely replaces IAS 30 (*Disclosures in financial statements of banks and other financial institutions*) and includes the section on Disclosures contained in IAS 32 (*Financial instruments: presentation and disclosures*) with amendments and revisions; consequently, the title of IAS 32 is changed to "*Financial instruments: presentation*".
IFRS 7 is effective starting on January 1, 2007.

Amendments to IAS 1 - Presentation of Financial Statements – Capital Disclosures

Such amendments, endorsed by the European Union in January 2006 (Regulation EC 108-2006), provide that an entity must present disclosures which allow the users of its financial statements to assess its objectives, its policies and its processes for managing capital.
These amendments are effective starting on January 1, 2007.

IFRIC 8 – Scope of IFRS 2

On September 8, 2006, the European Commission endorsed Interpretation IFRIC 8 (*Scope of IFRS 2*) with Regulation EC 1329-2006.
IFRIC 8 clarifies that IFRS 2 (*Share-based Payment*) applies to contracts where an entity makes share-based payments also for services for apparently nil or inadequate consideration.
IFRIC 8 specifically explains that if the identifiable consideration given appears to be less than the fair value of the equity instruments granted (or liability incurred), this situation typically indicates that other consideration has been or will be received.
This Interpretation is effective starting on January 1, 2007.
It is not believed that this Interpretation will have any relevant impact on the separate financial statements of the Company.

IFRIC 9 – Reassessment of embedded derivatives

On September 8, 2006, the European Commission endorsed Interpretation IFRIC 9 (*Reassessment of embedded derivatives) with* Regulation EC 1329-2006.
This Interpretation concludes that an entity must assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment on the separation of the embedded derivative is required.
This Interpretation is effective starting on January 1, 2007.
It is not believed that this Interpretation will have any relevant impact on the separate financial statements of the Company.

NOTE 3 – FINANCIAL RISK MANAGEMENT

Objectives and policies for the management of financial risks

As disclosed in Note 4 to the consolidated financial statements, Telecom Italia S.p.A. follows the guidelines set out for the Group.

Market risk

The risk management policies of Telecom Italia S.p.A. follow the policies for the diversification of risks set out for the Group.

An optimum fixed-rate and floating-rate debt composition is defined for the entire Group, as disclosed in Note 4 to the consolidated financial statements, and therefore not for the individual companies.

As regards the exchange rate risk on financial payables assumed by Telecom Italia S.p.A. denominated in currencies other than euro, such risk is completely hedged.

Derivative financial instruments are used and designated as fair value hedges for the management of exchange rate risks on instruments denominated in currencies other than euro and the management of interest rate risks on fixed-rate loans. Derivative financial instruments are designated as cash flow hedges when the objective is to fix the exchange rate of future transactions and the interest rate.

All derivative financial instruments are put into place with high-credit-quality banking and financial counterparts with a high rating and are constantly monitored to reduce the credit risk.

Telecom Italia S.p.A. has current account transactions with subsidiaries as part of its treasury services, which are governed by market rates, and multi-year loan agreements with them which are also at market rates.

The following tables present the nominal repayment/investment amount (insofar as that amount expresses the effective interest rate exposure of Telecom Italia S.p.A.) and, as far as financial assets are concerned, account was taken of the intrinsic nature of the transactions under consideration (financial characteristics and duration) rather than the stated contractual terms alone. Bearing that in mind, a transaction whose characteristics (short or very short time frame and frequent renewal) are such that the interest rate is periodically re-fixed on the basis of market parameters, even though the contract does not call for re-fixing the interest rate (such as in the case of bank deposits and euro commercial paper), was considered in the category of floating rate.

FINANCIAL LIABILITIES (at the nominal repayment amount)						
	12/31/2006			12/31/2005		
(millions of euro)	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
Notes and bonds	13,625	2,861	16,486	11,860	3,488	15,348
Convertible and exchangeable bonds	574	-	574	600	-	600
Loans and other payables	15,647	12,821	28,468	15,623	19,088	34,711
TOTAL	29,846	15,682	45,528	28,083	22,576	50,659

FINANCIAL ASSETS (at the nominal repayment amount)						
	12/31/2006			12/31/2005		
(millions of euro)	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
Deposits and cash		5,205	5,205		6,608	6,608
Other receivables	456	226	682	669	63	732
TOTAL	456	5,431	5,887	669	6,671	7,340

With regard to floating-rate financial instruments, the contracts provide for revisions of the relative parameters to take place within the subsequent 12 months.

As to the effective interest rate, for the categories where that parameter can be determined, such parameter refers to the original transaction net of the effect of any derivative hedging instruments.
The information, since it is provided by class of financial assets and liabilities, was determined, for purposes of calculating the weighted average, using the **carrying amount adjusted** by accruals and fair value adjustments: therefore, this is the amortized cost, net of accruals, deferrals and any fair value adjustments as a consequence of hedge accounting.

FINANCIAL LIABILITIES				
	12/31/2006		12/31/2005	
(millions of euro)	Adjusted carrying amount	Effective interest rate (%)	Adjusted carrying amount	Effective interest rate (%)
Notes and bonds	16.433	5,96	15.278	5,81
Convertible and exchangeable bonds	482	7,43	483	7,43
Loans and other payables	27.954	4,84	36.594	3,63
TOTAL	44.869	5,21	52.355	4,24

FINANCIAL ASSETS				
	12/31/2006		12/31/2005	
(millions of euro)	Adjusted carrying amount	Effective interest rate (%)	Adjusted carrying amount	Effective interest rate (%)
Deposits and cash	5.205	3,62	6.597	2,39
Other receivables	663	5,64	732	5,31
TOTAL	5.858	3,85	7.329	2,68

Transactions hedging outstanding financial liabilities at December 31, 2006 reduce, overall, the nominal interest rate of the position and, therefore, reduce the effective interest rate.

As for financial assets, the weighted average effective interest rate is not essentially affected by the existence of derivative instruments.

With reference to the concept of market risk, in the broad sense, the Group uses interest coupon step-ups and step-downs for certain bonds when there are changes in the rating. Such mechanisms, however, do not affect interest rate exposure, as previously described above, or the determination of the current effective interest rate. Additional information is provided in the Note “Financial liabilities – current and non-current”.

As for market risk management using derivative financial instruments, reference should be made to the Note “Financial instruments”.

Credit risk

Like the Group’s policy, the management of the liquidity of Telecom Italia S.p.A. is guided by prudent criteria and is principally based on money market management where investments are made with temporary excess cash resources during the year which are expected to turn around within the subsequent 12-month period.
In order to limit the risk of the non-fulfillment of the obligations undertaken by the counterpart, deposits are made with leading high-credit-quality banking and financial institutions that have credit rating of not less than “A” assigned by Standard & Poor’s or an equivalent level assigned by other agencies.

Liquidity risk

Telecom Italia S.p.A. pursues the Group’s objective of achieving an adequate level of financial flexibility.

Fair value

In order to determine the fair value of derivative instruments, the Telecom Italia Group uses various valuation models. The fair value of IRSs and CCIRSs reflects the difference between the fixed rate which should be paid/received and the market interest rate (having the same maturity as the swap) at the measurement date.
With regard to IRSs, the notional amount does not represent the amount exchanged between the parties and therefore does not constitute a measurement of credit risk exposure which, instead, is limited to the amount of the differential between the interest rates paid/received.
The fair value of CCIRSs, instead, also depends on the differential between the reference exchange rate at the date of signing the contract and the exchange rate at the date of measurement, since CCIRSs imply the exchange of the reference principal, in the respective currencies of denomination, in addition to the exchange of flows of interest at the maturity date and eventually at the intermediate payment dates.

NOTE 4 - PROCESS FOR THE INTEGRATION OF WIRELINE AND MOBILE TELECOMMUNICATIONS ACTIVITIES

During the first half of 2006, the corporate transactions for the integration of the wireline and mobile telecommunications activities were completed. The integration process, begun in December 2004, stems from the resolutions passed by the boards of directors of Telecom Italia and TIM which had approved the plan for the integration of two companies. Such plan was aimed at streamlining the Telecom Italia Group’s ownership structure and optimizing the financial and capital structure of the company after the merger.

The major stages of the process can be summarized as follows:

- voluntary cash tender offer for TIM ordinary and savings shares launched and completed by Telecom Italia in January 2005, followed by additional purchases of TIM shares on the market during the early months of 2005;

- conferral of the corporate operations of the mobile telecommunications business in Italy by the direct (100%) parent TIM S.p.A. to Tim Italia S.p.A. in February 2005, effective March 1, 2005, through a capital increase on the part of the same TIM S.p.A.

- merger of TIM S.p.A. in Telecom Italia S.p.A., effective June 30, 2005;

- merger of Tim Italia S.p.A. in Telecom Italia S.p.A., effective March 1, 2006.

ACCOUNTING EFFECT

- Cash tender offer and merger of TIM S.p.A. in Telecom Italia S.p.A.

  The part of the merger for the percentage of ownership held previous to the cash tender offer was accounted for at the carrying amount in the financial statements at December 31, 2005, prepared in accordance with IFRS, since the merged company was already controlled by the merging company and thus the conditions for the application of IFRS 3 (*Business combinations*) did not exist.

  The acquisition of the remaining TIM shares through the cash tender offer, purchased on the market and by merger, were treated as a purchase of minority interests, which is not dealt with either by IFRS 3 or any other IFRS. This transaction was accounted for in the financial statements at December 31, 2005, prepared according to IFRS, at fair value by applying the parent-entity extension method. This method resulted in the recognition of goodwill (difference between the fair value of the shares purchased and the newly issued shares and the underlying share of net assets acquired).

  The merger was recorded on June 30, 2005 and from that date the assets, liabilities, revenues and costs of TIM were included in the financial statements of Telecom Italia. The dividends collected in 2005 and relating to the TIM shares acquired in the cash tender offer were deducted from the amount of the investment; the remaining dividends represent the earnings to which the merging company was entitled and were recognized in the statement of income.

  The above accounting treatment resulted in the recognition of goodwill for euro 39,184,082 thousand.
  This goodwill was tested for impairment using the same criteria followed for the allocation of goodwill in the consolidated financial statements (proportional allocation of goodwill implicit in the fair value of the segments as estimated in the appraisal) and goodwill was allocated in the following manner:

  Domestic Wireline: euro 13,379,000 thousand (originating from the Olivetti/Telecom Italia merger in 2003)
  Domestic Mobile: euro 25,805,082 thousand (originating prior to 2003 for euro 159,480 thousand, from the cash tender offer and Olivetti/Telecom Italia merger in 2003 for euro 9,601,461 thousand and from the cash tender offer and TIM merger in 2005 for euro 16,044,141 thousand)

- Merger of Tim Italia S.p.A. in Telecom Italia S.p.A.

  The merger was accounted for at the carrying amount in the 2006 financial statements prepared in accordance with IFRS since the merged company is entirely owned by the merging company and thus the conditions for the application of IFRS 3 (*Business combinations*) do not exist.

  The merger was recorded on March 1, 2006 and from that date the assets, liabilities, revenues and costs of Tim Italia were included in the financial statements of Telecom Italia. The recognition of the merger resulted in a cancellation surplus (being the difference between the equity of the merged company and the carrying amount of Tim Italia in the financial statements of the merging company) equal to euro 378,574 thousand, basically represented by Tim Italia's earnings in January and February 2006. The portion of the dividends collected in 2006 by Telecom Italia represent the earnings to which the merging company was entitled, equal to euro 1,923,326 thousand, and were recognized in the statement of income. The remaining dividends collected in 2006, equal to euro 127,893 thousand, were considered in determining the amount of goodwill generated by the Telecom Italia/TIM S.p.A. integration in June 2005.

NOTE 5 – GOODWILL

Goodwill increased from euro 39,184,082 thousand at December 31, 2005 to euro 40,013,045 thousand.

Details of the composition and changes in goodwill are as follows:

(thousands of euro)	Changes in 2005 Merger effect Telecom Italia/TIM S.p.A.	Changes in 2006 Merger effect Nuova Tin.it	12/31/2006
Wireline	13,379,000	828,963	14,207,963
Domestic Mobile	25,805,082	-	25,805,082
Total	**39,184,082**	**828,963**	**40,013,045**

The increase of euro 828,963 thousand in 2006 is due to the Telecom Italia/Nuova Tin.it merger which took place on October 1, 2006.

***

Goodwill under IAS 36 is not amortized but is tested for impairment annually or more frequently if specific events or circumstances indicate that it may be impaired. To test for impairment, goodwill must be allocated to cash-generating units or groups of cash-generating units which must not be at a higher level than the business segment determined in accordance with IAS 14. The criteria followed for the allocation of goodwill considers the lowest level at which goodwill is monitored for internal management purposes.
The impairment test at the first level regarded the Wireline and Domestic Mobile Business Units which represent the cash generating unit/groups of cash generating units to which the goodwill was allocated (asset side valuation).
The impairment test consists of comparing the recoverable amount of the cash-generating unit (or groups of cash-generating units) with the carrying amount of its operating assets. The recoverable amount is the higher of the value in use (discounting estimated cash flows to present value) and the fair value less costs to sell.
The value in use of the Wireline and Domestic Mobile Business Units for purposes of the impairment test in the separate financial statements of Telecom Italia S.p.A. (prepared for the first time in accordance with IFRS) has been calculated using the same parameters as the impairment test for the Wireline and Domestic Mobile CGU in the consolidated financial statements, which is briefly described below.

The most representative basic assumptions for the calculation of the value in use of each group of cash generating units are presented in the following table:

Wireline	Domestic Mobile
Ebitda margin (Ebitda/sales) during the period of the plan	Ebitda margin (Ebitda/sales) during the period of the plan
Investments to maintain profit capability (in proportion to sales)	Investments to maintain profit capability (in proportion to sales)
Non-recurring expenses excluded from expected Ebitda for extrapolation in the calculation of the end amount	
Cost of capital	Cost of capital

Long-term growth rate	Long-term growth rate

All the plan figures are based on the actual results for 2006 and rely on the best forecasts formulated by management for the period of the 2007/2009 plan.

The nominal growth rates used to estimate the end amount are the following:

Wireline	Domestic mobile
0%	+0.5%

Such rates fall within the range of growth rates applied by the analysts following Telecom Italia stock (taken from the reports published after the announcement of the Group's third-quarter 2006 results).

The cost of capital was estimated by considering the following:

a) the CAPM - Capital Asset Pricing Model, to estimate the value in use and referred to in Annex A of IAS 36;

b) the Beta coefficient for business segments obtained by using the Beta coefficients of the European telephone incumbents, including Telecom Italia itself, adjusted to take into account the financial structure;

c) the *WACC* - Weighted Average Cost of Capital used by other operators to test the value of goodwill;

d) the *(WACC)* - Weighted Average Cost of Capital used by the analysts following Telecom Italia stock in the reports published after the announcement of third-quarter 2006 results relative to the principal business segments of the Group. Since there is a direct correlation between the cost of capital used by the analysts and the long-term growth rate (g) forecast for the purpose of estimating the end amount, the comparison was also made on the capitalization rates (WACC-g).

On the basis of these elements, the post-tax Weighted Average Cost of Capital and the capitalization rate (WACC after taxes – g) were estimated for each business unit:

	Wireline	Domestic Mobile
WACC after taxes	6.8%	7.0%
WACC after taxes - g	6.8%	6.5%

A sensitivity analysis of the results was also carried out for those units for which the value in use was estimated: in all cases the value in use remains higher than the carrying amounts, even assuming an increase in the weighted average cost of capital of 50 basis point (hundredths of a percentage point).

The second level of impairment testing made reference to Telecom Italia S.p.A., comparing the market capitalization with the carrying amount of the total equity of the company. This second level of test didn't show any impairment.

NOTE 6 – INTANGIBLE ASSETS WITH A FINITE LIFE

Intangible assets with a finite life increased from euro 1,679,516 thousand at December 31, 2005 to euro 4,896,649 thousand. Details on the composition and movements during the year are as follows:

(thousands of euro)	12/31/2004	Merger effect Telecom Italia Data Center	Additions	Amortization	Impairment losses / reversals	Disposals	Other changes	12/31/2005
Industrial patents and intellectual property rights	1,278,654	85,134	702,971	(749,654)		(19,117)	197,365	1,495,353
Concessions, licenses, trademarks and similar rights	1,349		3,124	(503)		(1)	630	4,599
Other intangible assets	920	15,121	16,056	(47)		(132)	(31,918)	-
Work in progress and advance payments	333,065	139	19,616			(60)	(173,196)	179,564
Total	1,613,988	100,394	741,767	(750,204)	0	(19,310)	(7,119)	1,679,516

(thousands of euro)	12/31/2005	Merger effect Tim Italia/ Nuova Tin.it	Additions	Amortization	Impairment losses / reversals	Disposals	Other changes	12/31/2006
Industrial patents and intellectual property rights	1,495,353	827,373	842,649	(1,341,837)		(31,201)	286,760	2,079,097
Concessions, licenses, trademarks and similar rights	4,599	2,138,217	11,966	(116,778)			(4,933)	2,033,071
Other intangible assets	-	6,475	129,884	(35,253)			19	101,125
Work in progress and advance payments	179,565	233,816	552,547			(715)	(281,857)	683,356
Total	1,679,517	3,205,881	1,537,046	(1,493,868)	0	(31,916)	(11)	4,896,649

Additions made during 2006 include euro 253,646 thousand of capitalized internal development costs.

Industrial patents and intellectual property rights consist almost entirely of applications software purchased outright and user license rights acquired for an indefinite time period (amortized over the period of useful benefit estimated in three years).

Concessions, licenses, trademarks and similar rights mainly refer to the remaining unamortized cost of UMTS and Wireless Local Loop licenses by the merged company Tim Italia. The UMTS license, equal to euro 2,014,182 thousand is being amortized in 18 years on the basis of the residual period of benefit and the amortization charge for 2006 is euro 111,900 thousand. The Wireless Local Loop license, equal to euro 11,188 thousand, is being amortized over 15 years and the amortization charge for 2006 is euro 930 thousand. Both licenses expire in 2021.

Other intangible assets mainly include the capitalization of subscriber acquisition costs referring to the new sales offers. Following the introduction of new types of sales contracts in 2006 which bind the customer to the Company for periods of 24 months, otherwise a penalty is applied, the Company capitalized subscriber acquisition costs in intangible assets (these costs represent subsidies to customers for the purchase of handsets and commissions for the sales network). This accounting treatment, permitted by IAS 38, makes it possible to match the amortization charge with cash flows .

Amortization and impairment losses are recorded in the statement of income as components of the operating result.

The gross carrying amount, accumulated impairment losses and accumulated amortization at December 31, 2006 can be summarized as follows:

(thousands of euro)	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	10,373,637	(7,537)	(8,287,003)	2,079,097
Concessions, licenses, trademarks and similar rights	2,545,277	(7,272)	(504,934)	2,033,071
Other intangible assets	250,306	(75,254)	(73,927)	101,125
Work in progress and advance payments	683,618	(262)		683,356
Total	13,852,838	(90,325)	(8,865,864)	4,896,649

NOTE 7 – TANGIBLE ASSETS (OWNED AND UNDER FINANCE LEASES)

Property, plant and equipment owned

Property, plant and equipment owned increased from euro 10,665,535 thousand at December 31, 2005 to euro 12,475,639 thousand. Details on the composition and movements during the year are as follows :

(thousands of euro)	12/31/2004	Merger effect Telecom Italia Data Center	Additions	Depreciation	Impairment losses / reversals	Disposals	Other changes	12/31/2005
Land	200,724					(61,497)	5,744	144,971
Civil and industrial buildings	1,164,490		5,738	(95,894)		(271,858)	8,225	810,701
Plant and equipment	9,351,984	17,181	1,268,214	(1,932,331)		(22,048)	97,923	8,780,923
Manufacturing and distribution equipment	14,415	430	4,765	(6,856)		(14)	4,131	16,871
Other	77,798	193,347	48,634	(61,999)		(246)	47,870	305,404
Construction in progress and advance payments	440,936	70	317,352		(7,700)	(816)	(143,177)	606,665
Total	11,250,347	211,028	1,644,703	(2,097,080)	(7,700)	(356,479)	20,716	10,665,535

(thousands of euro)	12/31/2005	Merger effect Tim Italia/ Nuova Tin.it	Additions	Depreciation	Impairment losses / reversals	Disposals	Other changes	12/31/2006
Land	**144,971**	-	7			(2,370)	(17,784)	**124,824**
Civil and industrial buildings	**810,701**	9,478	3,115	(43,753)		(174,935)	(95,413)	**509,193**
Plant and equipment	**8,780,923**	1,679,816	1,657,461	(2,023,478)	(1,465)	(17,841)	387,958	**10,463,374**
Manufacturing and distribution equipment	**16,871**	39,071	10,590	(21,317)		(5)	3,869	**49,079**
Other	**305,404**	330,099	105,784	(227,823)		(111)	104,562	**617,915**
Construction in progress and advance payments	**606,665**	174,322	369,053		(1,892)	(8,841)	(428,053)	**711,254**
Total	**10,665,535**	**2,232,786**	**2,146,010**	**(2,316,371)**	**(3,357)**	**(204,103)**	**(44,861)**	**12,475,639**

Additions in 2006 include euro 159,940 thousand of capitalized internal construction costs.
Depreciation and impairment losses/reversals are recorded in the statement of income as components of the operating result.

Depreciation is calculated using the straight-line method over the estimated useful life of the assets.

In 2006, the plan was completed for the disposal of real estate properties approved by the board of directors on December 21, 2005 for more than 1,300 buildings for a total of about euro 1 billion.
After a first stage of the disposal plan was concluded in 2005 which regarded 867 properties, on March 1, June 1, and November 17, 2006, Telecom Italia S.p.A. transferred, respectively, a second tranche of 348 properties, a third tranche of 116 properties and a fourth tranche of 47 properties to the subsidiary Olivetti Multiservices. Included among the properties sold in 2006 were 45 buildings recognized by the finance method in accordance with IAS 17 which were simultaneously leased back under a long-term finance lease and have therefore been reclassified from properties owned to properties held under finance leases.
These transactions gave rise to a gain for Telecom Italia S.p.A. of euro 141,423 thousand, net of transaction costs of euro 3,574 thousand, and a reduction in net financial debt of euro 293,332 thousand.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2006 can be summarized as follows:

(thousands of euro)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	125,589	(765)		124,824
Civil and industrial buildings	1,182,553	(1,683)	(671,677)	509,193
Plant and equipment	53,417,110	(16,979)	(42,936,757)	10,463,374
Manufacturing and distribution equipment	690,897		(641,818)	49,079
Other	3,107,446	(5,836)	(2,483,695)	617,915
Construction in progress and advance payments	720,846	(9,592)		711,254
Total	59,244,441	(34,855)	(46,733,947)	12,475,639

Assets held under finance leases

Assets held under finance leases decreased from euro 1,557,592 thousand at December 31, 2005 to euro 1,512,525 thousand. Details on the composition and changes are as follows:

(thousands of euro)	12/31/2004	Merger effect Telecom Italia Data Center	Additions	Depreciation	Impairment losses / reversals	Disposals	Other changes	12/31/2005
Civil and industrial buildings	1,511,532		13,694	(91,408)			17,736	1,451,554
Plant and equipment	58,227	(57,685)		(260)				282
Other	9,509	68,428		(1,745)			(5,809)	70,383
Construction in progress and advance payments	-		28,306			(263)	7,330	35,373
Total	1,579,268	10,743	42,000	(93,413)	0	(263)	19,257	1,557,592

(thousands of euro)	12/31/2005	Merger effect Tim Italia/ Nuova Tin.it	Additions	Depreciation	Impairment losses / reversals	Disposals	Other changes	12/31/2006
Civil and industrial buildings	1,451,554	-	28,543	(98,916)	(425)		35,379	1,416,135
Plant and equipment	282	-					(282)	-
Other	70,383	30	1,821	(25,444)			145	46,935
Construction in progress and advance payments	35,373	-	11,170				2,912	49,455
Total	1,557,592	30	41,534	(124,360)	(425)	0	38,154	1,512,525

Depreciation and impairment losses/reversals are recorded in the statement of income as components of the operating result.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2006 can be summarized as follows:

(thousands of euro)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Civil and industrial buildings	1,925,490	(27,312)	(482,043)	1,416,135
Plant and equipment	7,526		(7,526)	0
Other	159,887		(112,952)	46,935
Construction in progress and advance payments	49,455			49,455
Total	2,142,358	(27,312)	(602,521)	1,512,525

At December 31, 2006, minimum lease payments due in future years and their present value are as follows (thousands of euro):

	12/31/2006		12/31/2005	
	Minimum lease payments	Present value of minimum lease payments	Minimum lease payments	Present value of minimum lease payments
Within 1 year	225,955	116,570	227,930	210,440
From 2 to 5 years	819,161	360,143	842,704	663,057
Beyond 5 years	1,840,653	1,241,088	1,950,218	881,208
	2,885,769	1,717,801	3,020,852	1,754,705

	12/31/2006	12/31/2005
Future lease payments (minimum lease payments)	2,885,769	3,020,852
Interest portion	(1,167,968)	(1,266,148)
Present value of lease payments	1,717,801	1,754,705
Finance lease liabilities	2,080,893	2,070,614
Financial receivables for lessors' net investments	(363,092)	(315,909)
Total net finance lease liabilities	1,717,801	1,754,705

NOTE 8 – OTHER NON-CURRENT ASSETS

Other non-current assets decreased from euro 20,244,892 thousand at December 31, 2005 to euro 12,839,258 thousand. The composition is as follows:

(thousands of euro)	12/31/2005	Merger effect Tim Italia/ Nuova Tin.it	Other changes	12/31/2006
Investments in:				
. Subsidiaries	15,654,671	(4,649,750)	(577,829)	10,427,092
. Associates and jointly controlled companies	135,365	125	(42,134)	93,356
. Other companies	320,125	636	71,999	392,760
	16,110,161	(4,648,989)	(547,964)	10,913,208
Financial receivables and other non-current financial assets	646,744	21,345	2,056	670,145
	646,744	21,345	2,056	670,145
Miscellaneous receivables and other non-current assets				
. Miscellaneous receivables	645,117	(585,339)	(25,428)	34,350
. Medium/long-term prepaid expenses	444,193	18,950	44,249	507,392
	1,089,310	(566,389)	18,821	541,742
Deferred tax assets (*)	2,398,677	79,072	(1,763,586)	714,163
Total	20,244,892	(5,114,961)	(2,290,673)	12,839,258

(*) Analyzed in the Note "Deferred tax assets and deferred tax liabilities".

Details of investments are as follows:

(thousands of euro)

Increases:		
Acquisition of the following investments at March 1, 2006, following the merger of TIM S.p.A. in Telecom Italia S.p.A.: Mobi Top Level Domain (600), Shared Service Center (99), Cefriel (33), Consorzio Scuola Superiore Alta Formazione Universitaria Federico II (26), Telenergia (10), Consorzio Energia Gruppo Telecom Italia (5), Consorzio ABI Lab (1), Consorzio Nazionale Imballaggi – Conai (2).		776
Acquisitions, subscriptions, payments against future investments and loss coverage of: Olivetti (100,284), Telecom Italia Learning Services (40,157), New Satellite Radio (7,000), Telbios (1,118) Luna Rossa Challenge 2007 (22), Fondo Abitare Sociale 1 (122), Progetto Nuovo Sant'Anna (225), Progetto Vallata (150), QXN (25), Consorzio Distretto Tecnologico del Canavese (12), Consorzio Technapoli (13), Consorzio ABI Lab (1).		149,129
Fair value adjustments to: Capitalia (38,753), Mediobanca (26,345), Assicurazioni Generali (903).		66,001
Assignment of Capitalia S.p.A. shares following the partial non-proportional spin-off of MCC		36,018
Assignment of Mediobanca and Assicurazioni Generali shares following the plan for the dissolution of the vehicle company Consortium S.r.l.		18,111
Total increases	(A)	270,035

Decreases:		
Sales/reductions of shares/quotas /payments against future investments: Eustema (465), Telecom Italia Learning Services (37,627), Consorzio Energia Gruppo Telecom Italia (10), Edindustria (9), Istud (6), Italtel NGA (193), Monterosa (20), Pila (6), S.A.G.I.T. (1).		(38,337)
Distribution of capital/reserves/dividends: Telecom Italia Media (361,654), Tiglio I (22,850), Tiglio II (11,076), Telegono (3,131), Saturn Venture Partners (261), Consortium (1,131). Consorzio Telcal (211), Corsortium (18,111).		(418,425)
Cancellation of the investment in Tim Italia (3,769,765) and in Nuova Tin.it (880,000) following the merger of the same companies in Telecom Italia		(4,649,765)
Partial non-proportional spin-off of MCC S.p.A. to Capitalia S.p.A.		(36,018)
Impairment losses charged to the statement of income of: Liberty Surf Group (185,311), Telecom Italia Finance (88,564), Olivetti (40,994), Domus Academy (170), Siemens Informatica (1,717), Netesi (66), Saturn Venture Partners (39), Fratelli Alinari (27), Telbios (534), TILAB S.A. (579), Consorzio Navigate Consortium (300), Tiglio I (1,892).		(320,193)
Impairment losses charged against the provision for losses of subsidiaries and affiliates of: Telecom Italia Learning Services (2,530), Telegono (1,109), IM.SER (210), Consorzio ABI LAB (1), Consorzio CIES (26), Consorzio Distretto Tecnologico del Canavese (130), Perseo (244).		(4,250)
Total decreases	(B)	(5,466,988)
Net change for the year	(A+B)	(5,196,953)

The following is mentioned, in particular:

- effective January 1, 2006, MCC S.p.A. was non-proportionally partially spun-off to Capitalia S.p.A. by assigning a part of the equity of MCC S.p.A. to the beneficiary Capitalia S.p.A. with allocation of its shares, deriving from the reserved capital increase, to the minority shareholders of MCC S.p.A.. After this transaction, the shares of Capitalia S.p.A., since the company is listed, were measured at fair value and the fair value adjustment was recognized in a specific reserve under equity;
- effective March 1, 2006, Tim Italia S.p.A. was merged in Telecom Italia S.p.A.. This generated a cancellation surplus (being the difference between the equity of the merged company and the carrying amount of TIM Italia in the financial statements of the merging company) of euro 378,574 thousand, mainly representative of Tim Italia's earnings in January and February 2006;
- effective October 1, 2006, Nuova Tin.it S.r.l. was merged in Telecom Italia S.p.A., concluding the merger deed signed on September 26, 2006;
- in May 2006, the shareholders' meeting of the Mediobanca shareholders' agreement approved the early dissolution of the vehicle company Consortium S.r.l. and assigned the direct ownership of the Mediobanca and Assicurazioni Generali shares to the shareholders in proportion to their respective stakes in the vehicle company. In June 2006, Telecom Italia took over Assicurazioni Generali shares for an equivalent amount of euro 4,567 thousand, equal to 0.01%, and Mediobanca shares for an equivalent amount of euro 13,544 thousand, equal to 0.11%. The transaction took place on the block trading market with settlement deferred and compensated by the distribution of profits and reserves by Consortium in July 2006. The net proceeds for Telecom Italia amount to euro 5,196 thousand;
- in April 2006, Telecom Italia Media distributed dividends to Telecom Italia for euro 361,654 thousand, which was deducted from the carrying amount of the investment. This distribution is part of the rationalization of the Internet activities of the Group begun in June 2005;
- on July 17, 2006, the sales contract signed on June 15, 2006 was executed for the sale of Telecom Italia Learning Services S.p.A. to TILS Holding S.p.A., a company held by CEGOS, a French multinational company offering training services, and by Camporlecchio Educational, an operator specialized in consulting and corporate organization, at the symbolic price of euro 1 after having recapitalized the company. The loss for Telecom Italia is euro 45,627 thousand.

Financial receivables and other non-current financial assets increased by euro 23,401 thousand compared to December 31, 2005. The composition is as follows:

(thousands of euro)	12/31/2005	Merger effect Tim Italia/ Nuova Tin.it	Other changes	12/31/2006
Financial receivables from subsidiaries	0	-	116,104	116,104
Financial receivables from associates and jointly controlled companies	24,262	-	(833)	23,429
Financial receivables for lessors' net investments	203,313	-	18,764	222,077
Receivables from employees	53,336	21,345	(9,199)	65,482
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	31,133		124,384	155,517
Other financial receivables	327,475		(259,504)	67,971
Prepaid expenses	7,225		12,340	19,565
Total	646,744	21,345	2,056	670,145

Financial receivables from subsidiaries refer to a loan made to Telecom Italia Media (euro 100,000 thousand) received from the European Investment Bank (EIB) for the three-year 2005-2007 capital expenditures program aimed at strengthening the infrastructures of the digital terrestrial network. These receivables also include euro 16,104 thousand relating to the receivable from Telecom Italia Media Broadcasting for the 12-year concession (starting January 1, 2006) of the Indefeasible Rights of Use (IRU) on the "Digital Terrestrial Television Signal Transport Network".

Financial receivables from associates and jointly controlled companies refer to loans made principally to the companies Aree Urbane (euro 23,403 thousand) and Sofora (euro 26 thousand).

Financial receivables for lessors' net investments refer to:
- Teleleasing lease contracts directly negotiated with customers and guaranteed by Telecom Italia;
- medium/long-term portion of contracts which provide for the sale, under finance leases, of assets to customers which the Group has available under finance leaseback contracts, with the performance of accessory services under the "full rent" formula.

Hedging derivatives relating to hedged items classified as non-current assets and liabilities of a financial nature refer to the accrued income component of the derivatives. Additional information is provided in the Note "Financial instruments".

Receivables from employees relate to the remaining amount due on loans granted.

Other financial receivables decreased by euro 259,504 thousand mainly as a result of the reclassification (since the conditions established in the contract did not occur) of euro 309,328 thousand of deposits at ABN Amro to guarantee the payment to Opportunity. The amount of euro 67,971 thousand refers entirely to the cash collateral with Goldman Sachs to guarantee the two Cross Currency Interest Rate Swap swaps carried by Telecom Italia.

Miscellaneous receivables and other non-current assets decreased from euro 1,089,310 thousand at December 31, 2005 to euro 541,742 thousand principally as a result of the elimination of the tax receivable on the consolidated national tax return due from the merged company Tim Italia. Miscellaneous receivables and other non-current assets are composed of:

(thousands of euro)	12/31/2005	Merger effect Tim Italia/ Nuova Tin.it	Other changes	12/31/2006
Miscellaneous receivables from subsidiaries for consolidated national tax return	597,095	(589,141)	(4,500)	3,454
Miscellaneous receivables from associates	15,340	-	(4,970)	10,370
Other receivables	32,682	3,802	(15,958)	20,526
Prepaid expenses	444,193	18,950	44,249	507,392
Total	1,089,310	(566,389)	18,821	541,742

Other receivables principally include the tax credit from the advance payment of taxes on the provision for employee severance indemnities of euro 16,238 thousand (euro 32,178 thousand at December 31, 2005) and medium/long-term prepaid expenses relating to the deferral of costs in conjunction with the recognition of revenues.

NOTE 9 – DEFERRED TAX ASSETS AND DEFERRED TAX LIABILITIES

The net asset balance between deferred tax assets and deferred tax liabilities decreased from euro 2,398,677 thousand at December 31, 2005 to euro 580,321 thousand. Details are as follows:

(thousands of euro)	12/31/2005	Merger effect Tim Italia/ Nuova Tin.it	Other changes	12/31/2006
Deferred tax assets	2,398,677	79,072	(1,763,586)	714,163
Deferred tax liabilities		(75,204)	(58,638)	(133,842)
Total	2,398,677	3,868	(1,822,224)	580,321

Since deferred tax assets and liabilities are offset in the financial statements where there is a legally enforceable right of offset, the composition of the gross amounts is presented below:

(thousands of euro)	12/31/2006	12/31/2005
Deferred tax assets	1,517,181	2,764,226
Deferred tax liabilities	936,860	365,549
Total	580,321	2,398,677

Reversal and provision changes in deferred tax assets and liabilities gave rise to a tax charge for the year ended December 31, 2006 of euro 1,733,586 thousand (see the Note "Income taxes" for additional details on the tax charge). The tax effect recognized directly in equity in 2006 is negative of euro 87,333 thousand and principally relates to the fair value adjustment to hedging derivatives (euro 84,736 thousand).

Temporary differences which make up this caption at December 31, 2006 and 2005 are the following:

(thousands of euro)	12/31/2006	12/31/2005
Deferred tax assets		
· Write-downs for the impairment of investments and other	157,363	1,183,801
· Payables for pension fund integration (Law No. 58/92)	193,590	224,097
· Tax loss carryforwards	285,017	494,070
· Provisions for risks and charges	172,783	225,703
· Provision for bad debts	184,153	147,263
· Recognition of revenues	123,951	164,058
· Sale and lease back transactions on properties	139,322	95,886
· Provision for restoration and decommisioning costs	59,031	29,142
· Derivative instruments	41,731	123,446
· Capital grants	45,651	64,408
· Other deferred tax assets	114,589	12,354
Total	1,517,181	2,764,226
Deferred tax liabilities		
· Accelerated depreciation	620,880	191,797
· Deferred gains	135,590	107,818
· Notes and bonds	27,062	33,551
· Discounting of provisions for employee severance indemnities	38,689	28,111
· Other deferred tax liabilities	114,639	4,272
Total	936,860	365,549
Total deferred tax assets net of deferred tax liabilities	580,321	2,398,677

More in particular, the major items which gave rise to deferred tax assets are the writedown of investments in 2003, deducted for tax purposes over five years in accordance with Legislative

Decree 209/2002, unused tax losses, the provisions for risks and charges and the writedown of receivables, in addition to the payable to INPS under Law 58/1992, the recognition of revenues and the property sale and leaseback transactions.

At December 31, 2006, Telecom Italia S.p.A. has unused tax loss carryforwards for a total amount of euro 863,688 thousand expiring in 2008.

At December 31, 2006, deferred tax assets were recognized on the entire amount of tax loss carryforwards since they are considered fully recoverable.

Deferred tax liabilities mainly refer to depreciation deducted for tax purposes which is higher than the charge in the financial statements, in addition to deferred gains realized on the sale of properties.

At December 31, 2006, the company has tax-deferred equity reserves for euro 2,760,038 thousand, subject to taxation in the event of distribution and/or utilization, on which deferred taxes have not been provided since their distribution or utilization is not foreseen.

NOTE 10 – INVENTORIES

Inventories increased from euro 75,575 thousand at December 31, 2005 to euro 124,849 thousand and consist of equipment and devices, handsets and the relative accessories for fixed and mobile telecommunications. The increase from December 31, 2005 is mainly attributable to inventories of telephone products of the merged company Tim Italia for euro 64,307 thousand.
Writedowns of inventories made in 2006 total euro 21,669 thousand and mainly refer to the adjustment of fixed and mobile telephone handsets to estimated realizable value.
No inventories are pledged as collateral.

NOTE 11 – TRADE AND MISCELLANEOUS RECEIVABLES AND OTHER CURRENT ASSETS

Trade and miscellaneous receivables and other current assets increased from euro 6,450,815 thousand at December 31, 2005 to euro 6,852,641 thousand and consist of the following:

(thousands of euro)	12/31/2005	Merger effect Tim Italia/ Nuova Tin.it	Other changes	12/31/2006
Receivables for construction contracts	20,229		(8,442)	11,787
	20,229	**0**	**(8,442)**	**11,787**
Trade receivables				
. Receivables from customers	3,742,311	1,178,257	388,048	5,308,616
. Receivables from subsidiaries	589,840	(179,907)	(212,661)	197,272
. Receivables from associates	185,072	1,796	4,272	191,140
. Receivables from other Group companies	4,284	5,436	(4,757)	4,963
. Collections pending credit	68,548	838	(32,187)	37,199
	4,590,055	**1,006,420**	**142,715**	**5,739,190**
Miscellaneous receivables and other current assets				
. Receivables from subsidiaries	588,078	(445,584)	(105,053)	37,441
. Receivables from associates	9,470	3,717	(10,589)	2,598
. Receivables from other Group companies	19	0	(3)	16
. Other receivables	986,790	621,231	(899,848)	708,173
. Trade and miscellaneous prepaid expenses	256,174	75,377	21,885	353,436
	1,840,531	**254,741**	**(993,608)**	**1,101,664**
Total	**6,450,815**	**1,261,161**	**(859,335)**	**6,852,641**

Receivables for construction contracts of euro 11,787 thousand mainly refer to network installation work, the Project for the Lombardy Region health cards and telephone installations customized for the clientele.

Trade receivables amount to euro 5,739,190 thousand (euro 4,590,055 thousand at December 31, 2005) and are net of the provision for bad debts of euro 539,441 thousand (euro 425,105 thousand at December 31, 2005).

Movements in the provision for bad debts are as follows:

(thousands of euro)	2006	2005
At January 1	425,105	443,370
Tim Italia and Tin.it merger effect	112,588	-
Charge to the statement of income	168,428	148,935
Utilization	(166,680)	(167,200)
At December 31	539,441	425,105

Trade accounts receivable amount to euro 5,308,616 thousand and increased by euro 1,566,305 thousand compared to December 31, 2005. They include euro 1,323,139 thousand of receivables due from other wireline and mobile telecommunications operators. The increase from December 31, 2005 is mainly due to receivable positions from the clientele of the merged company Tim Italia (euro 1,900,811 thousand), which is partly offset by higher sales of receivables to factoring companies at December 31, 2006 compared to December 31, 2005.

Receivables from subsidiaries, amounting to euro 197,272 thousand, mainly refer to TLC services rendered to Telecom Italia Sparkle (euro 73,509 thousand), Path.Net (euro 34,847 thousand), HanseNet (euro 25,948 thousand) and Telecom Italia S.A.S. (euro 13,761 thousand).

Receivable from associates total euro 191,140 thousand and particularly refer to LI.SIT (euro 117,613 thousand) under the project to supply health cards to the Lombardy Region and Teleleasing (euro 64,230 thousand) for the sale of TLC products and services.

Miscellaneous receivables and other current assets amount to euro 1,101,664 thousand (euro 1,840,531 thousand at December 31, 2005) and are net of a provision for bad debts of euro 35,807 thousand. Details are as follows:

(thousands of euro)	12/31/2005	Merger effect Tim Italia/ Nuova Tin.it	Other changes	12/31/2006
Advances to suppliers	35,549		96,308	131,857
Receivables from subsidiaries	588,078	(445,584)	(105,053)	37,441
Receivables from associates	9,470	3,717	(10,589)	2,598
Receivables from other Group companies	19		(3)	16
Receivables from employees	46,114	2,377	(18,442)	30,049
Tax receivables	78,022	206	(32,258)	45,970
Sundry receivables	827,105	618,648	(945,456)	500,297
Trade and miscellaneous prepaid expenses	256,174	75,377	21,885	353,436
Total	**1,840,531**	**254,741**	**(993,608)**	**1,101,664**

Advances to suppliers increased by euro 96,308 thousand mainly as a result of advances paid to the supplier Ericsson (euro 61,425 thousand) on a contract to update the software for the GSM/EGPRS/UMTS networks of the Telecom Italia S.p.A. mobile network for the three years 2006-2008. These advances will be recovered when the invoices are recorded for the release of the software.

Receivables from subsidiaries amount to euro 37,441 thousand and principally refer to credit positions connected with the adoption of the consolidated national tax return (euro 8,961 thousand), the Group VAT procedure (euro 7,946 thousand), receivables from Olivetti Multiservices for the sale of properties (euro 7,605 thousand) and advances to Telenergia (euro 7,700 thousand). These receivables decreased by euro 550,637 thousand following the elimination of transactions with Tim Italia in connection with the consolidated national tax return.

Receivables from associates of euro 2,598 thousand mainly include transactions with LI.SIT (euro 2,322 thousand).

Tax receivables include VAT receivable (euro 11,088 thousand) and receivables for duties and indirect taxes (euro 34,882 thousand). These receivables decreased by euro 32,052 thousand compared to December 31, 2005 as a result of refunds for IRPEG, ILOR and IRAP taxes relating to the years 1997, 1999 and 2000.

Sundry receivables decreased by euro 326,808 thousand largely on account of the refund from the Tax Authorities, following the ruling handed down by the Regional Administrative Court of Lazio (TAR) on July 10, 2006, for the principal portion (euro 546,411 thousand) of the TLC operating fee that Telecom Italia S.p.A. and ex-TIM S.p.A. had paid for the year 1999 pursuant to art. 20, Law 448/1998. That ruling upheld the appeal by Telecom Italia ordering the Ministry of the Economy and Finance and the Ministry of Communications to execute the ruling by the Regional Administrative Court of Lazio (TAR) handed down on January 4, 2005 which had cancelled the decree of the Ministry of Communications dated March 21, 2000.
Sundry receivables still include a receivable from the Tax Authorities (euro 100,343 thousand) for the legal interest earned up to the date of the refund on the above principal portion of the TLC operating fee and also some receivables from factoring companies (euro 146,028 thousand).

Trade and miscellaneous prepaid expenses principally pertain to building leases (euro 64,934 thousand), rentals and maintenance (euro 68,471 thousand), insurance premiums (euro 6,532 thousand) and the deferral of costs in relation to the matching of revenues in accordance with IAS 18.

NOTE 12 – CURRENT TAX RECEIVABES

Current tax receivables decreased from euro 299,630 thousand at December 31, 2005 to euro 258,294 thousand and mainly refer to IRES taxes receivable on the consolidated national tax return (euro 253,144 thousand).

NOTE 13 – FINANCIAL RECEIVABLES AND OTHER CURRENT FINANCIAL ASSETS

Financial receivables and other current financial assets increased from euro 195,848 thousand at December 31, 2005 to euro 265,704 thousand. Details are as follows:

(thousands of euro)	12/31/2005	Merger effect Tim Italia/ Nuova Tin.it	Other changes	12/31/2006
Financial receivables for lessors' net investments	112,596	-	28,419	141,015
Receivables from employees	7,776	1,188	7,835	16,799
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	65,793		24,664	90,457
Non-hedging derivatives	363		6,857	7,220
Deposits for temporary investments of excess liquidity originally due beyond 3 months but less than 12 months	731		(731)	-
Receivables from subsidiaries	-		6,062	6,062
Receivables from associates and jointly controlled companies	84		475	559
Other short-term financial receivables	4,215	68	(691)	3,592
Prepaid expenses	4,290		(4,290)	0
Total	195,848	1,256	68,600	265,704

Financial receivables for lessors' net investments refer to:

- Teleleasing lease contracts directly negotiated with customers and guaranteed by Telecom Italia;
- The current portion of contracts which provide for the sale, under finance leases, of assets to customers which the Group has available under finance leaseback contracts, with the performance of accessory services under the "full rent" formula.

Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature refer to accrued income on derivatives. Additional details are provided in the Note "Financial instruments".
Non-hedging derivatives amount to euro 7,220 thousand (euro 363 thousand at December 31, 2005).

NOTE 14 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents increased from euro 6,601,126 thousand at December 31, 2005 to euro 5,207,976 thousand. They consist of the following:

(thousands of euro)	12/31/2005	Merger effect Tim Italia/ Nuova Tin.it	Other changes	12/31/2006
Liquidity with banks, financial institutions and post offices	5,997,901	11,527	(891,518)	5,117,910
Checks	39		(39)	0
Cash	580	279	(252)	607
Receivables from subsidiaries	588,271		(499,686)	88,585
Receivables from associates and jointly controlled companies	14,335		(13,461)	874
Total	6,601,126	11,806	(1,404,956)	5,207,976

Liquidity with banks, financial institutions and post offices decreased by euro 879,991 thousand compared to December 31, 2005 mainly due to financial requirements following the repayment of liabilities which became due in 2006, the early partial repayment of euro 3 billion of the Revolving Credit Facility maturing in 2012 and the payment of dividends.

The different technical forms used for the investment of available resources as of December 31, 2006 can be further analyzed as follows:

- Maturities: deposits have a maximum maturity date of one month;
- counterpart risk: deposits are made with leading banks and financial institutions that have credit rating of not less than “A” assigned by Standard & Poor’s or an equivalent level assigned by other agencies;
- country risk: the geographic location of deposits is principally on major European markets.

Receivables from subsidiaries amount to euro 88,585 thousand and decreased by euro 499,686 thousand compared to December 31, 2005 largely on account of the reduction in receivables from Olivetti for euro 415,032 thousand and IT Telecom S.r.l. for euro 65,510 thousand. The decrease in receivables from Olivetti is due to the repayment of loans by this company after the partial reimbursement of Olivetti International B.V.’s deposit with Telecom Italia Finance S.A. for euro 345,000 thousand.

NOTE 15 – EQUITY

Equity includes:

(thousands of euro)	12/31/2005	Effect of application L.D. 38/2005 1/1/2006	Merger effect Tim Italia/ Nuova Tin.it	Other changes	12/31/2006
Share capital issued	**10,668,132**			5,632	**10,673,764**
Less: treasury shares	(700)				(700)
Share capital	**10,667,432**			**5,632**	**10,673,064**
Reserve for additional paid-in capital	**6,464,728**	(4,795,540)		19,852	**1,689,040**
Legal reserve	**1,953,494**			181,256	**2,134,750**
Other reserves					
. Reserve L.D. 124/93 ex art. 13	391				391
. Reserve D.P.R. 917/86 ex art. 74	5,750				5,750
. Reserve for capital grants	537,727			64,532	602,259
. Revaluation reserve ex Law 413/91	1,129				1,129
. Reserve Law 266/2005 ex art. 1, para. 469 - Law 342/2000 ex art. 14,	-			315,842	315,842
. Other	1,796,344	1,021,890	378,574	(10,891)	3,185,917
Total Other reserves	**2,341,341**	**1,021,890**	**378,574**	**369,483**	**4,111,288**
Retained earnings, including net income for the year	**1,100,727**	3,773,650		1,041,029	**5,915,406**
Total	**22,527,722**	**0**	**378,574**	**1,617,252**	**24,523,548**

The movements in **share capital** during 2006 are presented in the following tables:

RECONCILIATION BETWEEN THE NUMBER OF SHARES OUTSTANDING AT DECEMBER 31, 2005 AND DECEMBER 31, 2006

Number of shares	At 12/31/2005	Shares issued as a result of bond conversions	At 12/31/2006
Ordinary shares	13,370,482,156	10,240,922	13,380,723,078
Less: treasury shares	(1,272,014)		(1,272,014)
Outstanding ordinary shares	13,369,210,142	10,240,922	13,379,451,064
Outstanding savings shares	6,026,120,661		6,026,120,661
Total shares issued	**19,396,602,817**	**10,240,922**	**19,406,843,739**
Less: treasury shares	(1,272,014)	0	(1,272,014)
Total shares outstanding	**19,395,330,803**	**10,240,922**	**19,405,571,725**

RECONCILIATION BETWEEN THE VALUE OF OUTSTANDING SHARES AT DECEMBER 31, 2005 AND DECEMBER 31, 2006

(thousands of euro)	Share capital at 12/31/2005	Changes in share capital as a result of bond conversions	Share capital at 12/31/2006
Ordinary shares	7,353,766	5,632	7,359,398
Less: treasury shares	(700)		(700)
Outstanding ordinary shares	7,353,066	5,632	7,358,698
Outstanding savings shares	3,314,366		3,314,366
Total shares issued	10,668,132	5,632	10,673,764
Less: treasury shares	(700)	0	(700)
Total shares outstanding	10,667,432	5,632	10,673,064

The total amount of ordinary treasury shares of euro 2,298 thousand was recorded as a deduction from the par value of the shares issued for euro 700 thousand and as a deduction from Other reserves, for the remaining amount.
Moreover, in accordance with art. 7 of Legislative Decree 38/2005, at January 1, 2006, Telecom Italia reclassified the effects originating from the transition to IFRS, which had however been included in the amounts at December 31, 2005, to equity reserves.

Reserve for additional paid-in capital is equal to euro 1,689,040 thousand at December 31, 2006 and decreased by euro 4,775,688 thousand compared to December 31, 2005 as a result of the following:

- the reclassification of euro 4,795,540 thousand to Other reserves following the application of art. 7 of Legislative Decree 38/2005, principally for the capital increase to service the merger of TIM in Telecom Italia (euro 4,768,387 thousand);
- the additional paid-in capital of euro 19,852 thousand relating to the issue of shares following the conversion of bonds.

The Legal reserve totals euro 2,134,750 thousand at December 31, 2006 and increased by euro 181,256 thousand compared to December 31, 2005 due to the appropriation of net income for the year 2005, in accordance with the resolution passed by the shareholders' meeting on April 13, 2006.

Other reserves amount in total to euro 4,111,288 thousand at December 31, 2006. This is an increase of euro 1,769,947 thousand compared to December 31, 2005 chiefly on account of the reclassifications made in accordance with Legislative Decree 38/2005 and the effects of the cancellation surplus generated by the merger with Tim Italia. The various reserves are analyzed as follows:

- Reserve ex art. 13, L.D. 124/1993 (euro 391 thousand): unchanged from December 31, 2005;
- Reserve ex art. 74, D.P.R. 917/1986 (euro 5,750 thousand): unchanged from December 31, 2005;
- Reserve for capital grants (euro 602,259 thousand): this reserve increased by euro 64,532 thousand following the reclassification, from Miscellaneous reserves, of the amount which carried restrictions in the 2005 financial statements, prepared in accordance with Italian GAAP, to the reserve for capital grants;

- Revaluation reserve ex Law 413 of December 30, 1991 (euro 1,129 thousand): unchanged from December 31, 2005;
- Reserve, ex article 1, paragraph 469, Law 266/2005 and ex article 14, Law 342/2000 (euro 315,842 thousand): deriving from the reclassification of the merger surplus reserve originating from the merger of Tim Italia, in order to set up the same tax-deferred reserve already recorded in the financial statements at December 31, 2005 of the merged company;
- Reserve for fair value adjustments to derivatives and underlying items (negative for euro 41,326 thousand): a decrease compared to December 31, 2005 of euro 172,041 thousand. This reserve is related to the recognition of cash flow hedge transactions. In particular, it refers to unrealized gains and losses, net of the related tax effect, on the fair value adjustment of a financial instrument designated as a cash flow hedge and the relative underlying items. In accordance with Legislative Decree 38/2005, this reserve is considered among those envisaged by art. 7, paragraph 2, and is subject to the regime indicated in art. 6, paragraph 1, letter b, of the same decree;
- Reserve for fair value adjustments to available-for-sale financial assets (euro 170,487 thousand): an increase compared to December 31, 2005 of euro 62,516 thousand. This reserve includes unrealized gains, net of the related tax effect, referring to the investments in Mediobanca (euro 132,924 thousand), Capitalia (euro 36,707 thousand) and Assicurazioni Generali (euro 856 thousand). In accordance with Legislative Decree 38/2005, this reserve is considered among those envisaged by art. 7, paragraph 2, and is subject to the regime indicated in art. 6, paragraph 1, letter b, of the same decree;
- Reserve for other equity instruments (euro 71,585 thousand): includes the value of call options included in the issue of “Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium”. The reserve decreased, compared to December 31, 2005, by euro 3,205 thousand due to the conversion of 21,717,514 bonds (euro 5,632 thousand). In accordance with Legislative Decree 38/2005, this reserve is considered among those envisaged by art. 7, paragraph 2, and is subject to the regime indicated in art. 6, paragraph 1, letter b, of the same decree;
- Reserve Law ex 488/1992 (euro 203,416 thousand): an increase of euro 100,333 thousand compared to December 31, 2005 as a result of the appropriation of a part of 2005 profits, approved by the shareholders’ meeting held April 13, 2006, in order to obtain the benefits stated in Law 488/92 for the investment projects in the south of Italy that had been filed by ex-TIM S.p.A., which was later succeeded by the merged company TIM Italia S.p.A.. The list of investment projects and the relative accruals is as follows:
  - ✓ euro 15,389,000,00 for project No. 81378 - 12 Apulia Region;
  - ✓ euro 30,897,000,00 for project No. 12836 - 13 Apulia Region;
  - ✓ euro 8,530,000,00 for project No. 81380 - 12 Sardinia Region;
  - ✓ euro 6,888,000,00 for project No. 82333 - 12 Sardinia Region;
  - ✓ euro 39,372,000,00 for project No. 81379 - 12 Sicily Region;
  - ✓ euro 32,280,000,00 for project No. 82337 - 12 Sicily Region;
  - ✓ euro 37,042,000,00 for project No. 81377-12 Campania Region;
  - ✓ euro 33,018,000,00 for project No. 82336 - 12 Campania Region.
- Merger surplus reserve (euro 2,072,163 thousand): an increase of euro 62,011 thousand compared to December 31, 2005, being the balance between the merger surplus generated by the merger with Tim Italia (euro 378,574 thousand) and the utilization of the reserve to set up the reserves of the merged company Tim Italia (euro 316,563 thousand);
- Available income reserve originating from the application of art. 7, paragraphs 3, 4 and 5 of Legislative Decree 38/2005 (euro 14,299 thousand);
- Unavailable reserve originating from the application of art. 7, paragraph 7 of Legislative Decree 38/2005 (euro 578,234 thousand);
- Miscellaneous reserves (euro 117,059 thousand).

Retained earnings, including net income for the year, is euro 5,915,406 thousand at December 31, 2006, with an increase of euro 4,814,679 thousand compared to December 31, 2005. The change is due to the effects of the application of Legislative Decree 38/2005 (euro 3,773,650 thousand) and the net income for the year 2006 (euro 4,143,577 thousand), which was partly offset by the dividends distributed (euro 2,783,064 thousand) and the aforementioned appropriation of income for the year 2005 to the Legal reserve, the Reserve ex Law 488/1992 and the Reserve ex art. 2426, 8 bis of the Italian Civil Code, which later became available under miscellaneous reserves as a result of the release of the restriction in respect of the adoption of IFRS.

With regard to dividends, the amount paid to the shareholders holding ordinary and savings shares was, respectively, equal to euro 1,873,120 thousand (euro 0.1400 per share) and euro 909,944 thousand (euro 0.1510 per share).

The following statement provides additional disclosure on equity and is prepared pursuant to ex art. 2427, number 7 - bis, showing the items in equity separately according to their source, possibility of utilization and distribution, in addition to their utilization in prior years.

Statement according to ex art. 2427, No. 7-bis of the Italian Civil Code

Nature/description	Amount	Possibility of utilization	Amount available	Summary of the amounts utilized during the last three years	
				for absorption of losses	for other reasons
(thousands of euro)				Total	Total
Share capital	10,673,064			-	10,961
Capital reserves:					
Reserve for additional paid-in capital	1,689,040	A, B, C	1,689,040	3,700,751	-
Legal reserve	1,952,851	B	-	920,810	-
Reserve L.D. 124/93 ex art. 13	391	A, B, C	391	-	-
Reserve D.P.R. 917/86 ex art. 74	5,750	A, B, C	5,750	-	-
Reserve Law 266/2005 ex art. 1, para. 469,- ex art. 14, Law 342/2000	315,842	A, B, C	315,842		-
Reserve for capital grants	537,727	A, B, C	537,727	-	-
Payments for future capital increases	4	A, B	4	28,816	-
Miscellaneous reserves	20,275	A, B, C	20,275	-	-
Reserve L.D. 38/2005 art.7, para 7	4,932,083	B	-	-	-
Merger surplus reserve	2,010,152	A, B, C	2,010,152	-	-
Income reserves:					
Legal reserves	181,899	B	-	-	-
Reserve for capital grants	64,532	A, B, C	64,532	-	-
Revaluation reserve ex Law 413/91	1,129	A, B, C	1,129	1,129	-
Reserve ex Law 488/92	203,416	A, B	203,416	-	-
Miscellaneous reserves	112,677	A, B, C	112,677	-	-
Reserve for fair value adjustments to derivatives and underlying items	-41,326	B	-41,326	-	-
Reserve for fair value adjustments to available-for-sale financial assets	170,487	B	-	-	-
Reserve for other equity instruments	71,585	B	-	-	-
Reserve L.D. 38/2005 art.7, para. 7	-4,353,849	B	-	-	-
Merger surplus reserve	62,011	A, B, C	62,011	-	-
Retained earnings	1,771,830	A, B, C	1,771,830	-	-
Total			6,753,450	4,651,506	10,961
Difference between carrying amount and par value of treasury shares			-1,598		
Amount not distributable (1)			203,423		
Remaining amount distributable			6,548,429		

Key:
A: for share capital increases
B: for absorption of losses
C: for distribution to shareholders

(1) This represents the amount that is not distributable relating to: the reserve ex Law 488/1992 (euro 203,416 thousand), the reserve for payments for future capital increases (euro 4 thousand) and the part of additional paid-in capital necessary to integrate the legal reserve in order for it to reach one-fifth of share capital (euro 3 thousand).

The amount of **distributable reserves** with no tax charges to be borne by the Company is equal to euro 5,623,058 thousand.

***

The table shows the restrictions, pursuant to art. 109, paragraph 4, letter b) of TUIR, relating to off-book deductions effected mainly in respect of depreciation.

This regime involves a restriction on all equity reserves, without distinction, for an amount equal to the off-book deductions net of the relative deferred taxes. This restriction remains until such time as the excess tax deductions are recovered in the books.

More in particular, compared to the situation at December 31, 2005, additional out-of-book deductions that now amount to euro 978,395 thousand will have an effect after the next tax return for 2006,.

Therefore, taking into account the deductions effected in prior years and extraordinary transaction which took place during the year, the total restriction on equity in the financial statements amounts to euro 1,033,440 thousand, as shown in the detailed table below.

(thousands of euro)

Off-book deductions at 12/31/2005	**431,983**
Depreciation and other deductions in 2006	978,395
Mismatch for depreciation on assets of companies merged during the year Misalignment	267,217
Reversal for taxation during the year	(32,902)
Off-book deductions at December 31, 2006	**1,644,693**
Deferred taxes (Ires and Irap)	(611,253)
Restriction on equity at December 31, 2006	**1,033,440**

The following table shows the future potential changes in share capital by reason of the convertible bonds and options in the stock option plans still outstanding at December 31, 2006:

	Outstanding bonds/option rights at 12/31/2006	Conversion / grant ratio	Number of maximum shares issuable	Par value (thousands of euro)	Reserve for additional paid-in capital (thousands of euro)	Subscription price per share (euro)
Additional increases approved (ord. sh.)						
Bonds "Telecom Italia 1.5% 2001 - 2010"	484,990,163	0.471553	228,698,566	125,784	359,206	
Stock Option Plan 2000	5,349,998.00	3.300871	17,659,608	9,713	64,197	4.185259
Stock Option Plan 2001	31,847,500.00	3.300871	105,123,871	57,818	276,196	3.177343
Stock Option Plan 2002 Top	9,480,001.33	3.300871	31,292,243	17,211	70,034	2.788052
Stock Option Plan 2002	16,471,053.93	3.300871	54,368,456	29,902	128,141	
of which grants March 2002	*15,801,053.50*	*3.300871*	*52,156,879*	*28,686*	*124,030*	*2.928015*
grants August 2002	*670,000.43*	*3.300871*	*2,211,577*	*1,216*	*4,111*	*2.409061*
Stock Option Plans 2000-2002 - ex-TIM	9,795,656.00	1.73	16,946,391	9,321	53,568	3.710983
Stock Option Plans 2002-2003 - ex-TIM	17,395,000.00	1.73	30,093,350	16,551	82,065	3.277457
Stock Option Plans 2003-2005 - ex-TIM	1,685,900.00	1.73	2,916,605	1,604	6,944	2.930636
Total additional increases approved (ord. sh.)			487,099,090	267,904	1,040,351	
Additional increases not yet approved (ord. sh.)			1,600,000,000	880,000		

With regard to the “Telecom Italia 1.5% 2001 – 2010 convertible notes with a repayment premium”, it should be noted that the number of outstanding notes at December 31, 2006 includes 3,500 notes for which the conversion to shares had already been requested. On January 15, 2007, the corresponding no. 1,649 ordinary shares were issued for a total par value of euro 0.9 thousand and additional paid-in capital of euro 2.6 thousand.

Additional details on the stock option plans are disclosed in the Note “Stock options plans of Telecom Italia S.p.A.”.

Finally, the shareholders’ meeting held on May 6, 2004 also granted the Board of Directors the right (which, to date, has not been exercised), for a maximum period of five years beginning May 6, 2004, to increase against payment, at one or more times, the share capital for a maximum total amount of euro 880,000,000, through the issue of a maximum of No. 1,600,000,000 ordinary shares, in whole or in part:

(i) to be offered as option rights to the shareholders and convertible note, or

(ii) to be offered for subscription to the employees of Telecom Italia S.p.A. or to the companies which it controls, with the exclusion of the pre-emptive rights, pursuant to the combined provision of art. 2441, last paragraph, of the Italian Civil Code, and art. 134, second paragraph, of Legislative Decree No. 58/1998.

The resolutions for capital increases passed by the Board of Directors in exercising the aforementioned right shall establish the subscription price (including any additional paid-in-capital) and shall fix a specific deadline for the subscription of the shares; they may also provide that, in the event the increase voted by the board is not fully subscribed to by the deadline set each time for that purpose, the capital shall be increased for an amount equal to the subscriptions received up to that deadline date.

On the basis of the motion by the Board of Directors' Meeting held on March 8, 2007, the net income for the year 2006 of Telecom Italia S.p.A., equal to euro 4,143,577 thousand, will be appropriated as dividends for euro 2,851,261 thousand for distribution to the shareholders:

- ✓ euro 0.1400 for each ordinary share
- ✓ euro 0.1510 for each savings share

gross of withholdings as established by law; undistributed net income will be appropriated to retained earnings.

NOTE 16 – FINANCIAL LIABILITIES (CURRENT AND NON-CURRENT)

(thousands of euro)	12/31/2005	Merger effect Tim Italia/ Nuova Tin.it	Other changes	12/31/2006
Financial payables (medium/long-term)				
. Notes and bonds	14,292,578		866,928	15,159,506
. Convertible and exchangeable notes and bonds	475,839		6,168	482,007
. Amounts due to banks	8,809,347		(2,703,247)	6,106,100
. Payables to other lenders	107,543		(42,994)	64,549
. Payables to subsidiaries	15,074,474		579,271	15,653,745
	38,759,781	0	(1,293,874)	37,465,907
Finance lease liabilities				
. Payables to subsidiaries	310	2	(27)	285
. Payables to associates	278,938		(39,813)	239,125
. Payables to others	1,575,968		7,934	1,583,902
	1,855,216	2	(31,906)	1,823,312
Other financial liabilities				
. Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	524,879		254,994	779,873
TOTAL NON-CURRENT FINANCIAL LIABILITIES (A)	41,139,876	2	(1,070,786)	40,069,092
Financial payables (short-term)				
. Bonds	1,526,730		294,237	1,820,967
. Convertible and exchangeable bonds	7,600		(330)	7,270
. Amounts due to banks	565,703	86	223,724	789,513
. Payables to other lenders	278,103	3,243	(136,475)	144,871
. Payables to subsidiaries	10,038,938	(1,226,752)	(5,270,764)	3,541,422
. Payables to associates	188		(134)	54
. Other financial payables	118,183	113	(117,410)	886
	12,535,445	(1,223,310)	(5,007,152)	6,304,983
Finance lease liabilities				
. Payables to subsidiaries	307	10	(172)	145
. Payables to associates	124,056		23,586	147,642
. Payables to others	91,035		18,759	109,794
	215,398	10	42,173	257,581
Other financial liabilities				
. Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	81,838		27,634	109,472
. Non-hedging derivatives	32,218		(23,354)	8,864
. Deferred income	3,916	1,560	2,860	8,336
	117,972	1,560	7,140	126,672
TOTAL CURRENT FINANCIAL LIABILITIES (B)	12,868,815	(1,221,740)	(4,957,839)	6,689,236
TOTAL FINANCIAL LIABILITIES (C)=(A+B)	54,008,691	(1,221,738)	(6,028,625)	46,758,328

Non-current financial liabilities decreased from euro 41,139,876 thousand to euro 40,069,092 thousand, whereas current liabilities decreased from euro 12,868,815 thousand to euro 6,689,236 thousand.

Notes and Bonds total euro 16,980,473 thousand (euro 15,819,309 thousand at December 31, 2005) and increased by euro 1,161,166 thousand. Details are as follows:

(thousands of euro)	12/31/2006	12/31/2005
Non-current portion	15,159,506	14,292,578
Current portion	1,820,967	1,526,730
Total carrying amount	**16,980,473**	**15,819,308**
Measurement a amortized cost	(494,448)	(471,059)
Total nominal repayment amount	**16,486,025**	**15,348,249**

The nominal repayment amount totals euro 16,486,025 thousand and decreased by euro 1,137,775 thousand compared to December 31, 2005 (euro 15,348,250 thousand).

The regulations and/or Offering Circulars relating to the bonds described below are available on the corporate website http://www.telecomitalia.it.

Notes and bonds expressed at the nominal amount of principal were subscribed to by companies of the Group (euro 5,550,000 thousand) as follows:

- bonds 2001-2011 for euro 1,500,000 thousand subscribed to by the subsidiary Telecom Italia Finance S.A. with a fixed-rate coupon of 7.25% (issued on May 31, 2001);
- bonds 2001-2011 for euro 150,000 thousand subscribed to by the subsidiary Telecom Italia Finance S.A. with a fixed-rate coupon of 6.875% (issued on December 28, 2001).
- bonds 2002-2012 for euro 2,500,000 thousand originally subscribed to by the subsidiary Olivetti Finance N.V. (merged in Telecom Italia Finance S.A. with effect on June 1, 2004) with a fixed-rate coupon of 7.375% (issued on June 26, 2002);
- bonds 2002-2012 for euro 1,400,000 thousand originally subscribed to by the subsidiary Olivetti Finance N.V. (merged in Telecom Italia Finance S.A. with effect on June 1, 2004) with a fixed-rate coupon of 6 .625% (issued on December 23, 2002);

by third parties (euro 10,936,025 thousand) as follows:

- notes for euro 2,500,000 thousand, issued on February 1, 2002, divided into two tranches of euro 1,250,000 thousand each, at annual fixed rates, respectively, with a coupon of 5.625%, maturing February 1, 2007 (the tranche was duly repaid at maturity) and with a coupon of 6.25%, maturing February 1, 2012;
- bonds 2002-2022 reserved for subscription by employees, in service or retired, of companies, directly and indirectly, controlled by Telecom Italia, with headquarters in Italy, for euro 249,919 thousand;
- bonds for euro 3,000,000 thousand, issued on January 29, 2004, divided into three tranches: the first, for euro 1,000,000 thousand, with a quarterly coupon indexed to the 3-month Euribor + 0.33%, maturing October 29, 2007 was repaid before maturity on January 30, 2006); the second, for euro 750,000 thousand, with an annual fixed-rate coupon of 4.50%, maturing January 28, 2011; the third, for euro 1,250,000 thousand, with an annual fixed-rate coupon of 5.375%, maturing January 29, 2019;
- notes for euro 110,000 thousand issued on April 8, 2004 with a quarterly coupon equal to the 3-month Euribor + 0.60%, maturing March 30, 2009;
- bonds for GBP 850,000 thousand (equivalent to euro 1,265,823 thousand) issued on June 24, 2004, with an annual fixed-rate coupon of 6.375%, maturity at June 24, 2019;
- bonds for euro 120,000 thousand issued on November 23, 2004 with a quarterly coupon equal to the 3-month Euribor + 0.66%, maturing November 23, 2015;
- bonds for euro 850,000 thousand issued on March 17, 2005 with an annual fixed-rate coupon of 5.25%, maturing March 17, 2055;

- bonds for GBP 500,000 thousand (equivalent to euro 744,602 thousand) issued on June 29, 2005, with an annual fixed-rate coupon of 5.625%, maturing December 29, 2015;
- notes for euro 1,000,000 thousand issued on December 6, 2005 with a quarterly coupon equal to the 3-month Euribor + 0.53%, maturing December 6, 2012.
- notes for euro 750,000 thousand issued on May 19, 2006 with an annual fixed-rate coupon of 4.75%, maturing May 19, 2014;
- bonds for GBP 400,000 thousand (equivalent to 595,681 thousand), issued on May 19, 2006 with an annual fixed-rate coupon of 5.875%, maturing May 19, 2023;
- notes for euro 750,000 thousand issued on June 9, 2006 with a quarterly coupon equal to the 3-month Euribor + 0.22%, maturing June 9, 2008.

The following table lists the notes and bonds issued to third parties, expressed at the nominal repayment amount and market value, issued by Telecom Italia:

Original Currency	Amount in original currency (millions)	Nominal repayment amount euro (millions)	Coupon %	Issue date	Maturity date	Issue price (%)	Market price 12/31/2006 (%)	Market value 12/31/2006 euro (millions)
Notes and bonds issued by Telecom Italia S.p.A.								
Euro	1,250	1,250	5.625%	2/1/02	2/1/07	99.841	100.126	1,252
Euro	750	750	3-month Euribor + 0.22%	6/9/06	6/9/08	100	100.00	750
Euro	110	110	3-month Euribor+ 0.60%	4/8/04	3/30/09	100	100.797	111
Euro	750	750	4.500%	1/29/04	1/28/11	99.56	99.39	745
Euro	1,250	1,250	6.250%	2/1/02	2/1/12	98.952	106.038	1,325
Euro	1,000	1,000	3- month Euribor + 0.53%	12/6/05	12/6/12	100	99.27	993
Euro	750	750	4.750%	5/19/06	5/19/14	99.156	98.00	735
Euro	120	120	3-month Euribor+ 0.66%	11/23/04	11/23/15	100	97.694.	117
GBP	500	744	5.625%	6/29/05	12/29/15	99.878	95.12	708
Euro	1,250	1,250	5.375%	1/29/04	1/29/19	99.07	98.43	1,230
GBP	850	1,266	6.375%	6/24/04	6/24/19	98.85	100.076	1,267
Euro	250	250	6-month Euribor (base 365)	1/1/02	1/1/22	100	100	250
GBP	400	596	5.875%	5/19/06	5/19/23	99.622	95.714	570
Euro	850	850	5.250%	3/17/05	3/17/55	99.667	84.55	719
	Subtotal	10,936						10,772

Convertible and exchangeable notes and bonds total euro 489,277 thousand (euro 483,439 at December 31, 2005). Details are as follows:

(thousands of euro)	12/31/2006	12/31/2005
Non-current portion	482,007	475,839
Current portion	7,270	7,600
Total carrying amount	**489,277**	**483,439**
Measurement a amortized cost	84,841	116,383
Total nominal repayment amount	**574,118**	**599,822**

The nominal repayment amount amounts to euro 574,118 thousand and decreased by euro 25,704 thousand compared to December 31, 2005 (euro 599,822 thousand) mainly due to conversion requests.

The following table lists the convertible notes, expressed at the nominal repayment amount and at market value, issued by Telecom Italia:

Currency	Nominal repayment amount euro (millions)	Coupon	New shares issuers	Issue date	Maturity date	Issue price (%)	Market price 12/31/2006 (%)	Market value 12/31/2006 euro (millions)
Convertible bonds issued by Telecom Italia S.p.A.								
Euro	574	1.50%	TI S.p.A.	11/23/01	1/1/10	100	120.948	694

Medium/long-term **amounts due to banks** total euro 6,106,100 thousand (euro 8,809,347 thousand at December 31, 2005) and decreased by euro 2,703,247 thousand mainly as a result of the early repayment of euro 3 billion of the revolving credit facility expiring in 2012, the amount of which currently drawn down has been reduced to euro 1.5 billion, and new loans secured from the European Investment Bank (EIB).
Short-term amounts due to banks of euro 789,513 thousand increased by euro 223,810 thousand (euro 565,703 thousand at December 31, 2005) and include euro 530,517 thousand of the current portion of medium/long-term transactions due within 12 months.

Medium/long-term **payables to other lenders** amount to euro 64,549 thousand (euro 107,543 thousand at December 31, 2005) and refer to payables to the Ministry of Industry. Short-term payables to other lenders amount to euro 144,871 thousand (euro 278,103 thousand at December 31, 2005) and include euro 13,865 thousand of payables to the Ministry of Industry, euro 42,769 thousand of loans made by Cassa Depositi e Prestiti and euro 86,257 thousand for factoring transactions.

Medium/long-term **payables to subsidiaries** amount to euro 15,653,745 thousand and increased by euro 579,271 thousand compared to December 31, 2005 (euro 15,074,474 thousand). They refer to loans payable to Telecom Italia Finance (euro 5,924,527 thousand) and Telecom Italia Capital S.A. (euro 9,729,218 thousand).
Short-term payables to subsidiaries amount to euro 3,541,422 thousand and decreased by euro 6,497,516 thousand, compared to December 31, 2005 (euro 10,038,939 thousand). The reduction is due to the elimination of payable positions with Tim Italia (euro 3,236,460 thousand) following its merger in Telecom Italia and the payment of the current portion of intercompany debt due to Telecom Italia Finance S.A. for euro 3,162,142 thousand.
These payables refer to the current portion of medium/long-term loans due to Telecom Italia Finance (euro 2,804,931 thousand) and Telecom Italia Capital (euro 123,785 thousand), short-term loans payable to Telecom Italia Sparkle (euro 443,320 thousand) and current account transactions under the treasury service at market rates mainly with Saiat (euro 44,844 thousand), Telenergia (euro 21,600 thousand) and Olivetti Multiservices (euro 16,320 thousand).

Medium-long term **finance lease liabilities** total euro 1,823,312 thousand (euro 1,855,216 thousand at December 31, 2005) and mainly refer to building sale and leaseback transactions of properties accounted for in accordance with IAS 17. Short-term finance lease liabilities amount to euro 257,581 thousand (euro 215,398 thousand at December 31, 2005).

Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature amount to euro 779,873 thousand (euro 524,879 thousand at December 31, 2005). The increase of euro 254,994 thousand is due to a negative mark to market change connected principally with the decrease in the value of the U.S. dollar against the euro. Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature total euro 109,472 thousand (euro 81,838 thousand at December 31, 2005). Additional details are provided in the Note “Financial instruments”.

Short-term **non-hedging derivatives** totaling euro 8,864 thousand (euro 32,218 thousand at December 31, 2005) decreased by euro 23,354 thousand and refer to the measurement of derivatives which, although put into place for hedging purposes, do not possess the formal requisites to be considered as such under IFRS.

At December 31, 2006, the unused credit lines of Telecom Italia S.p.A. amount to euro 7,793,959 thousand (euro 6,810,066 thousand at December 31, 2005) and include unused committed credit lines of euro 1,538,462 thousand and euro 4,500,000 thousand expiring, respectively, in March 2007 and August 2012. All the credit lines are denominated in euro and linked to a floating interest rate.

Gross financial debt according to the original currency of the transaction is as follows:

	12/31/2006 (millions of foreign currency)	12/31/2006 (millions of euro)	12/31/2005 (millions of foreign currency)	12/31/2005 (millions of euro)
USD	4,213	3,199	4,208	3,567
GBP	1,782	2,653	1,365	1,991
JPY	40,110	256	40,083	289
EURO	40,650	40,650	48,162	48,162
		46,758		54,009

The analysis of gross financial debt by effective interest rate bracket excluding the effect of derivative hedging instruments, if any, is the following:

(millions of euro)	12/31/2006	12/31/2005
Up to 2.5%	450	13,710
From 2.5% to 5%	17,666	16,945
From 5% to 7.5%	25,142	20,135
From 7.5% to 10%	1,610	1,565
Over 10%	-	-
	44,868	52,355
Accruals, prepayments and deferrals, MTM and derivatives	1,890	1,654
	46,758	54,009

However, as a result of the use of derivative hedging instruments, gross financial debt by nominal interest rate bracket is the following:

(millions of euro)	12/31/2006	12/31/2005
Up to 2.5%	693	12,070
From 2.5% to 5%	23,416	21,574
From 5% to 7.5%	19,149	17,145
From 7.5% to 10%	1,610	1,566
Over 10%	-	-
	44,868	52,355
Accruals, prepayments and deferrals, MTM and derivatives	1,890	1,654
	46,758	54,009

Gross financial debt by maturity date (divided between medium/long-term and short-term) at December 31, 2006 is as follows (carrying amounts):

(millions of euro)	Medium/long-term debt	Short-term debt	Total
2007 (*)	5,713	976	6,689
2008	2,841		2,841
2009	1,171		1,171
2010	3,938		3,938
2011	2,946		2,946
Beyond 2011	29,173		29,173
	45,782	976	46,758

(*) The total includes accrued liabilities and deferred income which increase the amount of non-current financial liabilities due within 12 months by euro 1,113 million and current other financial liabilities by euro 9 million.

NOTE 17 – NET FINANCIAL DEBT

Net financial debt amounts to euro 40,614,503 thousand at December 31, 2006, a decrease of euro 5,950,471 thousand compared to euro 46,564,974 thousand at the end of 2005. The major changes are discussed in the Report on Operations.

"Net financial debt" determined in accordance with Consob Communication DEM/6064293 dated July 28, 2006 is presented in the following table together with a reconciliation to net financial debt calculated by Telecom Italia S.p.A..

In particular, the calculation by Consob does not consider "Non-current financial assets", except for the current portion (included in "Current financial assets"), as a deduction from gross financial debt.

The difference between the two calculations is equal to euro 292,551 thousand in 2006. Net financial debt calculated by Consob is euro 40,907,054 thousand compared to euro 40,614,503 thousand by Telecom Italia. In 2005, instead, the difference was euro 412,297 thousand, with net financial debt calculated by Consob at euro 46,977,271 thousand and by Telecom Italia at euro 46,564,974 thousand.

One of major reasons for the increase in "Non-current financial assets" in 2005 was due to the classification there of deposits at ABN Amro to guarantee the payment of Telecom Italia to Opportunity for euro 309,328 thousand: these deposits, since the conditions stated in the contract did not occur, were released and Telecom Italia was given full use of the funds. As a result, the amount was reclassified to "Current financial assets".

"Non-current financial assets" which are not considered as a deduction from debt by Consob total euro 292,551 thousand and consist of the following:

- euro 65,482 thousand of low-rate loans made to employees;
- euro 67,971 thousand for the non-current portion of cash collateral with Goldman Sachs to guarantee two of Telecom Italia S.p.A.'s Cross Currency Interest Rate Swaps;
- euro 23,429 thousand for the non-current portion of loans made to Aree Urbane S.r.l. by Telecom Italia. This is the company resulting from the concentration of the industrial areas from Tiglio I and II in 2003 (and thus originally owned by Pirelli S.p.A., Telecom Italia S.p.A., Olivetti S.p.A., MSMC Italy Holding and Marzotto S.p.A.) and set up for the purpose of pursuing a common goal of appreciating the properties;
- non-current portion of the loan made to TI Media S.p.A. for euro 100,000 thousand and the loan made to TI Media Broadcasting S.r.l. for euro 16,104 thousand;
- medium/long term prepaid financial expenses for euro 19,565 thousand.

NET FINANCIAL DEBT (*)

(thousands of euro)		12/31/2006 (a)	12/31/2005 (b)	Change (a-b)
Non-current financial liabilities (**)				
Financial payables		37,465,907	38,759,781	(1,293,874)
Finance lease liabilities		1,823,312	1,855,216	(31,904)
Non-current liabilities for hedging derivatives		779,873	524,879	254,994
	(1)	40,069,092	41,139,876	(1,070,784)
Less:				
Non-current financial receivables for lessors' net investments		*(222,077)*	*(203,313)*	(18,764)
Non-current assets for hedging derivatives		*(155,517)*	*(31,133)*	*(124,384)*
		(377,594)	(234,446)	*(143,148)*
TOTAL NON-CURRENT FINANCIAL LIABILITIES (**)	(A)	39,691,498	40,905,430	(1,213,932)
Current financial liabilities (**)				
Financial payables		6,304,983	12,535,446	(6,230,463)
Finance lease liabilities		257,581	215,398	42,183
Current liabilities for hedging and non-hedging derivatives		118,336	114,056	4,280
Other financial liabilities		8,336	3,915	4,421
	(2)	6,689,236	12,868,815	(6,179,579)
Less:				
Current financial receivables for lessors' net investments		*(141,015)*	*(112,596)*	(28,419)
Current assets for hedging derivatives		*(90,457)*	*(65,793)*	*(24,664)*
		(231,472)	(178,389)	(53,083)
TOTAL CURRENT FINANCIAL LIABILITIES (**)	(B)	6,457,764	12,690,426	(6,232,662)
TOTAL GROSS FINANCIAL DEBT (**)	(C=A+B)	46,149,262	53,595,856	(7,446,594)
Current financial assets (**)				
Financial receivables and other current financial assets		(265,704)	(195,848)	(69,856)
Cash and cash equivalents		(5,207,976)	(6,601,126)	1,393,150
	(3)	(5,473,680)	(6,796,974)	1,323,294
Less:				
Current financial receivables for lessors' net investments		*141,015*	*112,596*	28,419
Current assets for hedging derivatives		*90,457*	*65,793*	*24,664*
		231,472	178,389	53,083
TOTAL CURRENT FINANCIAL ASSETS (**)	(D)	(5,242,208)	(6,618,585)	1,376,377
NET FINANCIAL DEBT AS OF CONSOB COMMUNICATION N. DEM/6064293/2006	(E=C+D)	40,907,054	46,977,271	(6,070,217)
Non-current financial assets (**)				
Financial receivables and other non-current financial assets	(4)	(670,145)	(646,743)	(23,402)
Less:				
Non-current financial receivables for lessors' net investments		*222,077*	*203,313*	18,764
Non-current assets for hedging derivatives		*155,517*	*31,133*	124,384
		377,594	234,446	143,148
TOTAL NON-CURRENT FINANCIAL ASSETS (**)	(F)	(292,551)	(412,297)	119,746
NET FINANCIAL DEBT	(G=E+F)	40,614,503	46,564,974	(5,950,471)

COMPOSITION OF THE NET FINANCIAL DEBT:

Total gross financial debt:				
Non-current financial liabilities	(1)	40,069,092	41,139,876	(1,070,784)
Current financial liabilities	(2)	6,689,236	12,868,815	(6,179,579)
		46,758,328	54,008,691	(7,250,363)
				-
Total gross financial assets				-
Non-current financial assets	(4)	(670,145)	(646,743)	(23,402)
Current financial assets	(3)	(5,473,680)	(6,796,974)	1,323,294
		(6,143,825)	(7,443,717)	1,299,892
		40,614,503	46,564,974	(5,950,471)

(*) As regards the effects of related party transactions on net financial debt, see the specific table included in the Note "Related party transactions"
(**) Net of assets for hedging derivatives and financial receivables for lessors' net investments.

With reference to loans other than bonds, euro 350,000 thousand (out of a total of euro 1,739,644 thousand at December 31, 2006) was secured from the European Investment Bank ("EIB"). The loans are covered by a covenant which states that if the Company's rating is downgraded by Standard & Poor's or Fitch Ratings the bank shall have the right to ask for suitable bank guarantees, indicating a date for setting up these guarantees, after which, if not provided, EIB shall have the right to demand immediate repayment of the amount disbursed.

Moreover, the syndicated bank loans of Telecom Italia do not contain financial covenants which would oblige Telecom Italia to automatically to repay the outstanding loan if the covenants are not observed. Mechanisms are provided for adjusting the cost of funding in relation to Telecom Italia's credit rating, with a spread compared to the Euribor of between a minimum of 0.15% and a maximum of 0.425% for the line expiring in 2010 and between a minimum of 0.0875% and a maximum of 0.2625% for the line expiring in 2012 while the line expiring in 2007 has a range of between a minimum of 0.12% and a maximum of 0.33%.
The three syndicated bank lines contain the usual negative pledge clauses (within the limits of operational requirements) for the commitment not to change the business purpose or sell the assets, although it is possible to dispose of goods, among other cases, when the disposal of the goods or assets takes place at fair market value. The same negative pledge conditions are also found in the export credit loan agreements.
The syndicated bank lines (as well as an export credit agreement for a residual nominal amount of euro 162,820 thousand) consider the case where a party, other than the current relative majority shareholder or permitted acquiring shareholders acquire control of Telecom Italia, individually or jointly. In that case, a 30-day period is established during which the parties will negotiate the terms with which to continue the relationship.

NOTE 18 – EMPLOYEE SEVERANCE INDEMNITIES AND OTHER EMPLOYEE-RELATED PROVISIONS

Employee severance indemnities and other employee-related provisions increased from euro 1,242,542 thousand at December 31, 2005 to euro 1,245,985 thousand. The composition and changes are as follows:

(thousands of euro)	12/31/2004	Merger effect Telecom Italia Data Center	Increases	Decreases	12/31/2005
Provision for employee severance indemnities	976,166	11,201	122,167	(85,021)	1,024,513
Provisions for termination benefit incentives	47,951	14,212	188,318	(35,794)	214,687
Other employee-related provisions	0	-	3,886	(544)	3,342
Total	**1,024,117**	**25,413**	**314,371**	**(121,359)**	**1,242,542**
of which:					
Non-current portion	976,166				1,104,479
Current portion	47,951				138,063

(thousands of euro)	12/31/2005	Merger effect Tim Italia/ Nuova Tin.it	Increases	Decreases	12/31/2006
Provision for employee severance indemnities	1,024,513	119,203	128,122	(131,631)	1,140,207
Provisions for termination benefit incentives	214,687	2,072	4,286	(118,159)	102,886
Other employee-related provisions	3,342		-	(449)	2,893
Total	**1,242,542**	**121,275**	**132,408**	**(250,239)**	**1,245,986**
of which:					
Non-current portion	1,104,479				1,142,650
Current portion	138,063				103,336

Employee severance indemnities increased by euro 115,694 thousand compared to December 31, 2005 mainly as a result of the contribution by the merged company Tim Italia and the balance of: the accrual to the statement of income (euro 127,913 thousand), utilizations for indemnities paid to employees who terminated employment, advances and transfers to pension funds (euro 131,631 thousand) and other positive changes (euro 209 thousand).

According to the law and national regulations, the amount to which each employee is entitled matures in relation to the period of service and must be paid immediately when the employee leaves the company. This severance indemnity is due upon termination of employment and is calculated in accordance with civil laws and Italian labor laws on the basis of the period of employment and the taxable income of each employee. This liability is adjusted annually based on the official cost-of-living index and interest earned. This liability is not associated with any vesting condition or period or any funding obligation. Consequently, in accordance with IAS 19, this provision has been recognized as a Defined benefit plan. Since there are no funding obligations there are no assets to service the provision.

In accordance with IAS 19 “Employee Benefits”, the “Projected Unit Credit Method” was used to measure employee severance indemnities, as described below:

- the future possible benefits which could be paid to each employee in the event of retirement, death, disability, resignation etc. have been projected on the basis of a series of financial assumptions (cost-of-living increases, increase in remuneration etc.). The estimate of the future benefits includes any increases for additional service seniority as well as the estimated increase in the remuneration level at the measurement date;
- the average present value of future benefits has been calculated, at the measurement date, on the basis of the annual interest rate and the probability that each benefit has to be effectively paid on the expected payment date;
- finally, the liability has been determined as the average present value of future benefits for service matured by the employee at the measurement date.

The following assumptions were made:

FINANCIAL ASSUMPTIONS	Executives	Non-executives
❑ Cost-of-living increases	2.2% per annum	2.2% per annum
❑ Discount rate	4.4% per annum	4.4% per annum
❑ Increase in remuneration:		
• equal to or less than 40 years of age	3.2% per annum	3.2% per annum
• over 40 but equal to or less than 55 years of age	2.7% per annum	2.7% per annum
• over 55 years of age	2.2% per annum	2.2% per annum

DEMOGRAPHIC ASSUMPTIONS	Executives	Non-executives
Probability of death	Mortality tables RG 48 published by "Ragioneria Generale dello Stato"	Mortality tables RG 48 published by "Ragioneria Generale dello Stato"
Probability of disability	Unisex tables based on a study published by C.N.R. reduced by 80%	Unisex tables based on a study published by C.N.R. reduced by 80%
Probability of resignation (in relation to the company):		
➢ up to 40 years of age	3.0% per annum	3.0% per annum
➢ over 40 but up to 50 years of age	1.5% per annum	1.5% per annum
➢ over 50 years of age	none	none
Probability of retirement:		
➢ up to 60 years of age	35% (100% for women)	60% (100% for women)
➢ over 60 but less than 65 years of age	15% per annum	10% per annum
➢ at 65 years of age	100%	100%

The adoption of the above assumptions resulted in a liability for employee severance indemnities at December 31, 2006 and 2005, respectively, of euro 1,140,207 thousand and euro 1,024,513 thousand.
The effect on the statement of income is as follows:

(thousands of euro)	2006	2005
Current service cost	113,401	99,790
Financial expenses	44,918	37,447
Net actuarial (gains) losses recognized during the year	(30,406)	(19,244)
Total expense	127,913	117,993
Effective return on plan assets	n/a	n/a

Provisions for termination benefit incentives include accruals made both for agreements regarding mobility pursuant to Law ex 223/91, agreed in December 2005 with the labor unions, and the plan for termination incentive benefits for managers with regard to the cases currently pending.
The decreases are due to the termination of employees during 2006 and are presented net of the effect of the reversal of discounting the provision to present value in the 2005 financial statements for an amount of euro 4,267 thousand.

NOTE 19 – PROVISIONS FOR RISKS AND CHARGES

Provisions for risks and charges increased from euro 871,242 thousand at December 31, 2005 to euro 983,666 thousand. The composition and changes are as follows:

(thousands of euro)	12/31/2005	Merger effect Tim Italia/ Nuova Tin.it	Increase	Used through statement of income	Used directly	Reclassifications/ other movements	12/31/2006
Provision for taxation and tax risks	139,579		47,000		(187)		186,392
Provision for restoration costs	129,166	184,219	30,482		(5,991)	(7,224)	330,652
Provision for legal disputes	116,410	2,277	77,290		(27,801)		168,176
Provision for commercial risks	84,360	15,990	577	(30)	(22,649)	(13,371)	64,877
Provisions for risks and charges on investments and corporate-related transactions	276,380		2,978	(90,701)	(23,881)	(26,596)	138,180
Other provisions for risks and charges	125,347	42,564	9,700		(122,057)	39,835	95,389
Total	**871,242**	**245,050**	**168,027**	**(90,731)**	**(202,566)**	**(7,356)**	**983,666**
of which:							
Non-current portion	392,808						646,191
Current portion	478,434						337,475

In particular:

The **provision for taxation and tax risks** increased by euro 46,813 thousand compared to December 31, 2005 following the adjustment made in respect of pending disputes.

Provision for restoration costs refers to the accrual for the estimated cost to decommission tangible assets and restore the sites. This provision increased by euro 201,486 thousand compared to December 31, 2005, principally as a result of the contribution by the merged company Tim Italia (euro 184,219 thousand) and a higher number of sites leased (euro 15,888 thousand), in addition to the change in the discount rate and the release to income of the accumulated effects of discounting to present value (euro 14,594 thousand).

Provisions for legal disputes increased by euro 51,766 thousand compared to December 31, 2005 mainly due to the accrual (euro 60,670 thousand) made following the arbitration proceedings initiated by Fastweb, in March 2005, against Telecom Italia with regard to the execution of the contract for “Local Loop Unbundling”.

Provisions for risks and charges on investments and corporate-related transactions decreased by euro 138,200 thousand from December 31, 2005 principally due to the release to income of provisions (euro 90,701 thousand) recorded for sureties provided to the banks which had financed Avea, since there was no longer a risk owing to the cancellation of a part of the guarantees provided. This caption includes the provision for charges on investments (euro 11,359 thousand) and provisions for guarantees provided following corporate-related transactions (euro 126,821 million).

Other provisions for risks and charges decreased by euro 29,958 thousand compared to December 31, 2005, mainly as a result of the use of euro 115,000 thousand for the payment of the fine levied against Telecom Italia by the Antitrust Authority for the alleged abuse of a dominant position. The caption includes principally the provision for freeing frequencies (euro 25,200 thousand), the provision for technological changes (euro 10,306 thousand) and the provision for customer retention (euro 5,600 thousand) of the merged company Tim Italia.

NOTE 20 – MISCELLANEOUS PAYABLES AND OTHER NON-CURRENT LIABILITIES

Miscellaneous payables and other non-current liabilities decreased from euro 1,879,864 thousand at December 31, 2005 to euro 1,679,960 thousand and consist of the following:

(thousands of euro)	12/31/2005	Merger effect Tim Italia/ Nuova Tin.it	Other changes	12/31/2006
Payables to social security authorities	868,351	6,558	(169,545)	705,364
Capital grants	153,098	5,157	(19,069)	139,186
Deferred income	758,226		(20,635)	737,591
Payables to subsidiaries	100,136		(2,317)	97,819
Other payables and liabilities	53		(53)	0
Total	**1,879,864**	**11,715**	**(211,619)**	**1,679,960**

Payables to social security authorities refer to the residual amount payable to INPS for estimated employee benefit obligations owed under Law 58/1992. Details are as follows:

(thousands of euro)	12/31/2005	Merger effect Tim Italia/ Nuova Tin.it	Other changes	12/31/2006
Non-current payables				
Due from 2 to 5 years after the balance sheet date	741,508	4,655	(101,303)	644,860
Due beyond 5 years after the balance sheet date	126,843	1,903	(68,242)	60,504
	868,351	6,558	(169,545)	705,364
Current payables	212,569	1,479	771	214,819
Total	**1,080,920**	**8,037**	**(168,774)**	**920,183**

Capital grants and operating grants decreased by euro 13,912 thousand after amounts were credited to income in conjunction with the depreciation of the assets to which the grants refer.

Medium/long-term **deferred income** includes euro 714,371 thousand for the deferral of revenues from the activation of telephone service (euro 758,062 thousand at December 31, 2005).

Payables to subsidiaries refer to payables in relation to the consolidated national tax return principally due to Telecom Italia Media (euro 46,875 thousand) and Olivetti (euro 39,818 thousand).

NOTE 21 – TRADE AND MISCELLANEOUS PAYABLES AND OTHER CURRENT LIABILITIES

Trade and miscellaneous payables and other current liabilities increased from euro 7,032,139 thousand at December 31, 2005 to euro 9,436,886 thousand and consist of the following:

(thousands of euro)	12/31/2005	Merger effect Tim Italia/ Nuova Tin.it	Other changes	12/31/2006
Payables for construction contracts	0	0	1,586	1,586
Trade payables				
. Payables to suppliers	1,664,918	1,830,046	152,610	3,647,574
. Payables to other telecommunication operators	349,637	86,109	533,092	968,838
. Payables to subsidiaries	464,105	(142,865)	(35,802)	285,438
. Payables to associates	52,237	19,732	8,894	80,863
. Payables to other Group companies	117,493	1,169	(53,507)	65,155
	2,648,390	1,794,191	605,287	5,047,868
Miscellaneous payables and other current liabilities:				
. Payables to subsidiaries	422,840	(5,326)	(260,856)	156,658
. Payables to associates	0		605	605
. Advances received	47,107		(8,501)	38,606
. Taxes payable	313,286	97,625	(42,249)	368,662
. Payables to social security authorities	327,587	14,514	11,375	353,476
. Payables for employee compensation	503,268	121,890	(178,522)	446,636
. Customer-related items	1,051,056	361,892	(10,518)	1,402,430
. Trade and miscellaneous deferred income	871,410	47,795	(13,167)	906,038
. Other current liabilities	230,698	13,565	29,247	273,510
. Employee-related provisions (except for Employee severance indemnities) expected to be settled within 12 months	138,063	1,981	(36,708)	103,336
. Other provisions for risks and future charges, expected to be settled within 12 months	478,434	52,336	(193,295)	337,475
	4,383,749	706,272	(702,589)	4,387,432
Total	7,032,139	2,500,463	(95,716)	9,436,886

Trade payables to suppliers increased by euro 2,601,857 thousand mainly as a result of the merger of Tim Italia.

Trade payables to subsidiaries mainly refer to amounts due to Telecom Italia Sparkle (euro 156,539 thousand) and Matrix (euro 31,430 thousand) for telecommunications services and Olivetti (euro 22,661 thousand), Telenergia (euro 20,141 thousand) and Telecontact (euro 19,754 thousand) for supply contracts. Payables to associates refer mainly to supply contracts with Siemens Informatica (euro 47,676 thousand) and Shared Service Center (euro 14,812 thousand).

Miscellaneous payables to subsidiaries mainly refer to payables for the consolidated national tax return (euro 95,210 thousand) due to Telecom Italia Media (euro 42,916 thousand), Olivetti (euro 33,308 thousand) and IT Telecom S.r.l. (euro 11,920 thousand). The caption also includes payables in connection with the Group VAT procedure mainly due to Telecom Italia Sparkle (euro 50,877 thousand). Miscellaneous payables to subsidiaries mainly refer to transactions with LI.SIT (euro 14,132 thousand).

Taxes payable particularly refer to VAT payables for euro 181,175 thousand, the payables for the government concession tax (euro 98,258 thousand) and withholding tax payables to the tax authorities as the substitute taxpayer (euro 76,917 thousand).

Payables to social security authorities include the short-term portion of the amount payable to INPS under Law 58/1992 for euro 214,819 thousand, as described in the Note “Miscellaneous payables and other non-current liabilities”.

Customer-related items include, among others, payables for deposits made by subscribers against telephone calls and subscription charges debited in advance.

Deferred income includes euro 281,982 thousand (euro 281,960 thousand at December 31, 2005) for the deferral of revenues from the activation of telephone service and euro 37,576 thousand for the deferral of revenues from recharging the prepaid telephone cards of the merged company Tim Italia.

With regard to **employee-related provisions** and **provisions for risks and charges**, reference should be made to the previous specific notes.

NOTE 22 – CURRENT TAX PAYABLES

Current tax payables increased from euro 8,908 thousand at December 31, 2005, to euro 125,175 thousand.
The caption mainly includes euro 102,855 thousand for the IRAP balance payable net of advances paid, euro 13,411 thousand for the payable of the merged company Tin.it for IRES and IRAP taxes relating to the tax period between January 1, 2006 and September 30, 2006.

NOTE 23 – FINANCIAL INSTRUMENTS

Derivative financial instruments are used by Telecom Italia S.p.A. to manage its exposure to foreign exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within predetermined operational limits.

Derivative financial instruments at December 31, 2006 are principally used to manage debt positions. They include interest rate swaps (IRS) to reduce interest rate exposure on fixed-rate and floating-rate bank loans and bonds, as well as cross currency and interest rate swaps (CCIRS) and currency forwards to convert the loans secured in different foreign currencies to the functional currencies of the various companies of the group.

IRSs involve, at specified maturity dates, the exchange of flows of interest calculated on the notional amount at the agreed fixed or floating rates, with the counterparts.
The same also applies to CCIRSs which, in addition to the settlement of periodic interest flows, can involve the exchange of principal, in the respective currencies of denomination, at maturity and at another date.

The following tables show the derivative transactions put into place by Telecom Italia S.p.A. at December 31, 2006 divided between Fair Value Hedge Derivatives (Table 1), Cash Flow Hedge Derivatives (Table 2) and Non-Hedge Accounting Derivatives (Table 3) under IAS 39:

Table 1 - Fair Value Hedge Derivatives

Description	Notional Amount (millions of euro)	Mark to Market (Clean Price) (millions of euro)
CCIRS transactions maturing April 2007 on an EIB loan of USD 180 million (equivalent amount of euro 136 million at December 31, 2006)	150	(14)
CCIRS transactions maturing June 2007 on bonds issued by Telecom Italia S.p.A. for GBP 850 million (equivalent amount of euro 1,266 million at December 31, 2006) in June 2004	1,289	(23)
CCIRS transactions maturing November 2008 on a floating rate intragroup loan in USD received from the subsidiary Telecom Italia Capital S.A. against the 5-year tranche of bonds of USD 1,000 million (equivalent amount of euro 759 million at December 31, 2006) issued by Telecom Italia Capital S.A. for a total amount of USD 4,000 million in October 2003	850	(92)
CCIRS transactions maturing May 2032 on Telecom Italia Finance S.A. bonds of JPY 20 billion (equivalent amount of euro 127 million at December 31, 2006) originally issued by Olivetti Finance N.V.S.A. (2002-2032)	171	(74)
Total Fair Value Hedge Derivatives	**2,460**	**(203)**

- On the EIB loan in USD 180 million, maturing April 2007, Telecom Italia S.p.A. finalized a CCIRS contract for euro 150 million converting a 3-month Libor in USD to the 3-month Euribor.
- On the bonds of GBP 850 million issued by Telecom Italia S.p.A. in June 2004, Telecom Italia S.p.A. put in place CCIRS contracts for euro 1,289 million maturing June 2007, converting the GBP annual fixed rate of 6.375% to the Euribor.
- On the intragroup floating rate loan in USD received from the subsidiary Telecom Italia Capital S.A. relating to the bonds issued in October 2003 for a total amount of USD 4,000 million, Telecom Italia S.p.A. put in place CCIRS contracts of euro 850 million to convert to the 3-month Euribor.
- For euro 171 million, on the bonds 2002-2032 of JPY 20 billion with a 3.55% fixed rate coupon maturing May 2032, originally issued by Olivetti Finance N.V.S.A., Telecom Italia S.p.A. put into place a CCIRS contract against a floating rate intragroup loan in JPY in which Telecom Italia receives 6-month Libor in JPY and pays 6-month Euribor.

Table 2 - Cash Flow Hedge Derivatives

Description	Notional Amount (millions of euro)	Mark to Market (Clean Price) (millions of euro)
IRS transactions put into place by Telecom Italia S.p.A. maturing March 2009 on bonds of euro 110 million issued by Telecom Italia S.p.A. (2004-2009)	110	3
IRS transactions put into place by Telecom Italia S.p.A. maturing January 2010 on the 5-year tranche C of the Term Loan for a total amount of euro 12,000 million finalized in December 2004 and connected with the loan for the tender offer for TIM S.p.A.	3,000	88
CCIRS transactions on a floating rate intragroup loan in USD received from the subsidiary Telecom Italia Capital S.A. against the 10-year tranche of bonds of USD 2,000 million (equivalent amount of euro 1,519 million at December 31, 2006) issued by Telecom Italia Capital S.A. for a total amount of USD 4,000 million in October 2003	1,709	(229)
IRS transactions put into place by Telecom Italia S.p.A. maturing November 2015 on bonds of euro 120 million issued by Telecom Italia S.p.A. (2004-2015)	120	6
CCIRS transactions put into place by Telecom Italia S.p.A. maturing December 2015 on bonds of GBP 500 million (equivalent amount of euro 744 million at December 31, 2006) issued by Telecom Italia S.p.A. in June 2005	751	13
CCIRS transactions put into place by Telecom Italia S.p.A. starting June 2007 and maturing June 2019 on bonds of GBP 850 million (equivalent amount of euro 1,266 million at December 31, 2006) issued by Telecom Italia S.p.A. in June 2004	1,258	15
CCIRS transactions put into place by Telecom Italia S.p.A. maturing May 2023 on bonds of GBP 400 million (equivalent amount of euro 596 million at December 31, 2006) issued by Telecom Italia S.p.A. in May 2006	587	(3)
IRS transaction put into place by Telecom Italia S.p.A. maturing December 2010 on floating-rate bonds of euro 1,000 million issued by Telecom Italia S.p.A. in December 2005 and maturing December 2012	1,000	5
CCIRS transactions put into place by Telecom Italia S.p.A. maturing October 2029 related to the Telecom Italia Finance S.A. "Dual-Currency" loan with a notional principal of JPY 20 billion (equivalent amount of euro 127 million at December 31, 2006) originally received by Olivetti International Finance N.V.	174	(90)
CCIRS transactions on a floating rate intragroup loan in USD received from the subsidiary Telecom Italia Capital S.A. against the 30-year tranche of bonds of USD 1,000 million (equivalent amount of euro 759 million at December 31, 2006) issued by Telecom Italia Capital S.A. for a total amount of USD 4,000 million in October 2003	849	(211)
IRS transactions on a floating rate intragroup loan in euro received from the subsidiary Telecom Italia Capital S.A. against the 30-year tranche of bonds of USD 1,000 million (equivalent amount of euro 759 million at December 31, 2006) issued by Telecom Italia Capital S.A. for a total amount of USD 2,600 million in July 2006	791	(32)
Total Cash Flow Hedge Derivatives	10,349	(435)

- On the notes 2004-2009 of euro 110 million at a quarterly floating rate issued by Telecom Italia S.p.A. maturing March 2009, Telecom Italia S.p.A. put in place an IRS contract converting the 3-month Euribor to an annual fixed rate of 3.35%.
- In reference to the term loan for a total amount of euro 12,000 million finalized in December 2004 in connection with the cash tender offer for TIM S.p.A., Telecom Italia S.p.A. put in place IRS contracts for a total amount of euro 3,000 million converting the 6-month Euribor on tranche C to an annual fixed rate of 3.088%, maturing January 2010.
- On the intragroup floating rate loan in USD received from the subsidiary Telecom Italia Capital S.A. relating to the bonds issued in October 2003 for a total amount of USD 4,000 million, Telecom Italia S.p.A. put in place CCIRS contracts of euro 1,709 million to convert to a fixed rate in euro of 5.035%.
- On the bonds of euro 120 million at a quarterly floating rate issued by Telecom Italia S.p.A. maturing November 2015, Telecom Italia S.p.A. put in place IRS contracts converting the 3-month Euribor to an annual fixed rate of 4.161%.

- On the bonds 2005-2015 of GBP 500 million issued by Telecom Italia S.p.A. in June 2005, Telecom Italia S.p.A. put in place CCIRS contracts for euro 751 million converting a rate of 5.625% in GBP to a fixed rate of 4.34% in euro.
- On the GBP 850 million bonds issued by Telecom Italia S.p.A. in June 2004, Telecom Italia S.p.A. put into place CCIRS contracts for euro 1,258 million, converting the fixed rate of 6.375% in GBP to a fixed rate of 5.31% in euro, starting June 2007 and maturing June 2019.
- On the bonds 2006-2023 of GBP 400 million issued by Telecom Italia S.p.A. in May 2006, Telecom Italia S.p.A. put into place CCIRS contracts for euro 587 million converting a rate of 5.875% in GBP to a fixed rate of 5.53% in euro.
- On the notes 2005-2012 of euro 1,000 million issued by Telecom Italia S.p.A. in December 2005, Telecom Italia S.p.A. put into place IRS contracts converting the Euribor + 0.53% coupon rate to a fixed rate of 4.54% in euro.
- For euro 174 million, with reference to the Telecom Italia Finance S.A. "Dual Currency" loan with a notional principal of JPY 20 billion and a 5% fixed interest rate with a step-up of +0.45% in USD maturing October 2029, originally received by Olivetti International Finance N.V., equivalent to euro 127 million at December 31, 2006, the following was put in place:
  - ✓ a CCIRS contract on the intragroup loan in JPY with which Telecom Italia S.p.A., , receives 6-month Libor in JPY and pays 6-month Euribor;
  - ✓ an IRS contract converting the semiannual floating rate in Euro to a 6.94% fixed rate up to maturity.
- On the intragroup floating rate loan in USD received from the subsidiary Telecom Italia Capital S.A. relating to the bonds issued in October 2003 for a total amount of USD 4,000 million, Telecom Italia S.p.A. put in place CCIRS contracts of euro 849 million to convert to a fixed rate in euro of 6%.
- On the intragroup floating rate loan in euro received from the subsidiary Telecom Italia Capital S.A. relating to the bonds issued in July 2006 for a total amount of USD 2,600 million, Telecom Italia S.p.A. put in place IRS contracts of euro 791 million to convert to a fixed rate in euro of 5.88%.

The selected method to test the effectiveness, retrospectively and prospectively, of Fair Value Hedge instruments and Cash Flows Hedge instruments is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (where the portfolio means the hedging instrument and the item hedged) and the risk of the hedged item taken separately. In short, the portfolio risk must be less than the risk of the item hedged:

VRR = 1 – (portfolio risk / risk of the hedged item)

The better the hedging ratio, the more VRR tends to the value 1. To establish if a hedge is effective, this ratio must be higher than the threshold over which the test identifies the hedging as "highly effective" as required by IFRS.

Table 3 – Non-Hedge Accounting Derivatives

Description	Notional Amount (millions of euro)	Mark to Market (Clean Price) (millions of euro)
Floating to floating IRS contracts put into place by Telecom Italia S.p.A.	22	-
FRA contracts put into place by Telecom Italia S.p.A. maturing January 2007	593	-
FRA contracts put into place by Telecom Italia S.p.A. maturing March 2007	806	1
FRA contracts put into place by Telecom Italia S.p.A. maturing July 2007	593	-
FRA contracts put into place by Telecom Italia S.p.A. maturing September 2007	806	1
Interest rate and foreign exchange contracts put into place by Group companies	37	(4)
Total Non-Hedge Accounting Derivatives	2,857	(2)

- The floating to floating IRS contracts put in place by Telecom Italia S.p.A. for a notional amount of euro 22 million refer to loans indexed at domestic parameters (Rendint, Rolint and Robot) to convert to the 6-month Euribor.

- Purchase of Forward Rate Agreements (FRA):
  - ✓ for a notional amount of euro 593 million, through which in January 2007 Telecom Italia S.p.A. will receive the 6-month Euribor at the January 2007 fixing and will pay a fixed rate of 3.83% relating to a period of 6 months. The FRAs purchased are for the management of risks associated with a possible increase in the short-term rates in euro;
  - ✓ for a notional amount of euro 806 million, through which in March 2007 Telecom Italia S.p.A. will receive the 6-month Euribor at the March 2007 fixing and will pay a fixed rate of 3.91% relating to a period of 6 months. The FRAs purchased are for the management of risks associated with a possible increase in the short-term rates in euro;
  - ✓ for a notional amount of euro 593 million, through which in July 2007 Telecom Italia S.p.A. will receive the 6-month Euribor at the July 2007 fixing and will pay a fixed rate of 3.99% relating to a period of 6 months. The FRAs purchased are for the management of risks associated with a possible increase in the short-term rates in euro;
  - ✓ for a notional amount of euro 806 million, through which in September 2007 Telecom Italia S.p.A. will receive the 6-month Euribor at the September 2007 fixing and will pay a fixed rate of 3.91% relate to a period of 6 months. The FRAs purchased are for the management of risks associated with a possible increase in the short-term rates in euro.

- Foreign exchange rate contracts amount to euro 37 million.

The following table shows the derivative financial instruments of Telecom Italia S.p.A. by type:

Type	Hedged risk	Notional amount (millions of euro)	Mark to Market Spot (Clean Price) at 12/31/2006 (millions of euro)	Mark to Market Spot (Clean Price) at 12/31/2005 (millions of euro)
Interest rate swaps	Interest rate risk	-	-	-
Cross Currency and Interest Rate Swaps	Interest rate risk and foreign currency exchange rate risk	2,460	(203)	(62)
Total Fair Value Hedge Derivatives		**2,460**	**(203)**	**(62)**
Interest rate swaps	Interest rate risk	5,021	70	13
Cross Currency and Interest Rate Swaps	Interest rate risk and Foreign currency exchange rate risk	5,328	(505)	(405)
Total Cash Flow Hedge Derivatives		**10,349**	**(435)**	**(392)**
Non-Hedge Accounting Derivatives		**2,857**	**(2)**	**(19)**
Total Telecom Italia S.p.A. Derivatives		**15,666**	**(640)**	**(473)**

The following table shows, for Cash Flow Hedge Derivatives, the amount recognized in the Reserve for fair value adjustments to hedging derivatives during 2006 and the portion reversed from the reserve to the statement of income as an exchange rate adjustment, before the relative tax effect:

Description (millions of euro)	Reserve for fair value adjustments to cash flow hedge derivatives at December 31, 2006	Reserve for fair value adjustments to cash flow hedge derivatives at December 31, 2005	Mark to Market change recognized in the Reserve for fair value adjustments to hedging derivatives	Amount reversed from the Reserve for fair value adjustments to hedging derivatives to the statement of income as an exchange rate adjustment	Total impact on Equity (millions of euro)
Cash Flow Hedge Derivatives	(62)	(318)	(1)	258	257

NOTE 24 – CONTINGENT ASSETS AND LIABILITIES, COMMITMENTS AND OTHER GUARANTEES

The main legal and arbitration proceedings in which companies of the Telecom Italia Group were involved as of December 31, 2006 are described below. Except where explicitly mentioned, no provisions have been made, for lack of a definite and objective basis and/or because an adverse outcome of the dispute is considered unlikely.

a) Contingent liabilities

TAX AUDIT OF BLU

On January 26, 2007 Telecom Italia received the report containing the Revenue Agency's conclusions with regard to the tax audit of the 2002 merger of Blu into Tim.

The audit began in July 2004 with regard to Blu and, in particular, to financial years 2000 (only for purposes of value-added tax) and 2002 (in this case also for purposes of direct taxes). In March 2005 the Revenue Agency extended the audit to Tim's 2002 financial year, particularly as regards the tax consequences of the merger, whose tax effects were backdated to January 1.

It should be recalled that Blu was involved in a complex break-up, carried out with the full accord of the Government and the various regulatory authorities involved, that entailed the transfer of three distinct business units from Blu to Wind, Vodafone-Omnitel and H3G respectively and the transfer of 100% of its share capital to Tim.

Towards the end of 2002 Tim, adducing the business reasons underlying the merger, petitioned the tax administration (which assented on March 6, 2003) not to apply the anti-avoidance provisions of tax law, which otherwise would have prevented Tim from using Blu's prior-year tax losses (amounting to euro 857 million).

The Revenue Agency became increasingly interested in the matter.

In particular, the above-mentioned assent underwent a sort of ex-post "revision", to the point where it was stated that the merger of Blu had not created the business synergies and values suggested in the petition, which had supposedly given an incomplete or even misleading description of the terms of a transaction to be considered as aimed at tax avoidance.

On these grounds, the report puts forward the following objections (which would involve additional income taxes totaling euro465 million in connection with Tim's 2002 financial year):

- <u>First objection</u>: disallowance of the tax saving (euro 156 million) resulting from the backdating of the merger;
- <u>Second objection</u>: disallowance of the right to use Blu's prior-year tax losses (corresponding to euro 309 million in terms of additional taxes due).

As mentioned, the rationale for both objections is the alleged tax-avoidance purpose of the whole transaction, the consequence being not only the (unprecedented) revocation of the assent already granted by the Revenue Agency but also, in connection with the first objection, the denial of the tax effects naturally arising from the retroactivity of the merger. In addition, the report contends that the write-downs and revaluation deficits deducted for tax purposes by the former shareholders of Blu in relation with their investment, before the sale to Tim, would in any case reduce the prior-year losses of Blu that could be utilized by Tim by an equal amount (euro 625 million in total) inasmuch as the tax rule designed to prevent double deduction of losses is in the nature of a “systematic” rule, not an anti-avoidance provision, and is therefore not subject to disapplication upon request of the taxpayer.

In relation to this entire matter the Company, sustained by authoritative opinions, considers that it can validly appeal in all the administrative and, if necessary, judicial fora, and accordingly has not deemed it appropriate to make any provisions in the financial statements.

The Turin Office of the Revenue Agency must evaluate the validity of the objections and of the Company’s replies before deciding whether and for what amount to proceed with the assessment.

A copy of the report has been transmitted to the public prosecutor at the Turin Court.

FASTWEB

In December 2006 Fastweb notified Telecom Italia of the start of an arbitration proceeding under the arbitration clause of the interconnection contract concluded between the parties in January 2000, alleging non-performance of contract in connection with the fixed-mobile termination fees charged from January 1, 2000 to the end of November 2006.

Specifically, Fastweb asserts that Telecom Italia violated the obligation, imposed by the regulations in force on firms with significant power in the market in question, to apply cost-related, non-discriminatory fees. The consequent request for damages amounts to about euro 70 million.

In December 2006 Fastweb also notified Telecom Italia that it had sent a petition to the Communications Regulatory Authority under Article 23 of the Communications Code and Resolution 148/01/CONS (for the resolution of disputes between operators) claiming “the termination charges on Telecom Italia’s mobile network to be invalid and therefore no longer applicable”, and requesting the Authority to establish “new termination charges in conformity with the regulations in force”.

Telecom Italia filed a counterclaim in the arbitration proceeding, challenging Fastweb’s statements.

* * *

In January 2007 the award was issued in the arbitration proceeding initiated by Fastweb in 2005 for alleged non-performance by Telecom Italia of the contract for the supply of unbundled local access services (“local loop unbundling”). The arbitration board recognized non-performance and ordered the Company to pay damages of about euro 61 million. A specific provision has been made in the financial statements for 2006

In particular, the dispute concerned a claim by Fastweb for euro168 million of damages in relation to more than 21,000 customers who were allegedly taken away by Telecom Italia between 2002 and 2005 as a result of non-activation of unbundled lines. The award ascertained non-performance by the Company in about 11,000 cases, compared with a total of some 555,000 requests by Fastweb for activation of unbundling in the period considered (up to April 30, 2005). The Company intends to challenge the award before the Rome Court of Appeal.

***

In November 2006 Fastweb initiated a proceeding before the Milan Court of Appeal to have Telecom Italia ordered to pay damages of euro 522 million resulting from transgressions

already punished by the Antitrust Authority in Case A/351 (which ended with Telecom Italia being ordered to pay a fine of euro 115 million for anti-competitive conduct).
Telecom Italia has defended the case, arguing that Fastweb's requests are unfounded and inadmissible.

***

Still pending is the arbitration proceeding that Telecom Italia initiated in December 2005 with Fastweb S.p.A. (concerning inverse termination) with a view to obtaining a decision recognizing: (i) that Fastweb had breached the interconnection contract concluded on January 28, 2000 by unilaterally altering the economic conditions for termination on Fastweb's fixed network of traffic developed towards geographical numbers; (ii) that the value of termination on the Fastweb network be determined in accordance with the principle of reciprocity; and (iii) that Telecom did not owe the larger sums requested by Fastweb applying its "self-determined" termination charges.
Specifically, Telecom Italia seeks to obtain a decision finding that Fastweb breached the January 2000 interconnection contract and consequently recognizing the applicability, for termination on Fastweb's fixed network in the period from January 1, 2004 to June 30, 2006, of the contractual price (euro 0.55 per minute) instead of the higher price that Fastweb demanded and billed (euro 2.71 per minute). The time limit for the publication of the arbitration award will expire on May 31, 2007.

EUTELIA

In January 2007 Eutelia S.p.A. brought an action against Telecom Italia, claiming damages of euro 50 million in relation to the omission from Telecom Italia bills, in the space reserved to telephone traffic towards special numbers, of the name of the new operator (Voiceplus) assigned the access numbers to the value-added services previously assigned to Eutelia.

According to Eutelia, Telecom Italia omitted the new assignee's name from the telephone bills it sent to its own subscribers with a view to harming Eutelia's image and business reputation. Eutelia asserts that as a consequence of the omission it is involved in disputes initiated by final users who contend they never requested the telephony services supplied by Voiceplus.

Telecom Italia will defend the case, disputing Eutelia's claims.

***

In January 2007 Eutelia brought a further action claiming damages of not less than euro40 million in relation to alleged abuse of dominant position by Telecom Italia in the form of illegitimately disconnecting the lines of customers of the operator Grapes Network Services Srl who were about to move over to Eutelia as a result of the transfer to Eutelia of the business unit of Grapes Network Services Srl consisting of contracts for voice and data transmission to business and retail customers.

Telecom Italia will defend the case, disputing Eutelia's claims.

***

Furthermore, in February 2007 Eutelia also brought an action before the Milan Court of Appeal against Telecom Italia for alleged abuse of dominant position in the markets for access to the switched and voice telephony networks, particularly as regards the offer called "Casa Vacanza".

The abuses Telecom Italia is alleged to have committed consist, in general, in charging an unjustifiably high fee for the basic telephone line and applying a below-cost fee for additional telephone lines in the name of the same customer (with the "Casa Vacanza" offer), and, lastly, in coupling (with the "Hello Gratis" offer) an hour and a half of free traffic every two months with the access service (i.e. the subscription fee).

In essence, Eutelia alleges that the subscription fee for the basic residential line (currently euro 14.57 per month) generates monopoly superprofits enabling Telecom Italia to compensate for the costs of access services for the customer's principal line, subsidize the cost of the access service for the same customers' secondary lines and finance the costs of the hour and half of traffic offered free of charge every two months for all the lines held by the same customer. Eutelia claims damages of euro 150 million.

Telecom Italia will defend the case, arguing that Eutelia's claims are unfounded.

***

The proceeding initiated by Eutelia in December 2005 with an urgent petition filed pursuant to Articles 700 of the Code of Civil Procedure and Article 33 of Law 287/1990 claiming abusive conduct by Telecom on the broadband access markets is still pending. The alleged abuses consisted in the non-execution or delayed execution of orders to activate Eutelia's ADSL service for its own customers or in the activation of Telecom Italia's ADSL service for customers who had never requested it, thereby preventing them from using the ADSL service offered by Eutelia. In addition, Eutelia asserts that Telecom Italia's refusal to activate so-called "data only" ADSL lines inasmuch as these were separate from the telephony service constituted an abuse of dominant position, claiming total damages of euro40 million.

Telecom Italia has defended the case, arguing that Eutelia's assertions are unfounded..

***

A proceeding initiated by Eutelia in November 2006 before the Milan Court of Appeal is also still pending. Eutelia alleges that Telecom Italia committed abuses on the broadband access market by applying anti-competitive prices to Eutelia and has claimed damages, to be quantified, for alleged losses. Telecom has disputed Eutelia's allegations and has requested that this proceeding be brought together with that initiated by Eutelia in December 2005, described in the preceding paragraph.

NHAI

The action brought by Nhai Srl (formerly Help S.p.A.) in September 2005 is still pending. Nhai's purpose in bringing the action was to establish that in the first half of the 1990s Telesoft (subsequently merged into Telecom Italia), in its capacity as a member of the Consortium for Automatic Telephone Traffic Data Collection and Processing (whose participants included the petitioner and Telesoft) had competed with the consortium, in violation of the obligations provided for in the consortium's agreements and the constituent instrument. Nhai consequently asked that Telecom be ordered to pay damages of between euro16 million and euro 25 million for the losses incurred by the consortium and, for its share, to Help in connection with the orders not received.

Nhai also alleged that Telesoft, during the life of the consortium, had appropriated software developed by Help, in violation of the agreements between the members of the consortium, and for this it claimed damages of euro1 million.

Telecom Italia has defended the case, arguing that Nhai's claims are unfounded and inadmissible.

GALACTICA

The dispute initiated in 2000-01 by the Internet Service Provider Galactica owing to Telecom Italia's alleged non-performance of an "experimental contract" for the supply of connectivity and in relation to conduct on the part of Telecom Italia allegedly constituting acts of unfair competition under Article 2598 of the Civil Code Is still pending. Galactica's claims for damages amount to more than euro 90 million.

In the proceeding Telecom Italia has argued that Galactica's claims are unfounded and has filed a counterclaim for Galactica to be ordered to pay more than euro 5 million as consideration for the increase in traffic in the period January-July 2001.

VODAFONE

In October 2006 Telecom Italia filed an urgent petition with the Rome Court for an injunction on any action aimed at promoting, advertising or marketing, including preselling, the 'Vodafone Casa Numero Fisso' offer. Partially granting Telecom Italia's petition, with an order issued on November 29, 2006 the court prohibited Vodafone from any further marketing and preselling of the "Vodafone Casa Numero Fisso" service for the part involving the offer to users of the portability of their Telecom Italia fixed line number to the Vodafone mobile network. Vodafone has filed an appeal against this order.

Meanwhile, the Ministry of Communications had authorized Vodafone to supply the service on an experimental basis with a decision issued on December 7, 2006. Telecom challenged this decision and petitioned that its execution be suspended. In February 2007 the Lazio Administrative Court granted the petition, deeming it necessary to acquire information from the Communications Regulatory Authority as to whether the service in question could be classified as a fixed-line service and whether Vodafone had a valid authorization and considering that there were sufficient indications of serious and irreparable prejudice "at least in a competitive perspective". The Lazio Administrative Court therefore set a time limit for the Authority to produce the above-mentioned information, pending which it suspended the enforceability of the administrative order. The discussion regarding the merits of the case is scheduled for May.

For the sake of completeness, the Company mentions the fact that on December 29, 2006 the Communications Regulatory Authority decided to begin a public consultation on integrated services, including "Vodafone Casa Numero Fisso".

Since Telecom Italia had suspended negotiations on the inverse interconnection contract underlying the "Vodafone Casa Numero Fisso" offer, on November 2, 2006 Vodafone brought a civil action before the Milan Court to establish that Telecom Italia had breached the obligation to negotiate the interconnection service and that this refusal constituted unfair competition. Vodafone also petitioned the court to order Telecom to supply the interconnection service immediately and to pay damages in an amount to be ascertained during the trial. Telecom Italia has defended the case, challenging the regularity of all the initiatives undertaken.

***

The appeal Telecom Italia filed with the Supreme Court in December 2005 against the decision of October 2005 with which the State Council reversed the ruling of the Lazio Regional Administrative Court and annulled Communications Regulatory Authority Resolution 1/CIR/98 (Approval of Telecom Italia's Reference Interconnection Offer) is still pending.

The question originated from the petition with which Omnitel (now Vodafone) challenged the part of Resolution 1/CIR/98 establishing that, pursuant to a ministerial decree issued on April 23, 1998, the new economic conditions for interconnections would become effective for the existing GSM licence-holders (Tim and Omnitel) from July 25, 1998 (the date Telecom Italia's Reference Offer was submitted) rather than retroactively from January 1, as envisaged for the fixed-network operators.

In November 2005, following the State Council's favourable decision, Vodafone transmitted an extra-judicial request to Telecom Italia for the restitution of more than euro16 million in alleged overpayments for interconnection services supplied between January 1 and July 24, 1998. The sum has not been paid in view of the appeal pending before the Supreme Court.

***

Proceedings are still under way before the Milan Court of Appeal in the action brought by Vodafone against Telecom Italia in July 2006 for damages amounting to approximately euro

525 million in relation to Telecom Italia's alleged abuse of dominant position consisting in the exploitation of its position in fixed telephony markets to strengthen its position in the contiguous market for mobile communication services with exclusionary effects to the detriment of its competitor.

According to Vodafone, Telecom Italia had abused its dominant position in the fixed telephony market and taken advantage of its market power in the supply of mobile telephony services and the recent restructuring of the group with the organizational and functional integration of Telecom Italia and Tim by: (a) exploiting the information it held as the incumbent fixed telephony operator to create client profiles and offer targeted mobile communication services and combined fixed/mobile services; (b) using strategic information regarding fixed telephony to compete in the mobile telephony market with offers that competitors could not replicate; (c) offering discounts for fixed telephony services to take clients away from Vodafone in the mobile telephony market; and (d) using the 187 service to promote mobile communication services.

The conduct in question is alleged to have concerned business customers as well as household customers and to have also involved violation of the law on the protection of personal data.

During the trial Vodafone produced some documents as evidence of the abusive conduct of which it accuses Telecom and updated its July claim for damages to euro759 million as of December 31, 2006.

Telecom Italia has defended the case, challenging Vodafone's assertions.

II NUMERO ITALIA

The action initiated in September 2005 by Il Numero Italia S.r.l. and its subsidiary DA Directory Assistance Company Srl for damages of approximately euro92 million for unfair competition in relation to the alleged violation by Telecom Italia of Communications Regulatory Authority Resolution 15/04/CIR (concerning assignment of the rights to use new numbers of the "12xy" series for subscriber information services) is still pending.

Telecom Italia has filed a counterclaim for about euro100 million for unfair competition in the form of misleading and denigratory comparative advertising.

TELE2

As regards the actions involving Tele2 S.p.A., the following are currently pending:

- the action brought by Tele2 in May 2005 calling for an injunction – and payment of related damages amounting to approximately euro 100 million – on the alleged abuse of dominant position by Telecom Italia consisting in the application to all users, including the customers of other operators, of a discount equal to one hour of local telephone calls for residential and non-residential customers and to half an hour of long-distance calls for residential customers every two months (the offer known as "Hello Gratis");
- the action brought by Tele2 (following an urgent petition upheld in September 2005 with an order subsequently revoked after Telecom Italia had lodged a complaint) calling for an injunction – and payment of related damages amounting to approximately euro 15 million – on the alleged abuse of dominant position by Telecom Italia in connection with the wholesale offer of ADSL broadband data access (with special reference to Telecom Italia's application in the **E@SY.IP** contract of the obligation to buy at least 5 hours of traffic);
- the action brought by Tele2 in December 2005 (subsequent to an urgent petition under Article 700 of the Code of Civil Procedure and Article 33 of Law 287/1990) calling for payment by Telecom Italia of damages amounting to more than euro 18 million deriving from alleged abusive conduct on the broadband access market by Telecom Italia consisting in the non-execution or delayed execution of orders from Tele2 to activate ADSL service for its own customers or in the activation of Telecom Italia's ADSL service for customers who

had never requested it, thereby preventing them from using the ADSL service offered by Tele2;

- the action brought by Telecom Italia in March 2005 against Tele2 S.p.A. and Tele2 AB calling for the payment of approximately euro 200 million of damages in connection with alleged unfair competition by Tele2 in relation to comparative advertising campaigns it had run that were misleading and denigratory of Telecom Italia. Tele2 subsequently filed a counterclaim in connection with alleged anticompetitive conduct on the part of Telecom Italia.

TISCALI

The action regarding so-called shared access brought by Tiscali S.p.A. before the Court of Rome in December 2005 is still pending. The merits of the case are now being examined following the ruling – unfavourable to Telecom Italia – on the preliminary petition Tiscali made earlier in 2005.

In this trial Tiscali has called for Telecom Italia's obligation established in the preliminary petition to be confirmed and for the Company to be condemned to pay damages, to be determined during the case, for the loss of revenue caused by the impossibility of providing the ADSL service to retail customers and for the harm done to Tiscali's image and reputation.

Telecom Italia is defending the case.

The case originates in the shared access service supply contract concluded by Telecom and Tiscali on July 27, 2004. The contract calls for Tiscali to be supplied unbundled shared access to the connections of Telecom Italia's copper distribution network (with which Telecom Italia continues to supply final customers with voice telephony, while Internet access is provided by another operator, Tiscali in the case in question). According to Tiscali, requests to activate the shared access service for numerous customers met with a refusal by Telecom Italia to free up the lines with which it provides Internet access services (marketed under the trademarks "Alice" and "Tin.it") to final customers, so that Telecom Italia customers who opted to use Tiscali's Internet access services in place of those supplied by Telecom Italia were in fact unable to extricate themselves from Telecom Italia, which was therefore violating both its contractual obligations in respect of Tiscali and the rules laid down by the Communications Regulatory Authority.

ALICE 20 MEGA

In November 2006 the Lazio Regional Administrative Court published its judgment upholding the petition submitted by the Associazione Italiana Internet Provider to suspend and annul the decision of the Communications Regulatory Authority authorizing Telecom Italia's offer of access to ADSL services up to 20 Mbit/sec ("Alice 20 Mega"), associated with a wholesale offer based on Managed IP solutions. Basically, the petition claimed that, as configured, the wholesale offer did not allow competitors to replicate the offer to final customers. Telecom Italia has appealed to the Council of State against the Administrative Court's judgment.

In the meantime, however, in a resolution notified to the Company on February 13, 2007 the Communications Regulatory Authority, while approving the offer of "*wholesale flat ADSL with individual access and downstream access speeds up to 20 Mbit/sec using Ethernet IP technology*" (presented in December 2006 and characterized by technical access parameters corresponding to those of the retail "Alice 20 Mega" service), authorized the marketing of "Alice 20 Mega" again. In fact the Authority considered that the presence on the market of wholesale ADSL offers that meet the requirements of replicability made the overall offer situation consistent with the decisions of the Lazio Regional Administrative Court.

PRESUMED VIOLATIONS OF ANTITRUST LAW (CASE A-285)

In a judgment handed down on January 10, 2007 the Council of State partially upheld the cross appeal by the Communications Regulatory Authority against the decision of the Lazio Regional Administrative Court concerning fine no. 9472 of imposed by the Antitrust Authority on April 27, 2001 at the end of case A-285 for Telecom Italia's abuse of dominant position in the supply of ADSL services. The fine was equal to euro 59.4 million, amount that the Administrative Court's judgment reduced to about euro 29.4 million, which the Company paid in January 2002. The Council of State subsequently increased the fine to about euro 31.7 million. The financial statements for the year ended December 31, 2006 include the residual debt equal to approximately euro 2.5 million.

***

ANTITRUST PROCEEDING A-357

On February 23, 2005 the Antitrust Authority initiated an investigation of Tim Italia S.p.A. and Telecom Italia Mobile S.p.A. (now Telecom Italia S.p.A.), Vodafone Omnitel N.V. and Wind Telecomunicazioni S.p.A. to establish whether violations of Articles 81 and 82 of the European Community Treaty had been committed in relation to:

- refusal to grant alternative operators (MVNO, ESP and ATR) access to the mobile network;
- the offer to final business customers of integrated fixed/mobile telephony services at prices below the price of the termination service alone (offered to competitors as an intermediate factor);
- the offer exclusively to business customers of a technical solution (MSC PABX) permitting them to obtain more advantageous integrated fixed/mobile tariffs;
- the marketing practices adopted by Tim in relation to business customers.

The time limit for completion of the investigation, initially scheduled for December 14, 2006 has been extended to May 10, 2007. If the investigation should find one or more violations, the Antitrust Authority could impose a fine whose size would depend on their seriousness and duration.

ACTIONS UNDER ARTICLE 33 OF LAW 287/1990 CONCERNING THE MARKETING OF X-DSL SERVICES

After the completion of the above-mentioned Antitrust proceeding no. A-285 with the condemnation of Telecom Italia's conduct and the imposition of a fine, between 2001 and 2005 a number of firms brought actions for damages against the Company in relation to its alleged abuse of dominant position in the supply of x-DSL services.

The companies in question were Wind Telecomunicazioni, I.Net S.p.A., Cybernet Italia S.p.A., KPNQwest and ITnet S.p.A. In 2001 the proceedings were unified and the total damages claimed amounted to approximately euro 120 million.

In the past other operators (including Infostrada, Albacom and the Associazione Italiana Internet Provider) had brought similar actions and in 2003 Telecom Italia was condemned to pay damages of approximately euro 2 million (compared with requests totaling more than euro 87.5 million).

It can therefore be reasonably assumed, if the court remains faithful to the earlier judgment, that the damages awarded are likely to be much less than those claimed by the plaintiffs and Telecom Italia has accordingly set aside an appropriate amount to reserves.

SOCIAL SECURITY CONTRIBUTION RELIEFS GRANTED TO TIM S.p.A.

In a letter dated February 13, 2007 the National Social Security Institution (INPS) requested Telecom Italia to refund the social security contribution reliefs enjoyed by Tim S.p.A. between 1995 and 2001 in connection with the hiring of workers under on-the-job training contracts. According to INPS, granted under Italian law, constituted, on the basis of the criteria recently specified by the European Union, state aid that was incompatible with the standards of free competition of the European common market. INPS has asked the Company to refund a total of euro 9.6 million, including accrued interest.

The analyses that the Company has carried out so far have not revealed any elements indicating that the above-mentioned reliefs were irregular.

LEVY PURSUANT TO ARTICLE 20.2 OF LAW 448/1948

In a decision published on July 10, 2006 the Lazio Administrative Court upheld the compliance petition submitted by Telecom Italia and ordered the Ministry for the Economy and Finance and the Ministry for Communications, jointly and severally, to implement the decisions published in January 2005, in which the administrative court had upheld the appeals filed by Tim and Telecom Italia and ascertained the obligation for the government to return the amounts paid as a levy for 1999 under Article 20.2 of Law 448/1998 and the related interest accrued in the meantime (respectively euro 546 million and euro 100 million).
In September on behalf of the Ministries referred to above, the Avvocatura Generale dello Stato notified an appeal to the Council of State for the suspension of the enforceability and annulment of the administrative court's ruling. On November 7, 2006 the Council of State dismissed the request for a suspension and consequently the Ministry for the Economy and Finance paid the principal amount but not the interest, with the right to its restoration depending on the outcome of the appeal.

CECCHI GORI

With reference to the complex action brought by the Cecchi Gori Group against SEAT (now Telecom Italia Media) and in particular to the part involving the resolutions adopted on April 27, 2001 by the shareholders' meetings of Cecchi Gori Communications S.p.A. (now Holding Media Communications) approving the financial statements for the year ended December 31, 2000, the cancellation of the share capital to make good losses and the replenishment of the share capital, in November 2005 the Rome Court of Appeal dismissed the appeal filed by the Cecchi Gori Group against the judgment of the Rome Court dismissing the petition challenging the resolutions. The Rome Court of Appeal's judgment has been challenged before the Supreme Court.
In addition, in a judgment handed down in December 2006 the Rome Court of Appeal dismissed the action brought by the Cecchi Gori Group against the judgment in the first-level court dismissing the request to declare null the resolution of the extraordinary shareholders' meeting of Cecchi Gori Communications of August 11, 2000 concerning amendments to the company's bylaws. The Cecchi Gori Group has challenged the Rome Court of Appeal's judgment before the Supreme Court.
In March 2006 the Milan Court of Appeal dismissed the appeal by the Cecchi Gori Group from the ruling issued by the court of first instance rejecting the petition for annulment or cancellation of the act pledging the Cecchi Gori Communications shares owned by Cecchi Gori Media Holding. This judgment has also been challenged before the Supreme Court.
The following case remains pending before the Court of Milan: an action for damages for illicit extracontractual conduct by the Cecchi Gori Group in relation to the presumed prejudice caused by the alleged conduct of SEAT and by the directors it appointed to the board of Cecchi Gori Communications aimed at the removal of the majority shareholder of Cecchi Gori Media

Holding. The case is currently suspended pending the decision of the Supreme Court on the other disputes.

GREECE

On January 23, 2007 Telecom Italia, among others, received notice of the action brought by TCS Capital Management LLC (TCS) before the United States District Court for the Southern District of New York.

TCS (previously a minority shareholder of Tim Hellas) has applied for the indemnification of the losses it allegedly incurred following the sale of Tim International's interest in Tim Hellas to some investment funds (which are also cited) and the subsequent cash-out merger carried out by the funds, allegedly to the detriment of the interests of the minority shareholders of Tim Hellas.

TCS has requested the court to ascertain Telecom Italia's violation of US law, which is applicable because Tim Hellas is listed on NASDAQ and to order it to pay punitive damages and legal expenses in an amount to be established during the trial.

b) Contingent assets

APPEAL AGAINST PAYMENT OF LICENCE FEES FOR 1998

With reference to the appeals submitted by Telecom Italia and Tim regarding their right to the restitution of the licence fees they paid for 1998 (euro 386 million for Telecom Italia and euro 143 million for Tim, plus interest), in May the Lazio Administrative Court applied to the European Court of Justice for a ruling on the compatibility with Community law of Article 20 of Law 488/1998, which, in an already liberalized market, had extended the obligation to pay the licence fee to 1998. The Italian court considered this provision to be potentially in conflict with Directive 97/13 and therefore to fall within the scope of the European Court's decision on the illegitimacy of the levy provided for in Article 20(2) of Law 448/1998, as referred to above.

CONSIP TENDER

In May 2006 Fastweb was awarded the contract in the tender held by Consip in 2005 for fixed telephony, IP connectivity and satellite data transmission services for governmental bodies.

With an appeal filed with the Lazio Administrative Court on 6 July 2006 Telecom Italia applied for the suspension and annulment of the award in view of the evident anomalies in the economic conditions of Fastweb's bid. It also applied for the annulment of the Consip letters in which the application for access to the tender documents was granted only in part. In fact Fastweb had requested that access be denied to all the tender documentation or at least to the percentage division between local loop unbundling and carrier pre-selection services and the list showing the geographical distribution and date of takeover of unbundled lines. In examining the application for the suspension of the award, the court upheld the petition for access to the tender documents filed by Fastweb.

On the basis of the documentation subsequently acquired, Telecom Italia filed a document with additional grounds for opposing the acts of the tender committee.

On 13 November 2006 the court ordered a technical appraisal of the overall reliability of the assessment of non-abnormality put forward by the tender committee vis-à-vis Fastweb. The technical appraisal began in December 2006 and was completed with the filing of the related report on 28 March 2007.

H3G

In July 2006 Telecom Italia notified H3G Italia of the start of an arbitration proceeding on the basis of the arbitration clause contained in the agreements concluded between the parties in February 2004 and subsequently supplemented in May 2005. Among other things these agreements govern the prices for mobile network termination on a reciprocal basis.
The dispute has its origin in H3G's position regarding the contractual amounts payable, which it claims have been modified in its favour by the evolution of the regulatory framework
Consequently, Telecom Italia has called for verification of H3G's failure to fulfill its contractual obligations and the determination of the amount of the losses H3G must make good.

ACTIONS BROUGHT AGAINST OTHER OPERATORS FOR UNFAIR COMPETITION AND VIOLATION OF PRIVACY

In October 2006 Telecom Italia submitted an urgent petition to the Rome court, accusing Fastweb, Wind. and Tele2 of unfair competition. In particular it applied for the judge to declare that the three companies' telemarketing policies violated competition rules because they were based on indiscriminate telephone calls to Telecom Italia customers, including some whose numbers were "ex directory" and others who had not consented to such contacts (and who therefore should not have been contactable for telephone promotions).
Despite recognizing the legal validity of Telecom Italia's arguments in point of law, in December 2006 the court dismissed the petition on the grounds that it failed to demonstrate that Telecom Italia's competitors had actually used its customers' personal data without their prior consent. In January 2007 Telecom Italia therefore submitted an appeal against the court's order accompanied by the evidence whose absence had led to the dismissal of the petition by the lower court.
The circumstances that led to the above-mentioned petition have also been reported to the Privacy Regulator.

***

EMPLOYEE BENEFIT OBLIGATIONS UNDER LAW 58/1992

Pursuant to Law 58/1992 Telecom Italia is required to provide uniform social security coverage for all the employees of Stet, Sip, Italcable and Telespazio on their payrolls at 20 February 1992 and for all the employees transferred from the public sector to the former Iritel through the "Pension Fund for Public Telephony Employees", which on 1 January 2000 became part of the general Employee Pension Fund.

The total liability is still only estimated owing to disagreements with the National Social Security Institute (INPS) regarding the calculation of the amounts due and the fact that at 31 December 2006 INPS had not yet notified the Company of all the positions to be unified.

The dispute with INPS concerns how the criteria established by Law 29/1979 are to be applied for employees (except for those of the former Iritel) who had already applied for benefits under this law and which INPS has still not processed. The parties have agreed that the determination of the applicable provisions is to be settled through test appeals before the ordinary courts. While proceedings are pending, Telecom Italia has agreed to pay the amounts requested by INPS, subject to subsequent equalization adjustments if the Courts ultimately accept the Company's interpretation. The amounts due were calculated by INPS and are to be paid in 15 equal annual deferred instalments (including annual interest of 5%), starting when INPS formally submits its requests.

The sums due to social security institutions under this heading amount to euro 920 million (euro 878 million of principal and euro 42 million of accrued interest not yet paid), of which euro 215 million is due in the short-term.

c) Commitments and other guarantees

Guarantees provided amounted to euro 23,525,274 thousand, net of euro 185,713 thousand of counter-guarantees received, and consisted mainly of sureties provided by Telecom Italia on behalf of subsidiaries (of which euro 12,749,266 thousand relating to Telecom Italia Finance, euro 10,250,106 thousand relating to Telecom Italia Capital, euro 149,605 thousand relating to Olivetti Multiservices and euro 83,062 relating to Latin American Nautilus Group).
In addition, the 45.70% interest in Tiglio I and the 49.47% interest in Tiglio II have been pledged to the banks that financed the two affiliates.

Purchase and sale commitments at 31 December 2006 amounted to euro 186,917 thousand and euro 1,573 thousand respectively and referred to the part of commitments not falling within the normal “operating cycle” of the company still to be fulfilled.

The purchase commitments consisted mainly of euro 156,217 thousand of property leasing rentals under contracts lasting more than 6 years.
The sales commitments refer to the commitment to sell the investment in LI.SIT. to Lombardia Informatica at the expire of the contract (September 15, 2009).

Company issued letters of patronage for a total of euro 150,646 thousand, chiefly on behalf of subsidiaries and affiliates to guarantee insurance polices, lines of credit and overdraft arrangements.

Guarantees provided by third parties for obligations of Group companies referred to loans (euro 1,933,910 thousand) and the performance of contracts (euro 287,711 thousand). The total included sureties issued by BBVA for euro 816,668 thousand, by Sanpaolo IMI for euro 420,000 thousand, by Sumitomo for euro 73,500 thousand, Bank of Tokyo - Mitsubishi UFJ for euro 86,250 thousand, and Banco Santander for euro 86,250 thousand in respect of EIB loans for the following projects: Tim Mobile Network, Telecom Italia Breitband Infrastruktur Deutschland and Telecom Italia Media Digital Network..

The expense fund to safeguard the holders of savings shares, set up by resolution of the Shareholders’ Meeting held June 21, 1999, amounts to euro 1,937 thousand at December 31, 2006.

NOTE 25 – REVENUES

Revenues amount to euro 22,720,673 thousand, an increase of euro 6,807,415 thousand compared to 2005 (+42.8%) mainly due to the revenues of the merged company Tim Italia (euro 8,117,044 thousand). Details are as follows:

(thousands of euro)		2006	2005
Sales			
. of telephone products		1,514,240	892,022
. other sales		545	402
	(A)	1,514,785	892,424
Services			
. traffic		10,351,384	6,125,706
. subscription charges		7,851,077	8,054,261
. fees		372,355	314,248
. VAS – mobile telecommunications		1,439,734	
. recharges of prepaid cards		608,799	
. other services		590,981	539,277
	(B)	21,214,330	15,033,492
Revenues on construction contracts	(C)	(8,442)	(12,658)
Total	(A+B+C)	22,720,673	15,913,258

Revenues are presented gross of the portion of revenues due to other TLC operators (euro 3,568,094 thousand) included in "costs of services".

Revenues from sales (euro 1,514,785 thousand) increased by euro 622,361 thousand compared to the year 2005 largely on account of sales of mobile telephone products of the merged company Tim Italia.

Finally, revenues from services include euro 608,799 thousand relating to the fixed amount of revenues from recharging the telephone cards of the merged company Tim Italia.

The breakdown of revenues by geographical location of customers is as follows:

(thousands of euro)	2006	2005
Italy	21,841,741	15,846,642
Europe (excluding Italy)	606,013	57,329
Latin America	43,851	4,860
Other countries	229,068	4,427
Total	22,720,673	15,913,258

NOTE 26 – OTHER INCOME

Other income amounts to euro 405,092 thousand, a decrease of euro 16,505 thousand compared to 2005 and consists of the following:

(thousands of euro)	2006	2005
Compensation for late payment of regulated telephone services	81,675	94,216
Release of provisions and other liabilities	107,684	153,815
Recovery of costs of personnel and services rendered	53,032	63,155
Capital grants and grants relating to income	35,453	40,264
Damage compensations and penalties	36,841	28,684
Other income	90,407	41,463
Total	**405,092**	**421,597**

NOTE 27 – PURCHASES OF MATERIALS AND EXTERNAL SERVICES

Purchases of materials and external services amount to euro 9,180,351 thousand, an increase of 2,698,383 thousand compared to 2005. Details are as follows:

(thousands of euro)		2006	2005
Purchases of materials and merchandise for resale	(A)	1,723,797	693,816
Costs of services			
. Revenues due to other TLC operators		3,568,094	3,036,506
. Outsourcing costs for other services		324,421	320,277
. Commissions, sales commissions and other selling expenses		938,887	278,068
. Advertising and promotion expenses		311,891	131,380
. Professional consulting and services		265,182	315,982
. Utilities		268,242	185,934
. Maintenance		187,322	114,321
. Distribution and logistics		72,559	72,267
. Mailing and delivery expenses for telephone bills, directories and other materials to customers		79,198	55,827
. Travel and lodging costs		59,244	50,613
. Insurance		28,572	25,555
. Interconnection costs		72,203	35,171
. Other service expenses		584,686	596,701
	(B)	6,760,501	5,218,602
Lease and rental costs			
. Property lease rents		424,348	357,339
. TLC lease rent and rent for use of satellite systems		149,043	129,649
. Rentals		57,517	52,099
. Other lease and rental costs		65,145	30,463
	(C)	696,053	569,550
Total	(A+B+C)	9,180,351	6,481,968

The increase is due mainly to costs for purchases of materials and external services of the merged company Tim Italia (euro 3,373,190 thousand). In particular:

- purchases of materials and merchandise for resale include euro 1,029,789 thousand of purchases of inventories of telephone materials of the merged company Tim Italia;
- the increase in the portion of revenues due to other TLC operators is mainly attributable to the balance between the contribution of the portion of revenues due to other TLC operators by Tim Italia (euro 1,311,458 thousand) and the absence of the portion of revenues due to Tim Italia by Telecom Italia as a result of the merger;
- the increase in commissions, sales commissions and other selling expenses is mainly attributable to the costs of the merged company TIM (euro 575,123 thousand) for compensation paid to agents and vendors, premiums paid for having reached targets and other expenses connected with sales.

NOTE 28 – PERSONNEL COSTS

Personnel costs amount to euro 3,003,608 thousand, an increase of euro 96,303 thousand compared to 2005. Details are as follows:

(thousands of euro)		2006	2005
Personnel costs			
. Wages and salaries		2,081,557	1,806,348
. Social security contributions		640,493	579,489
. Employee severance indemnities		127,913	117,993
. Other employee-related costs		36,341	47,398
	(A)	2,886,304	2,551,228
Temp work costs	(B)	26,251	247
Miscellaneous expenses for personnel and for other labor-related services rendered			
. Remuneration of personnel other than employees		17,330	14,562
. Cost and provisions charges for termination benefit incentives		59,055	332,699
. Other		14,668	8,570
	(C)	91,053	355,831
Total	(A+B+C)	3,003,608	2,907,306

In particular:

- the increase in personnel costs is due to the merger of Tim Italia;
- the increase in temp work costs is almost entirely due to the costs of the merged company Tim Italia (euro 26,180 thousand) for 1,357 people;
- the reduction in miscellaneous expenses for personnel and for other labor-related services rendered is due to lower termination incentive benefits;
- other employee-related costs include euro 8,998 thousand for employee benefits.

The average equivalent number of salaried personnel, including personnel with temp work contracts, is 59,456 in 2006 (53,108 in 2005). A breakdown by category is as follows:

(number)	2006	2005
Executives	1,045	1,009
Middle management	3,268	2,644
White-collars	54,287	49,163
Blue-collars	42	144
Total employees at payroll	58,642	52,960
Personnel with temp work contracts	814	148
Total employees	59,456	53,108

The number of employees at December 31, 2006 is 62,400 (52,740 at December 31, 2005), with an increase of 9,660 due mainly to the merged company Tim Italia (11,218).

NOTE 29 – OTHER OPERATING EXPENSES

Other operating expenses amount to euro 750,851 thousand, an increase of euro 35,773 thousand compared to 2005. Details are as follows:

(thousands of euro)	2006	2005
Impairment and charges for bad debts	328,430	328,083
Provision for risks and future charges	76,308	27,544
TLC operating fees	47,654	23,889
Duties and indirect taxes	88,060	82,065
Association fees and dues	13,010	13,557
Other expenses	197,389	239,936
Total	750,851	715,074

In particular, the increase in "accruals to provisions for risks and charges" can mainly be ascribed to the accrual (euro 60,670 thousand) set aside following the arbitration proceedings initiated by Fastweb, in March 2005, against Telecom Italia with regard to the execution of the contract for "Local Loop Unbundling".

NOTE 30 – CHANGE IN INVENTORIES

The change in inventories is a positive euro 5,391 thousand and increased by euro 35,907 thousand compared to 2005. The change is primarily due to the balance between the use of goods destined for sale and maintenance and the inventories of the merged company Tim Italia, in particular. The amount takes into account the writedowns made to adjust the amount of fixed and wireline telecommunications equipment and handsets to estimated realizable value (euro 21,669 thousand).

NOTE 31 – CAPITALIZED INTERNAL CONSTRUCTION COSTS

Capitalized internal construction costs amount to euro 413,586 thousand, an increase of euro 136,263 thousand compared to 2005 due principally to the contribution of the merged company Tim Italia (euro 85,253 thousand).
These costs largely refer to labor costs capitalized to intangible assets with a finite life (euro 253,646 thousand) and tangible assets owned (euro 159,940 thousand).

NOTE 32 – DEPRECIATION AND AMORTIZATION

Depreciation and amortization charges amount to euro 3,934,599 thousand, an increase of euro 994,004 thousand compared to 2005. Details are as follows:

(thousands of euro)		2006	2005
Amortization of intangible assets with a finite life			
. Industrial patents and intellectual property rights		1,341,837	749,552
. Concessions, licenses, trademarks and similar rights		116,778	503
. Other intangible assets		35,253	47
	(A)	1,493,868	750,102
Depreciation of tangible assets owned			
. Civil and industrial buildings		43,752	95,894
. Plant and equipment		2,023,478	1,932,331
. Manufacturing and distribution equipments		21,317	6,856
. Other assets		227,824	61,999
	(B)	2,316,371	2,097,080
Depreciation of tangible assets held under finance leases			
. Civil and industrial buildings		98,916	91,408
. Plant and equipment			260
. Other assets		25,444	1,745
	(C)	124,360	93,413
Total	(A+B+C)	3,934,599	2,940,595

The increase in the amortization charge of intangible assets is principally due to the merger of Tim Italia for 616,315 thousand and the change in the calculation method, introduced starting from the 2003 financial statements, relating to the starting date for the amortization of software (established as the date the asset effectively comes into use instead of the start of the year), and which affects the year 2006 for euro 242,500 thousand.

A full revision of the estimated useful life of tangible assets was performed in 2006.

The major changes in estimated useful life referred to the power supply system and air-conditioning system from 8 years to 10 years and the transmission equipment from 7 years to 8 years for the mobile network and from 7 years to 9 years for the fixed network.
The estimated useful lives of the other tangible assets were basically confirmed at the depreciation rates used in previous years.
The foregoing revision of depreciation rates led to a reduction in the depreciation charge for 2006 of euro 319,230 thousand.

NOTE 33 – GAINS/LOSSES REALIZED ON DISPOSALS OF NON- CURRENT ASSETS

Gains/losses realized on disposals of non-current assets amount to euro 110,140 thousand, a decrease of 152,019 thousand compared to 2005. Details are as follows:

(thousands of euro)		2006	2005
Gains realized on disposals of non-current assets			
. Gains on the retirement/disposal of intangible and tangible assets		155,802	291,896
	(A)	155,802	291,896
Losses incurred on disposals of non-current assets			
. Losses on the retirement/disposal of intangible and tangible assets		45,662	29,737
	(B)	45,662	29,737
Total	(A-B)	110,140	262,159

Gains include euro 141,423 thousand for the gain, net of transactions costs of euro 3,574 thousand, realized on the sale of properties to Olivetti Multiservices under the plan for the rationalization of the physical spaces occupied by network installations.
Losses include euro 9,197 thousand connected with the loss of the "Radiomaritime Activities" business.

NOTE 34 – IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS

Impairment reversals/losses on non-current assets total euro 3,782 thousand and refer to the writedown of telephone materials using WI – FI DECT technology which is being replaced by new technologically-advanced equipment and video telephone terminals.

NOTE 35 – FINANCIAL INCOME

Financial income amounts to euro 2,882,341 thousand, an increase of euro 640,519 thousand compared to 2005. Details are as follows:

(thousands of euro)		2006	2005
Income from investments	(A)	2,037,035	1,405,655
Other financial income			
. Income from financial receivables classified as non-current assets		5,620	6,885
. Income from financial receivables from subsidiaries classified as non-current assets		1,105	1,988
. Income from financial receivables from associates classified as non-current assets		916	807
. Income other than the above:			
. Interest income		130,378	113,750
. Interest income from subsidiaries		8,058	19,280
. Interest income from associates and jointly controlled companies		9	7
. Foreign exchange gains		9,460	45,533
. Income from fair value hedging derivatives		133,125	121,906
. Reversal of the Reserve for fair value adjustments of cash flow hedging derivatives (interest rate component) to the statement of income		294,654	151,277
. Income from non-hedging derivatives		2,442	1,938
. Miscellaneous financial income		128,575	177,530
	(B)	714,342	640,901
Positive fair value adjustments to			
. Fair value hedging derivatives		8,259	168,922
. Underlying financial assets and liabilities of fair value hedging derivatives		114,425	9,968
. Non-hedging derivatives		8,280	15,455
	(C)	130,964	194,345
Impairment reversals on financial assets	(D)	-	921
Total	(A+B+C+D)	2,882,341	2,241,822

Income from investments (euro 2,037,035 thousand) increased by euro 631,380 thousand compared to 2005 and mainly includes dividends from subsidiaries (euro 2,014,763 thousand), associates (euro 2,935 thousand) and other companies (euro 19,058 thousand). In particular, the increase is due to the fact that in 2005 dividends had been collected from TIM S.p.A. (euro 1,337,378 thousand) relating to the year 2004 on the basis of a 55.94% percentage of ownership. In 2006, the dividends were collected from Tim Italia for euro 2,051,219 thousand, accounted for in the income statement for euro 1,923,326 thousand.
The difference between the amount collected and the amount recognized in the statement of income in 2006, equal to euro 127,893 thousand, was considered in the determination of the goodwill generated by the transaction for the merger of Telecom Italia/TIM S.p.A. in June 2005. In fact, the earnings of Tim Italia for the period March 1, 2005 – June 30, 2005 were partly attributable to the minority interests of TIM (15.58%). That percentage of ownership was acquired as a result of the aforementioned transaction for the merger of Telecom Italia/TIM S.p.A., effective June 30, 2005.

During the current year, in addition to the previously mentioned dividends of the merged company Tim Italia (euro 1,923,326 thousand), dividends were also received from Telecom Italia Sparkle (euro 85,000 thousand).

Foreign exchange gains (euro 9,460 thousand) decreased by euro 36,073 thousand compared to 2005 (euro 45,533 thousand). This amount was reduced by euro 281,658 thousand for the foreign exchange losses originating from the Reversal of the Reserve for fair value adjustments to cash flow hedging derivatives to the statement of income (euro 21,429 thousand in 2005). The counterpart of foreign exchange gains is represented by foreign exchange losses which amount to euro 39,429 thousand in 2006 (euro 12,681 thousand in 2005). Additional information is provided in the Note “Financial expenses”.

Income from fair value hedging derivatives (euro 133,125 thousand) increased by euro 11,219 thousand compared to 2005 (euro 121,906 thousand) and refers to CCIRS contracts.

The positive effect of the Reversal of the Reserve for fair value adjustments to cash flow hedging derivatives (interest rate component) to the statement of income (euro 294,654 thousand) increased by euro 143,377 thousand compared to 2005 (euro 151,277 thousand) and refers to CCIRS contracts for euro 243,645 thousand and IRS contracts for euro 51,009 thousand.

Income from non-hedging derivatives (euro 2,442 thousand) increased by euro 504 thousand compared to 2005 (euro 1,938 thousand) and refers to IRS contracts for euro 2,425 thousand and other derivative contracts for euro 17 thousand.

Miscellaneous financial income (euro 128,575 thousand) decreased by euro 48,955 thousand mainly due to income that was not recorded in 2006, compared to 2005 (euro 72,325 thousand), as a result of the reversal of financial payables to Group companies following the elimination of the payment of withholdings at source on interest accrued on loan contracts with Group companies residing in Europe. This effect was partly offset by higher income in 2006 (90,701 thousand), compared to 2005 (euro 78,577 thousand), due to the release to income of the provisions for sureties provided to the banks which had financed Avea since there was no longer a risk because the guarantees themselves were cancelled.

Positive fair value adjustments to fair value hedging derivatives (euro 8,259 thousand) decreased by euro 160,663 thousand compared to 2005 (euro 168,922 thousand). The counterpart of this amount is represented by negative fair value adjustments to the underlying financial assets and liabilities of fair value hedging derivatives which amount to euro 10,128 thousand (euro 171,134 thousand in 2005). Additional information is provided in the Note “Financial expenses”.

Positive fair value adjustments to the underlying financial assets and liabilities of fair value hedging derivatives (euro 114,425 thousand) increased by euro 104,457 thousand compared to 2005 (euro 9,968 thousand). The counterpart of this amount is represented by negative fair value adjustments to the corresponding fair value hedges of euro 119,568 thousand (euro 8,965 thousand in 2005). Additional information is provided in the Note “Financial expenses”.

NOTE 36 – FINANCIAL EXPENSES

Financial expenses amount to euro 3,414,487 thousand, an increase of euro 137,858 thousand compared to 2005. Details are as follows:

(thousands of euro)		2006	2005
Charges from investments	(A)	45,668	23,399
Interest expenses and other financial expenses			
. Interest expenses and other costs relating to bonds		954,823	861,388
. Interest expenses to subsidiaries		865,637	823,926
. Interest expenses to associates		25,952	31,069
. Interest expenses to banks/credit institutions		269,435	255,178
. Interest expenses to others		220,879	216,112
		2,336,726	2,187,673
. Commissions		21,853	50,494
. Foreign exchange losses		39,429	12,681
. Charges from fair value hedging derivatives		90,500	72,340
. Reversal of the Reserve for fair value adjustments of cash flow hedging derivatives (interest rate component) to the statement of income		299,921	218,382
. Charges from non-hedging derivatives		1,043	10,279
. Miscellaneous financial expenses		120,826	104,501
	(B)	2,910,298	2,656,350
Negative fair value adjustments to			
. Fair value hedging derivatives		119,568	8,965
. Underlying financial assets and liabilities of fair value hedging derivatives		10,129	171,134
. Non-hedging derivatives		7,338	43,279
	(C)	137,035	223,378
Impairment losses on financial assets	(D)	321,486	373,502
Total	(A+B+C+D)	3,414,487	3,276,629

Charges to investments refer almost entirely to the loss realized on the sale of Telecom Italia Learning Services (euro 45,627 thousand).

Interest expenses and other costs relating to bonds include euro 396,187 thousand for the subscription of bonds by the subsidiary Telecom Italia Finance.

Interest expenses to subsidiaries are mostly connected to the financial payables due to Telecom Italia Finance (euro 441,287 thousand) and Telecom Italia Capital (euro 397,890 thousand).

Foreign exchange losses (euro 39,429 thousand) increased by euro 26,748 thousand compared to 2005 (euro 12,681 thousand). Such amount was reduced by euro 23,429 thousand for the foreign exchange gains arising from the Reversal of the Reserve for fair value adjustments of cash flow hedging derivatives to the statement of income (euro 341,311 thousand in 2005). The counterpart of foreign exchange losses is represented by Foreign exchange gains of euro 9,460 thousand in 2006 (euro 45,533 thousand in 2005). Additional information is provided in the Note "Financial income".

Charges from fair value hedging derivatives (euro 90,500 thousand) increased by euro 18,160 thousand compared to 2005 (euro 72,340 thousand) and refer to CCIRS contracts.

The negative effect of the Reversal of the Reserve for fair value adjustments to cash flow hedge derivatives to the statement of income (euro 299,921 thousand) increased by euro 81,539 thousand compared to 2005 (euro 218,382 thousand) and refers to CCIRS contracts for euro 196,650 thousand and IRS contracts for euro 105,271 thousand.

Charges from non-hedging derivatives (euro 1,043 thousand) decreased by euro 9,236 thousand compared to 2005 (euro 10,279 thousand) and include euro 933 thousand on IRS contracts and euro 110 thousand on other derivative contracts.

Negative fair value adjustments to fair value hedging derivatives (euro 119,568 thousand) increased by euro 110,603 thousand compared to 2005 (euro 8,965 thousand). The counterpart of this amount is represented by the positive fair value adjustments to the underlying financial assets and liabilities of fair value hedging derivatives (euro 114,425 thousand). Additional information is provided in the Note "Financial income".

Negative fair value adjustments to underlying financial assets and liabilities of fair value hedging derivatives (euro 10,129 thousand) decreased by euro 161,005 thousand compared to 2005 (euro 171,134 thousand). The counterpart of this amount is represented by the positive fair value adjustments to the corresponding fair value hedging derivatives (euro 8,280 thousand in 2006, euro 168,922 in 2005). Additional information is provided in the Note "Financial income".

Impairment losses on financial assets refer to writedowns of investments, in particular, to the carrying amount of Liberty Surf Group S.A. (euro 185,311 thousand), Telecom Italia Finance (euro 88,564 thousand) and Olivetti (euro 40,994 thousand).

NOTE 37 - INCOME TAXES

Income taxes for the year ended December 31, 2006 and 2005 are detailed as follows.

(thousands of euro)	2006	2005
Current taxes for the year	436,032	(181,012)
Current taxes for prior years	7,034	12,398
Reversal of prior years income tax liabilities	(70,684)	(33,526)
Total current taxes	**372,382**	**(202,140)**
Deferred taxes	1,733,586	1,124,928
Total income taxes for the year	**2,105,968**	**922,788**

Current taxes include IRAP taxes for the year of euro 428,945 thousand, the IRES tax benefit for Telecom Italia's contribution to the consolidated national tax return of euro 39,912 thousand and an accrual to deferred tax liabilities of euro 47,000 thousand set aside for pending disputes. Deferred taxes mainly refer to IRES taxes.

The reconciliation between the theoretical tax charge and effective tax charge in the financial statements is as follows:

(thousands of euro)	2006		2005	
Income before taxes	6,249,545		2,756,371	
Taxes calculated at the theoretical tax rate	2,062,350	33.0%	909,602	33.0%
- dividends recognized in income	(673,185)	(10.8%)	(462,058)	(16.8%)
- non-deductible writedowns and losses on investments	122,977	2.0%	157,348	5.7%
- non-deductible costs	106,452	1.7%	297,302	10.8%
- non-deductible depreciation	11,631	0.2%	10,243	0.4%
- non-taxable gains on investments and other income	-		(69,780)	(2.5%)
- tax and other adjustments	12,929	0.2%	(266,651)	(9.7%)
IRAP	462,814	7.4%	346,782	12.6%
Total effective taxes booked to the statement of income	2,105,968	33.7%	922,788	33.5%

NOTE 38 - RELATED PARTY TRANSACTIONS

Related party transactions, including intragroup transactions, are neither unusual nor atypical but fall under the ordinary business operations of the Company. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm's length.

The balances relating to transactions with related parties and the effects on the statement of income, the balance sheet and the statement of cash flows for the years ended December 31, 2006 and 2005 are presented in the following tables:

(thousands of euro)	Transactions with related parties (amount) 2006	2005	Corresponding caption in financial statements (amount) 2006	2005	% impact of related parties 2006	2005
Revenues						
Of which attributable to transactions with:						
- subsidiaries	553,134	1,030,408				
- associates and jointly controlled companies	265,060	316,360				
- companies controlled by associates	5,361	6,150				
- other related parties through directors, statutory auditors and key managers	12,259	24,838				
	835,814	1,377,756	22,720,673	15,913,258	3.7	8.7
Other income						
Of which attributable to transactions with:						
- subsidiaries	25,243	47,737				
- associates and jointly controlled companies	5,332	3,220				
- companies controlled by associates	1	21				
- other related parties through directors, statutory auditors and key managers	212	159				
- pension funds	234	207				
	31,022	51,344	405,092	421,597	7.7	12.2
Purchases of materials and external services						
Of which attributable to transactions with:						
- subsidiaries	1,252,282	2,034,926				
- associates and jointly controlled companies	81,037	107,195				
- companies controlled by associates	21,294	18,096				
- other related parties through directors, statutory auditors and key managers	81,929	94,730				
	1,436,542	2,254,947	9,180,351	6,481,968	15.6	34.8
Personnel costs						
Of which attributable to transactions with:						
- subsidiaries	1,916	387				
- associates and jointly controlled companies						
- companies controlled by associates						
- other related parties through directors, statutory auditors and key managers						
- pension funds	20,927	17,671				
- remuneration to key managers	32,498	24,570				
	55,341	42,628	3,003,608	2,907,306	1.8	1.5
Other operating expenses						
Of which attributable to transactions with:						
- subsidiaries	3,457	34,271				
- associates and jointly controlled companies	61	179				
- companies controlled by associates						
- other related parties through directors, statutory auditors and key managers	6,000	94				
	9,518	34,544	750,851	715,074	1.3	4.8
Financial income						
Of which attributable to transactions with:						
- subsidiaries	2,029,265	1,485,603				
- associates and jointly controlled companies	3,880	12,462				
- companies controlled by associates	33					
- other related parties through directors, statutory auditors and key managers						
	2,033,178	1,498,065	2,882,341	2,241,822	70.5	66.8
Financial expenses						
Of which attributable to transactions with:						
- subsidiaries	1,264,024	1,249,419				
- associates and jointly controlled companies	26,844	31,722				
- companies controlled by associates						
- other related parties through directors, statutory auditors and key managers						
	1,290,868	1,281,141	3,414,487	3,276,629	37.8	39.1
Capital expenditures for intangible and tangible assets						
Of which attributable to transactions with:						
- subsidiaries	24,301	72,736				
- associates and jointly controlled companies	143,062	113,797				
- companies controlled by associates	282,713	274,520				
- other related parties through directors, statutory auditors and key managers	61,371	67,459				
	511,447	528,512	3,718,090	2,473,195	13.8	21.4
Dividends paid to third parties						
Of which attributable to transactions with:						
- subsidiaries	17,436	13,613				
- associates and jointly controlled companies						
- companies controlled by associates						
- other related parties through directors, statutory auditors and key managers	348,115	268,279				
- pension funds	230	127				
	365,781	282,019	2,783,064	1,923,237	13.1	14.7

(thousands of euro)	Transactions with related parties (amount)		Corresponding caption in financial statements (amount)		% impact of related parties	
	12/31/2006	12/31/2005	12/31/2006	12/31/2005	12/31/2006	12/31/2005
Net financial debt:						
Financial receivables and other non-current financial assets						
Of which attributable to transactions with:						
- subsidiaries	116,104					
- associates and jointly controlled companies	23,429	24,262				
- companies controlled by associates						
- other related parties through directors, statutory auditors and key managers						
	139,533	24,262	670,145	646,744	20.8	3.8
Financial receivables and other current financial assets						
Of which attributable to transactions with:						
- subsidiaries	11,493					
- associates and jointly controlled companies	557	64				
- companies controlled by associates						
- other related parties through directors, statutory auditors and key managers						
	12,050	64	265,704	195,848	4.5	0.03
Cash and cash equivalents						
Of which attributable to transactions with:						
- subsidiaries	88,584	588,271				
- associates and jointly controlled companies	874	14,335				
- companies controlled by associates						
- other related parties through directors, statutory auditors and key managers						
	89,458	602,606	5,207,976	6,601,126	1.7	9.1
Non-current financial liabilities						
Of which attributable to transactions with:						
- subsidiaries	21,201,928	20,622,490				
- associates and jointly controlled companies	239,125	278,938				
- companies controlled by associates						
- other related parties through directors, statutory auditors and key managers						
	21,441,053	20,901,428	40,069,092	41,139,876	53.5	50.8
Current financial liabilities						
Of which attributable to transactions with:						
- subsidiaries	3,752,192	10,249,868				
- associates and jointly controlled companies	147,696	124,244				
- companies controlled by associates						
- other related parties through directors, statutory auditors and key managers						
	3,899,888	10,374,112	6,689,236	12,868,815	58.3	80.6
Total net financial debt						
Of which attributable to transactions with:						
- subsidiaries	24,737,939	30,284,087				
- associates and jointly controlled companies	361,961	364,521				
- companies controlled by associates		-				
- other related parties through directors, statutory auditors and key managers						
	25,099,900	30,648,608	40,614,503	46,564,974	61.8	65.8

(thousands of euro)	Transactions with related parties (amount)		Corresponding caption in financial statements (amount)		% impact of related parties	
	12/31/2006	12/31/2005	12/31/2006	12/31/2005	12/31/2006	12/31/2005
Other balance sheet captions						
Miscellaneous receivables and other non-current assets						
Of which attributable to transactions with:						
- subsidiaries	3,454	597,095				
- associates and jointly controlled companies	10,370	15,340				
- companies controlled by associates						
- other related parties through directors, statutory auditors and key managers						
	13,824	612,435	541,742	1,089,310	2.6	56.2
Trade and miscellaneous receivables and other current assets						
Of which attributable to transactions with:						
- subsidiaries	235,515	1,180,960				
- associates and jointly controlled companies	200,331	195,795				
- companies controlled by associates	2,716	1,626				
- other related parties through directors, statutory auditors and key managers	3,450	2,677				
	442,012	1,381,058	6,852,641	6,450,816	6.5	21.4
Miscellaneous payables and other non-current liabilities						
Of which attributable to transactions with:						
- subsidiaries	121,040	100,851				
- associates and jointly controlled companies						
- companies controlled by associates						
- other related parties through directors, statutory auditors and key managers						
	121,040	100,851	1,679,961	1,879,864	7.2	5.4
Trade and miscellaneous payables and other current liabilities						
Of which attributable to transactions with:						
- subsidiaries	574,554	1,047,809				
- associates and jointly controlled companies	95,607	65,576				
- companies controlled by associates	29,547	79,858				
- other related parties through directors, statutory auditors and key managers	21,777	37,635				
- pension funds	18,463	13,910				
	739,948	1,244,788	9,436,885	7,032,138	7.8	17.7

The following table presents the major economic, balance sheet and financial transactions between Telecom Italia S.p.A. and subsidiaries, associates and jointly controlled companies at December 31, 2006 compared with those at December 31, 2005

(thousands of euro)	*2006*	*2005*	
Revenues	818,194	1,346,768	These mainly refer to revenues from Tim Italia for the first 2 months of 2006, euro 134,702 thousand (euro 556,879 thousand in 2005) for mobile-fixed interconnection and circuit leases; Teleleasing, euro 225,371 thousand (euro 230,132 thousand in 2005) for product sales; Telecom Italia Sparkle, euro 153,886 thousand (euro 76,708 thousand in 2005) for international telecommunications services; Nuova Tin.it, up to September 30, 2006, euro 85,923 thousand (euro 81,128 thousand in 2005) for Internet services; Path.Net, euro 89,793 thousand (euro 114,902 thousand in 2005) telecommunications services and infrastructures dedicated to the Public Administration; Shared Service Center, euro 19,649 thousand (euro 20,357 thousand in 2005) for telephone and data transmission services and software applications; LI.SIT., euro 12,060 thousand (euro 58,976 thousand in 2005) for the sale of health cards to the Lombardy region
Other income	30,575	50,957	This mainly refers to cost recoveries for off-site personnel and cost reimbursements for the performance of services mainly to Telecom Italia Sparkle, euro 6,022 thousand (euro 5,487 thousand in 2005); Olivetti, euro 3,490 thousand (euro 2,743 thousand in 2005); Telecom Italia S.A., euro 2,929 thousand; Tim Italia, for the first two months of 2006, euro 2,006 thousand (euro 11,865 thousand in 2005). In 2005, this also included income from IT Telecom S.r.l., euro 9,767 thousand
Purchases of materials and external services	1,333,319	2,142,121	These mainly include the costs for the portion due for telecommunications services and interconnection costs from Telecom Italia Sparkle, euro 557,700 thousand (euro 471,369 thousand in 2005), TIM Italia, for the first two months of 2006, euro 118,841 thousand (euro 725,803 thousand in 2005), Nuova Tin.it, up to September 30, 2006, euro 93,406 thousand (euro 90,808 thousand in 2005) and Telecom Italia Media, euro 6,275 thousand (euro 67,086 thousand in 2005); purchases from Telenergia, euro 216,594 thousand (euro 145,826 thousand in 2005) for energy services; costs from Olivetti, euro 54,320 thousand (euro 45,969 thousand in 2005) for purchases of products and other services; costs from Shared Service Center, euro 21,477 thousand (euro 23,190 thousand in 2005) for supplying information systems and computer services; costs for information systems and computer materials from Siemens Informatica, euro 14,252 thousand (euro 28,590 thousand in 2005)

Personnel costs	1,916	387	These mainly refer to costs for off-site personnel
Other operating expenses	3,518	34,450	These mainly refer to costs from Telenergia, euro 2,415 thousand. In 2005, there were costs connected with the management of receivables from Telecom Italia International, euro 22,929 thousand
Financial income	2,033,145	1,498,065	This includes euro 1,923,326 thousand relating to the collection of dividends from Tim Italia S.p.A. for 2005 (euro 1,337,378 thousand for 2004 from TIM); euro 85,000 thousand of dividends collected from Telecom Italia Sparkle (euro 38,000 thousand in 2005)
Financial expenses	1,290,868	1,281,141	These mainly include interest expenses to Telecom Italia Finance, euro 839,700 thousand (euro 954,330 thousand in 2005), and Telecom Italia Capital, euro 397,890 thousand (euro 230,340 thousand in 2005), principally relating to interest connected with financial payables and the subscription to bonds issued by Telecom Italia. They also include interest expenses to Teleleasing, euro 25,946 thousand (euro 23,944 thousand in 2005)
Capital expenditures in tangible and intangible assets	167,363	186,533	These refer to acquisitions of computer projects and equipment from Shared Service Center, euro 76,912 thousand (euro 75,577 thousand in 2005), and from Siemens Informatica, euro 64,323 thousand (euro 37,666 thousand in 2005). In 2005, these included acquisitions of computer projects and equipment from IT Telecom S.r.l., euro 42,459 thousand

(thousands of euro)	12/31/2006	12/31/2005	
Financial receivables and other non-current financial assets	139,533	24,262	These include medium/long-term loans made to Aree Urbane, euro 23,403 thousand (euro 21,523 thousand at December 31, 2005), and non-current financial receivables from Telecom Italia Media, euro 100,000 thousand, for loans received from the European Investment Bank (EIB) under an Investment program for the three years 2005-2007 aimed at building up the infrastructures for the digital terrestrial network
Miscellaneous receivables and other non-current assets	13,824	612,435	These mainly include receivables from LI.SIT., euro 10,370 thousand (euro 15,340 thousand at December 31, 2005). They decreased by euro 598,611 thousand mainly due to the elimination of receivables from Tim Italia on the consolidated tax return
Trade and miscellaneous receivables and other current assets	435,846	1,376,755	These principally refer to receivables from Telecom Italia Sparkle, euro 77,147 thousand (euro 65,950 thousand at December 31, 2005), Teleleasing, euro 64,239 thousand (euro 74,850 thousand at December 31, 2005), Path.Net, euro 37,442 thousand (euro 40,049 thousand at December 31, 2005), LI.SIT, euro 119,935 thousand (euro 108,967 thousand at December 31, 2005), HanseNet, euro 25,967 thousand. The decrease from December 31, 2005 is due principally to the elimination of transactions with the merged company Tim Italia
Financial receivables and other current financial assets	12,050	64	These mainly refer to receivables from Telecom Italia Media Broadcasting, euro 6,062 thousand, and from Telenergia, euro 5,431 thousand
Cash and cash equivalents	89,458	602,606	These include receivables from Telecom Italia

			S.A., euro 46,510 thousand, and from Olivetti, euro 25,003 thousand (euro 440,035 thousand at December 31, 2005). The decrease is principally due to the extinguishment of a loan made to the Olivetti (euro 440,035 thousand at December 31, 2005)
Non-current financial liabilities	21,441,053	20,901,428	These refer to financial payables to Telecom Italia Finance, euro 11,472,406 thousand (euro 12,565,029 thousand at December 31, 2005), and to Telecom Italia Capital, euro 9,729,217 thousand (euro 8,057,151 thousand at December 31, 2005), for loans and the subscription of bonds issued by Telecom Italia
Current financial liabilities	3,899,888	10,374,112	These refer to loans payables and current account transactions with Telecom Italia Finance, euro 3,015,554 thousand (euro 5,977,692 thousand at December 31, 2005), Telecom Italia Sparkle, euro 461,142 thousand (euro 352,266 thousand at December 31, 2005), Telecom Italia Capital, euro 123,785 thousand (euro 62,381 thousand at December 31, 2005), and Teleleasing, euro 142,956 thousand (euro 112,702 thousand at December 31, 2005). The decrease from December 31, 2005 is mainly due to the elimination of transactions with the merged company Tim Italia
Trade and miscellaneous payables and other current liabilities	670,161	1,113,385	These mainly include payable positions with Telecom Italia Sparkle, euro 337,678 thousand (euro 275,942 thousand at December 31, 2005), Olivetti, euro 56,415 thousand (euro 37,009 thousand at December 31, 2005), Telecom Italia Media, euro 52,488 thousand (euro 99,905 thousand at December 31, 2005), Siemens Informatica, euro 47,676 thousand (euro 25,933 thousand at December 31, 2005), Matrix, euro 31,431 thousand and Telenergia, euro 20,141 thousand. The decrease from December 31, 2005 is mainly due to the elimination of transactions with the merged company Tim Italia
Miscellaneous payables and other non-current liabilities	121,040	100,851	These include payables for the consolidated tax return to Telecom Italia Media, euro 46,875 thousand (euro 7,282 thousand at December 31, 2005), Olivetti, euro 39,918 thousand (euro 34,068 thousand at December 31, 2005), and miscellaneous payables to Telecom Italia Media Broadcasting, euro 26,604 thousand

Telecom Italia has also provided guarantees on behalf of subsidiaries, associates and jointly controlled companies and companies controlled by associates for a total of euro 23,472,110 thousand (euro 28,055,906 thousand at December 31, 2005), detailed as follows: euro 12,749,266 thousand on behalf of Telecom Italia Finance (euro 18,960,482 thousand at December 31, 2005); euro 10,250,107 thousand on behalf of Telecom Italia Capital (euro 8,618,116 thousand at December 31, 2005); euro 149,605 thousand on behalf of Olivetti Multiservices; euro 83,062 thousand on behalf of the Latin American Nautilus group (euro 99,510 thousand at December 31, 2005); euro 52,888 thousand on behalf of Tiglio I (euro 52,888 thousand at December 31, 2005); euro 24,965 thousand on behalf of Italtel (euro 30,406 thousand at December 31, 2005).

The following table presents transactions between Telecom Italia S.p.A. and companies controlled by associates and by jointly controlled companies: the companies of the Italtel group, a related party through the investment in the parent Italtel Holding S.p.A. and the companies of the Telecom Argentina group related through Sofora Telecomunicaciones S.A.).

(thousands of euro)	*2006*	*2005*	
Revenues	5,361	6,150	These refer to revenues for telephones services supplied to Italtel, euro 2,269 thousand (euro 6,150 thousand in 2005), and to the Telecom Argentina group, euro 3,092 thousand
Other income	1	21	These refer to costs recoveries for off-site personnel at the Telecom Argentina group
Purchases of materials and external services	21,294	18,096	These refer to costs for maintenance and assistance contracts, almost entirely with Italtel, euro 21,266 thousand (euro 18,096 thousand in 2005)
Capital expenditures in tangible and intangible assets	282,713	274,520	These refer to the purchase of telephone exchanges from Italtel

(thousands of euro)	12/31/2006	12/31/2005	
Trade and miscellaneous receivables and other current assets	2,716	1,626	These refer to trade receivables from Italtel, euro 1,529 thousand (euro 1,626 thousand at December 31, 2005), and from the Telecom Argentina group, euro 1,187 thousand
Trade and miscellaneous payables and other current liabilities	29,547	79,858	These refer to payables for supply transactions connected with investment and operating activities to Italtel

Finally, the following table presents the economic, balance sheet and financial transactions between Telecom Italia S.p.A. and other parties related through directors, statutory auditors and key managers.

(thousands of euro)	*2006*	*2005*	
Revenues	12,259	24,838	These mainly refer to revenues for telephone services supplied to the Pirelli group, euro 5,736 thousand (euro 2,899 thousand in 2005), and to Edizione Holding, euro 4,340 thousand (euro 2,886 thousand in 2005)
Other income	212	159	This refers to miscellaneous income from the Pirelli group, euro 212 thousand (euro 73 thousand in 2005)
Purchases of materials and external services	81,929	94,730	These refer to R&D expenditures, purchases of modems and ADSL equipment, consulting and services regarding industrial property and real estate activities from the Pirelli group, euro 58,708 thousand (euro 60,864 thousand in 2005); Document Management services from Telepost, euro 17,542 thousand (euro 20,936 thousand in 2005); sponsorship and content provider costs from F.C. Internazionale Milano S.p.A. - a related company through Mr. Moratti, euro 2,371 thousand (euro 1,345 thousand in 2005)
Other operating expenses	6,000	94	These refer to commercial settlements with Pirelli S.p.A.
Capital expenditures in tangible and intangible assets	61,371	67,459	These mainly refer to purchases of modems and ADSL equipment from the Pirelli group

(thousands of euro)	12/31/2006	12/31/2005	
Trade and miscellaneous receivables and other current assets	3,450	2,677	These mainly refer to the above-mentioned services for revenues from sales and services from the Pirelli Group, euro 1,927 thousand (euro 673 thousand at December 31, 2005),

			and from Edizione Holding, euro 1,040 thousand (euro 637 thousand at December 31, 2005).
Trade and miscellaneous payables and other current liabilities	21,777	37,635	These mainly refer to payables for supply transactions connected both to the purchases and the performance of services both to the investment activities, to the Pirelli group, euro 15,718 thousand (euro 29,653 thousand at December 31, 2005); to payables for Document Management services to Telepost, euro 4,215 thousand (euro 6,642 thousand at December 31, 2005).

The following table presents the economic, balance sheet and financial transactions regarding pension funds for employees of the companies of the Telecom Italia Group.

(thousands of euro)	*2006*	*2005*	
Other income	234	207	These mainly refer to cost recoveries for off-site personnel at Fontedir
Personnel costs	20,927	17,671	These refer to the contribution made to pension funds of which euro 4,860 thousand for Fontedir and euro 15,939 thousand for Telemaco.

(thousands of euro)	12/31/2006	12/31/2005	
Trade and miscellaneous payables and other current liabilities	18,463	13,910	These refer to contributions payable principally to Fontedir, euro 3,792 thousand, and to the Telemaco fund, euro 14,532 thousand.

The following is a brief description of the contents of the main contracts between the Telecom Italia S.p.A. and subsidiaries, associates, jointly controlled companies, companies controlled by associates, companies controlled by jointly controlled companies and related parties through directors, statutory auditors and key managers.

<u>Contracts with subsidiaries</u>:

<u>HanseNet Telekommunikation GmbH</u>

Revenue related

The main contracts refer to:

- loan of the use of hardware platforms and customized computer solutions and particularly the supply of user licenses for Program Products and the sale of licenses for Software Products and relative maintenance;
- the supply of Customer Operations services with reference to hardware platforms and the centralized International Call Center platform;
- the supply of Provisioning and Assurance services which provide for the supply of specific hardware and software, guaranteeing their functioning;
- the realization of CRM services (Virtual Application Project);
- the sale of exchanges;
- the cost recovery of off-site personnel.

<u>Matrix S.p.A.</u>

Revenue related

The main contracts refer to:

- advertising on the Rosso Alice portal and user licenses for the Alice brand;
- mobile telephone services covered by multibusiness contracts;
- administrative outsourcing.

Expense related

The main contracts refer to:

- design and development of the Single Portal on the technological infrastructure of the "Virgilio.it" portal and the technical management of the Single Portal of Telecom Italia S.p.A.;
- management of the editorial services of the site and marketing;
- advertising presence on Matrix-owned portals of the Telecom Italia S.p.A. site such as Rosso Alice, Alice, 187.it and all the other sites aimed at Telecom Italia S.p.A. customers;
- design of portals for Telecom Italia S.p.A. customers;
- consulting and professional services rendered for the certification of traffic on the single portal of Telecom Italia S.p.A.

<u>Loquendo</u>
Revenue related
The main contracts refer to*:*
- cost recoveries for off-site personnel and other centralized expenses (welfare initiatives);
- administrative outsourcing.

Expense related
The main contracts refer to the supply of software systems for the implementation / development of voice services on the Intelligent Network platform.

<u>Nuova Tin.It S.r.l.</u> (only for the contracts existing up to the date of the merger in Telecom Italia S.p.A.)
Revenue related
The main contracts refer to:
- supply of broadband accesses to Tin.it customers and interconnection for Internet traffic originated by Telecom Italia S.p.A. clientele;
- cost recoveries for centralized expenses (welfare initiatives and insurance premiums);
- administrative outsourcing.

Expense related
The main contracts refer to:
- "Internet Provider" type activities with the following services:
  - ✓ interconnection transactions for the portion to be paid on Internet traffic by Telecom Italia S.p.A.'s clientele;
  - ✓ account activation and access authentication;
  - ✓ home page and portal;
  - ✓ e-mail box to send and receive messages;
  - ✓ web space and possibility of sending SMS by web;
  - ✓ use of the Videomail service;
  - ✓ technical assistance service to the customer;
  - ✓ maintenance of PC reconfiguration with technical assistance.
- sales activities for Telecom Italia S.p.A. products and services (particularly ADSL services) through the Tin.it distribution channels such as:
  - ✓ Inbound Channel, using a toll-free number;
  - ✓ Online Channel through the Tin.it site;
  - ✓ Outbound Channel through the call center network;
- Supply of products destined for resale to Telecom Italia S.p.A.'s customers.

<u>Olivetti S.p.A.</u>
Revenue related
The main contracts refer to*:*
- the concession of the user license for patents and know-how and the "Olivetti" name and brand owned by Telecom Italia S.p.A.;
- sales transactions governed by the multibusiness contract for the supply of mobile telephone services;

- cost recoveries for off-site personnel and other centralized expenses (insurance policies and relative management fees, expenses for the convention, commissions for providing sureties and welfare initiatives).

Expense related

The main contracts refer to:

- purchases of products destined for resale to Telecom Italia S.p.A.'s customers;
- professional services relating to R&D conducted on behalf of Telecom Italia S.p.A.;
- license transactions regarding patents and trademarks;
- supply/rent of computer and information systems materials .

Olivetti Multiservices S.p.A.

Revenue related

The main contracts refer to the recovery of centralized expenses relating to insurance premiums.

Expense related

The main contracts refer to:

- leases of building, offices and telecommunication equipment for periods of 6 or 9 years with the possibility of tacit renewal, unless terminated by Telecom Italia S.p.A., for successive periods of 6 years, at the same terms and conditions originally agreed;
- lease of buildings for various uses for standard periods.

Path.Net S.p.A.

Revenue related

The main contracts refer to:

- outsourcing services provided and the supply of connections for data transmission for the Public Administration;
- cost recoveries for off-site personnel.

Progetto Italia S.p.A.

Revenue related

The main contracts refer to:

- supply of TLC infrastructures for social, cultural and sports events and activities;
- cost recoveries for off-site personnel and other centralized expenses (sponsorship of "Progetto Luna Rossa" and insurance premiums);
- administrative outsourcing.

Expense related

The main contracts refer to sponsorship activities and the supply of services required for the promotion, development and exploitation of the image of Telecom Italia S.p.A., the Telecom Italia Group and the company's brands with institutions, companies, enterprises, public entities and single Italian and foreign individuals.

Telecom Italia America Latina SA.

Expense related

The main contracts refer to costs recharged for off-site personnel and management fees.

Telecom Italia Capital SA

Revenue related

The main contracts refer to commissions for providing sureties.

Expense related

The main contracts refer to medium/long-term loans granted.

Telecom Italia Finance SA

Revenue related

The main contracts refer to commissions for providing sureties.
Expense related
The main contracts refer to medium/long-term loans granted.

<u>Telecom Italia Media S.p.A.</u>
Revenue related
The main contracts refer to:
- granting of sublicenses for diffusion rights, through DTT platforms, of the games of some Serie A teams;
- connectivity service to the digital terrestrial platform;
- security services, cost recoveries for off-site personnel and other centralized expenses (insurance premiums, remuneration to directors and statutory auditors and welfare initiatives);
- mobile telephone services governed by multibusiness contracts;
- administrative outsourcing.

Expense related
The main contracts refer to:
- purchase of rights to broadcast the Reggina games with all the forms and broadcasting means represented by digital terrestrial TV, on an exclusive basis, to be offered to the clientele using a pay-per-view arrangement;
- purchase of rights to broadcast the America's cup;
- purchase of filming services and making the video signal available for soccer games;
- sale of the user and exploitation rights to the content of the LA7 brand for diffusion on the Telecom Italia S.p.A. platform.

<u>Telecom Italia Sparkle S.p.A.</u>
Revenue related
The main contracts refer to:
- telephone and data transmission service for company use and line leases;
- interconnection between the TLC networks of Telecom Italia Sparkle and Telecom Italia S.p.A., with particular reference to the accesses and international traffic relating to:
  - ✓ incoming traffic on either the Telecom Italia S.p.A. fixed or mobile network gathered by Telecom Italia Sparkle;
  - ✓ outgoing traffic from Telecom Italia S.p.A. (from the fixed or mobile network, from cards with codes, from other national fixed and mobile operators interconnected with Telecom Italia S.p.A.) to international toll-free numbers;
  - ✓ incoming satellite traffic coming from Telecom Italia Sparkle.
- use of infrastructures for the Telecom Italia Sparkle backbone;
- security services and cost recoveries for off-site personnel and other centralized expenses (insurance premiums and welfare initiatives);
- administrative outsourcing.

Expense related
The main contracts refer to:
- international lines leased;
- maintenance of submarine cables;
- supply of international operator services;
- purchase of technical assistance services for the company ETECSA;
- management of international accesses and accesses for interconnections:
  - ✓ portion to be paid on outgoing international traffic from Telecom Italia S.p.A. originated from the fixed or mobile network, from cards with codes and from other national operators;
  - ✓ portion to be paid on outgoing telephone and satellite telex traffic;

- ✓ portion to be paid on incoming international traffic with a charge for the national part of the call.

<u>Telecom Italia S.A.S.</u>

Revenue related

The main contracts refer to:

- loan of the use of hardware platforms and customized computer and information systems solutions;
- supply of HW and SW for internal use, in particular:
  - ✓ supply of user licenses for Program Products;
  - ✓ sale of Software Product licenses and related maintenance;
- supply of Customer Operations services with reference to hardware platforms and the centralized International Call Center platform;
- supply of Provisioning and Assurance services, which consist of the supply of hardware platforms on which proprietary software of Telecom Italia S.A.S. is installed, guaranteeing the functioning and the supply of hardware and software relating to workstations located at the Broadband International Center;
- supply of hardware and software services for OSS systems;
- supply of specific software for internal use (Virtual Griffon project).
- cost recoveries for off-site personnel;
- administrative outsourcing.

<u>Telecontact Center S.p.A.</u>

Revenue related

The main contracts refer to:

- utilization of SW licenses purchased by Telecom Italia S.p.A.;
- cost recoveries for personnel off-site;
- administrative outsourcing.

Expense related

The main contracts refer to the purchase of call center services.

<u>Telenergia S.r.l.</u>

Revenue related

The main contracts refer to:

- outsourcing for carrying out the company’s activities;
- commissions for providing sureties and cost recoveries of centralized expenses for insurance premiums;
- customized software;
- administrative outsourcing;

Expense related

The main contracts refer to electrical energy.

<u>TI Media Broadcasting S.r.l.</u>

Revenue related

The main contracts refer to the use of the network infrastructure for transporting TV signals and costs recoveries of centralized expenses (insurance premiums, management fees on insurance and commissions for providing sureties).

Expense related

The main contracts refer to:

- purchases of products (applications) destined for resale to Telecom Italia S.p.A. customers with regard to the digital terrestrial network;
- supply of transmission and technical assistance services with regard to DVB-H mobile TV.

TIM Italia S.p.A. (only for the contracts existing up to the date of the merger in Telecom Italia S.p.A.)

Revenue related

The main contracts primarily refer to:

- telephone and transmission services for company use;
- line leases;
- telephone traffic and sundry services (SMS, call connection charges, etc.) originated by TIM mobile clientele to Telecom Italia S.p.A. numbers (mobile-fixed traffic);
- telephone traffic and sundry services originated by TIM mobile clientele to numbers of other operators which use the in transit service offered by Telecom Italia S.p.A.
- cost recoveries for off-site personnel and for other centralized expenses (remuneration to directors and statutory auditors, commissions for providing sureties and insurance premiums);
- administrative outsourcing.

Expense related

The contracts refer to:

- purchase of mobile telephone products destined for resale to Telecom Italia S.p.A.'s customers;
- mobile telephone services for cell phones used for work purposes by employees of Telecom Italia S.p.A.;
- interconnection transactions for:
  - ✓ interconnection accesses to the ex-TIM network;
  - ✓ portion to be paid for telephone traffic and services originated by Telecom Italia S.p.A. clientele (fixed-mobile traffic);
  - ✓ portion to be paid for traffic originated by other operators in transit on Telecom Italia S.p.A.'s network to TIM clientele;
  - ✓ portion to be paid for traffic originated by TIM clientele to toll-free numbers of Telecom Italia S.p.A and other Operators which use the Telecom Italia S.p.A. in transit service.

TIM Participacoes Gruppo S.p.A.

Revenue related

The main contracts primarily refer to roaming and technical assistance.

Expense related

The main contracts refer to roaming services.

Contracts with associates:

Avea I.H.A.S.

Revenue related

The contracts refer to international telecommunications services, particularly roaming by Avea customers on the Telecom Italia network, technical assistance services rendered and cost recoveries for off-site personnel of Telecom Italia at Avea.

Expense related

The contracts refer to interconnection fees for roaming traffic by Telecom Italia customers on the Avea network.

Baltea S.p.A

Expense related

The contracts refer to purchases of accessories and consumable stores for Olivetti S.p.A. photocopiers destined for resale.

EtecSA

The main contracts relate to:
- Telecom Italia Sparkle data traffic;
- technical assistance supplied by Telecom Italia S.p.A.;
- recovery of costs for off-site personnel.

Expense related
The main contracts relate to roaming traffic originated by Telecom Italia customers on the EtecSA network.

IN.VA S.p.A.
Revenue related
The main contracts refer to the supply of telephone and data transmission services.

LI.SIT S.p.A.
Revenue related
The contract provides for developing and implementing the computer and information network for the social health system of the Lombardy Region, making services available online to all the regional health structures by supplying:
- cards with microchips for all citizens and health operators in Lombardy;
- outsourcing services for the management of the Internet Data Center and hardware and software systems;
- professional and applications consulting for the implementation and management of the system.

Luna Rossa Challenge 2007 S.L.
Revenue related
The main contracts cover the supply of telephone and data transmission services.
Expense related
The main contracts refer to the sponsorship of the Luna Rossa sailboat during the XXXII America's Cup. According to these contracts, Telecom Italia Group became the Main Sponsor of Luna Rossa and Partner and Official Sponsor of the race. It also acquired the sublicense rights on the "Luna Rossa" trademark for certain categories of goods.

Nordcom S.p.A.
Revenue related
The main contracts refer to the supply of data network connections and software applications.
Expense related
The contract refers to the development of systems and computer solutions.

Shared Service Center Scarl
Revenue related
The main contracts refer to:
- the supply of telephone and data transmission services;
- the operation of the client's software applications at the Telecom Italia S.p.A. data center;
- the recovery of costs of off-site personnel and centralized expenses (management fee and expenses covered by agreement).

Expense related
The main contracts refer to the supply of computer and information services relating to:
- design, implementation, release, operation and management of portals, institutional sites, SAP and dedicated solutions;
- SAP application maintenance and service management services.

Siemens Informatica S.p.A.
Expense related

The main contracts cover:

- the supply of software services to Group companies;
- applications management services;
- support services for the operation of Telecom Italia S.p.A. OSS and BSS systems;
- the supply of support services for distributed computer technology ;
- applications software development and technical services for Telecom Italia S.p.A.

<u>Teleleasing S.p.A.</u>

Revenue related

The contracts relate to the application of the commercial cooperation agreement signed in 2000. By virtue of this agreement, Telecom Italia S.p.A. is committed to guaranteeing Teleleasing the role of preferential partner in the case of the purchase of goods under finance leases by its customers. Teleleasing S.p.A. purchases the equipment from Telecom Italia S.p.A. and signs the leasing contract with the customer; Telecom Italia S.p.A. sees to the collection of lease payments after having acquired the rights.

Expense related

The contracts refer both to the finance lease of telephone systems to Telecom Italia S.p.A. and its subsidiaries and the finance lease of a building.

<u>Telbios S.p.A.</u>

Revenue related

The main contracts cover the supply of telephone services and services for WBS activities.

Expense related

The main contracts refer to the supply of services, products and hardware systems and software for the remote medicine offering.

<u>Tiglio I S.r.l.</u>

Revenue related

The main contracts call for the supply of telephone services.

Expense related

The main contracts refer to:

- the lease of buildings (also premises housing telecommunications equipment) with a term of 21 years and the possibility of tacit renewal, unless notice of termination is given by Telecom Italia S.p.A., for successive periods of six years, at the same terms and conditions as originally agreed;
- the lease of buildings solely for office use, for standard lease periods.

<u>Tiglio II S.r.l.</u>

Expense related

The main contracts refer to:

- the lease of buildings (also premises housing telecommunications equipment) with a term of 19 years and the possibility of tacit renewal, unless notice of termination is given, by Telecom Italia S.p.A. for successive periods of six years, at the same terms and conditions as originally agreed;
- the lease of buildings solely for office use, for standard lease periods.

****

Telecom Argentina group

Revenue related

The main contracts refer to technical assistance provided by Telecom Italia S.p.A. for broadband development and for the study and implementation of Value Added Services, as well as data transmission and voice services and the supply of "IRU" transmission capacity by Telecom Italia Sparkle.

Expense related

The contracts relate to international telecommunications services and roaming.

Italtel group

Revenue related

The main contracts provide for the supply of telephone and data transmission services.

Expense related

The main contracts provide for the supply and maintenance of traditional switching and innovative switching (VoIP) equipment and the relative services, as well as the supply of innovative devices and their maintenance for the data networks using CISCO technology.

* * *

Camfin S.p.A.

Revenue related

The main contracts refer to the supply of telephone and data transmission services.

Expense related

The contract refers to the supply of gas with the company Cam Gas S.p.A..

Edizione Holding group

Revenue related

The main contracts provide for the supply of telephone and data transmission services that are operated by outsourcing with dedicated assistance.

Expense related

The main contracts refer to commissions paid to Autogrill S.p.A. for the sale of prepaid telephone cards and occupancy charges for public telephones located at their structures.

F.C. Internazionale Milano S.p.A.

Revenue related

The main contracts call for the supply of telephone and data transmission services.

Expense related

The main contracts refer to costs for the sponsorship and the rights to diffuse content regarding the sports events of the company F.C. Internazionale Milano (Inter) by Telecom Italia S.p.A.. The sponsorship contract particularly provides for the possibility of using the Inter brand and logo for all advertising activities and the sale of mobile telephone products, the participation of Inter in the Trofeo TIM and the visibility of the TIM brand during the Inter championship and Coppa Italia/TIM Cup games at home.

Pirelli & C. S.p.A.

Revenue related

The main contracts provide for the supply of telecommunications and computer and information services.

Expense related

The main contracts refer to:

- consulting and services contract regarding patent rights;
- defining strategies regarding patent rights;
- determination of the competitive positioning of the various businesses of the Telecom Italia Group in comparison with similar business of the competition;
- assistance in negotiations over partnerships, licenses and cooperation contracts;

- litigation and analyses of patents of the competition;
- obtaining patents (drawing up documents, filings in Italy and outside Italy, continuation during the stages of examination, challenges and conflicts);
- control over costs by project and/or by business;
- training of technicians;
- management of a database for patent data and relative reports ;
- control over results reached;
- patent research;
- filing and classification of important documents regarding patents;
- brands, including their management (research, filings in Italy and outside Italy, renewals, challenges, disputes, licenses inside and outside the Group):
- technical cooperation between Telecom Italia S.p.A. and Pirelli in the areas of optical devices and advanced telecommunications networks. The contract provides:
  1. with regard to the results of research for which patents are not filed, three areas of competence which have been identified as follows:
     - ✓ simple and complex devices, competence of Pirelli;
     - ✓ networks and services, competence of Telecom Italia S.p.A.;
     - ✓ subsystems, joint competence of Telecom Italia S.p.A. – Pirelli.
  2. with regard to patents resulting from research, ownership is joint, with the understanding that each party must give the other a license on the respective portion of ownership according to the following format:
     - ✓ Pirelli grants Telecom Italia S.p.A. an exclusive license which can be sublicensed for patents for use in the "Networks and Services" area,
     - ✓ Telecom Italia S.p.A. grants Pirelli an exclusive license which can be sublicensed for patents for use in the "Devices" area; each of the parties is required to pay the other party 50% of the consideration from any sublicenses granted.

Furthermore, Pirelli is obliged to sell, under an exclusive arrangement, any optical devices for telecommunications that use patents deriving from the research projects, for a period of one year from the completion of the single project. However, the parties may agree upon alternative solutions which ensure a similar or substitute advantage to Telecom Italia S.p.A.;

- supply of user apparatus for network access and broadband services;
- cooperation agreement concerning joint initiatives. Under this contract, Pirelli has developed two research projects for Telecom Italia S.p.A.: one relating to the "Distributed Sensor Network" and the second to "Third-generation poles for the wireline network". The agreements state that Telecom Italia S.p.A. is entitled to ownership of the rights to the intellectual properties deriving from the work established in the contracts where they are:
  a) exclusively applicable to telecommunications networks and/or telecommunications services or components of telecommunications networks which technical appendices of the projects identify as their specific objective, such as cards of the SIM-card type or network poles, and
  b) characterized by the inclusion of specific chemical compositions and/or treatments using specific chemical processes.

<u>Pirelli & C. Real Estate S.p.A.</u>

Revenue related

The contracts provide for the supply of call center services, data transmission services and electrical energy.

Expense related

The contracts refer to project management (development of real estate projects), property management (administrative management of lease contracts) and agency services (commercial management of owned and leased buildings) and maintenance of air-conditioning systems.

Furthermore, Pirelli & C. Real Estate has a 35% stake in the capital of the companies which hold the closed-end real estate investment funds Raissa and Spazio Industriale (to which properties were contributed as part of the real estate transaction approved by the board of directors on December 21, 2005) and hold control of the management companies (Pirelli & C. Real Estate SGR and Pirelli & C. Real Estate SGR Opportunities) of the above real estate funds.

Telepost S.p.A.
Revenue related
The main contracts call for the supply of telephone services.
Expense related
The main contracts refer to:
- the management of services connected with incoming and outgoing correspondence;
- outgoing correspondence generated on files with printing by a specialized center;
- management of the distribution of correspondence,
- management of the paper archives and management of all photocopy machines.

***

Pension funds
Expense related
The main transactions refer to:
Telemaco and Fontedir which call for:
- payment of contributions by both Telecom Italia S.p.A. and the employee;
- supply of personal information records of the related employees by Telecom Italia S.p.A..

For the other minor funds (BYBLOS, LABORFOND, etc), the payables refer to payments made basically for contributions

Remuneration to key managers

At December 31, 2006, "key managers", that is, those persons having authority and responsibility, directly or indirectly, for planning, management and control of the activities of Telecom Italia, including directors, are as follows:

Directors:	
Marco Tronchetti Provera (*)	Chairman
Guido Rossi (**)	Chairman
Carlo Orazio Buora	Chief Executive Officer Executive Deputy Chairman as from September 15, 2006
Riccardo Ruggiero	Chief Executive Officer General Manager
Managers:	
Gustavo Bracco	Head of Group Human Resources, Organization and Security Function
Enrico Parazzini	Head of Group Finance, Administration and Control Function Head of Media Business Unit Chief Executive Officer of Telecom Italia Media S.p.A.
Massimo Castelli	Head of Market Development in Operations
Francesco Chiappetta	General Counsel Head of Group Corporate and Legal Affairs Function
Luca Luciani	Head of Sales & Customer Services in Operations
Giuseppe Sala (***)	General Manager Head of Top Client and Customer Services in Operations
Stefano Pileri	Chief Technology Officer Head of Technology in Operations
Ramon Grijuela(****)	Head of Top Clients in Operations
Germanio Spreafico	Head of Purchasing

(*) up to September 15, 2006
(**) from September 16, 2006
(***) up to May 31, 2006
(****) from September 11, 2006

The total compensation recorded on the accrual basis by Telecom Italia for key managers was euro 32,498 thousand, divided as follows:

(thousands of euro)	Year 2006	Year 2005
Short-term compensation	18,645	22,699
Long-term compensation	4,049	1,871
Employment termination benefit incentives	9,804	-

NOTE 39 – STOCK OPTION PLANS OF TELECOM ITALIA S.p.A.

Telecom Italia awards stock incentives to its employees (managers and middle management) through stock option plans.

At December 31, 2006, the existing stock option plans relate to options that give the right to the subscription of Telecom Italia ordinary shares (including the options granted at the time by TIM S.p.A.).

During 2006, no new stock option plans were introduced by Telecom Italia; options were last granted in 2002.

The stock option plans of Telecom Italia are described below. Account should be taken of the mergers that previously took place and which are illustrated as follows:

- merger of Telecom Italia S.p.A. in Olivetti S.p.A.: starting from the date the merger came into effect (August 4, 2003), the holders of the options of the merged company and the merging company preserved the corresponding subscription rights. However, the number of shares that could originally be subscribed under the respective plans (one share for each option) was changed on the basis of the assignment ratio established for the shareholders of the two companies. In particular, each option of the pre-merger Telecom Italia S.p.A. stock option plans allows the subscription of 3.300871 new Telecom Italia ordinary shares post-merger, whereas each option of the Olivetti S.p.A. stock option plans, now all ended, allowed the subscription of 0.471553 new Telecom Italia S.p.A. ordinary shares post-merger. Accordingly, the subscription price of each Telecom Italia ordinary share resulting from the exercise of the option was adjusted for each plan, dividing the exercise price of the options already determined by the respective assignment ratio;

- merger of TIM S.p.A. in Telecom Italia S.p.A.: starting from the date the merger came into effect (June 30, 2005), the holders of the options of the merged company preserved the corresponding subscription rights. However, the number of shares that could originally be subscribed under the TIM S.p.A. plans (one share for each option) was changed on the basis of the exchange ratio established for the shareholders of TIM S.p.A. Therefore, each option of the pre-merger TIM S.p.A. stock option plans allows the subscription of 1.73 Telecom Italia S.p.A. ordinary shares post-merger, Accordingly, the subscription price of each Telecom Italia ordinary share resulting from the exercise of the options was adjusted for each plan, dividing the exercise price of the options already determined by the exchange ratio.

In describing the stock option plans, for the purpose of rendering the representation of the options homogeneous with that of the underlying subscribable shares to which they correspond, and to facilitate their measurement on the basis of the relative subscription prices, the Group has used the concept of "equivalent options". By "equivalent options" is meant a quantity of options equal to those that would be necessary for the subscription of Telecom Italia ordinary shares post-merger to the extent of one share for each option exercised, or, more simply, a quantity of options equal to the number of Telecom Italia ordinary shares subscribable post-merger.
In this manner, the weighted average prices and the exercise prices indicated below, since they refer, depending on the cases, to the list prices of the assignable shares (eventually adjusted following the above mergers) or equivalent options, are consistent and directly comparable among each other.

The Telecom Italia stock option plans for the period from December 31, 2005 to December 31, 2006 are presented below.

- In the meeting held on September 11, 2000, the Telecom Italia S.p.A. board of directors approved the introduction of the “Stock Option Plan 2000”, with 51,430,000 options granted at an exercise price of euro 13.815 per option. Such options, following the merger of Telecom Italia S.p.A. in Olivetti S.p.A., corresponded to 169,763,796 equivalent options, at an exercise price of euro 4.185259 per equivalent option.
  The options were divided into three lots of 15,460,000 options each (51,031,466 equivalent options), vesting, respectively, in July 2001, 2002 and 2003 and an extraordinary fourth lot of 5,050,000 options (16,669,399 equivalent options) vesting in July 2003. The Stock Option Plan 2000 provides for different expiration dates depending on the date the options vest: the first lot expired in July 2006, the second expires in June 2007, the third lot and the extraordinary lot in June 2008. For each of the first three lots, the options vested on condition that a performance parameter was met which was linked to the ratio of the arithmetic mean of the official market prices of Telecom Italia ordinary shares (considered over a specific period of time) to the arithmetic mean of the corresponding values of the Dow Jones Eurostoxx for the Telecommunications sector. The first and second lots met the performance criteria and, consequently, the options vested. The third lot and the extraordinary lot did not meet the performance criteria and, therefore, such options did not vest and were forfeited in 2003.
  At December 31, 2005, 10,699,996 options of the Stock Option Plan 2000 were outstanding and corresponded to 35,319,216 equivalent options. In July 2006, the deadline for exercising the first lot expired and the rights relating to 5,349,998 options were forfeited.
  At December 31, 2006, 5,349,998 options of the Stock Option Plan 2000 are outstanding and correspond to 17,659,608 equivalent options, at an exercise price equal to euro 4.185259 per equivalent option.
  At the end of 2006 and 2005, the market price of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

- In the meeting held on July 27, 2001, the Telecom Italia S.p.A. board of directors approved the introduction of the “Stock Option Plan 2001”, with 67,025,000 options granted to managers and middle management of the Group at an exercise price of euro 10.488 per option. Such options, following the merger of Telecom Italia S.p.A. in Olivetti S.p.A., corresponded to 221,240,879 equivalent options, at an exercise price of euro 3.177343 per equivalent option.
  The options were divided into two lots of 33,512,500 options each, vesting, respectively, in April 2002 and 2003, expiring, respectively, in April 2007 and 2008. For each of the two lots, the options vested on condition that a performance parameter was met which was linked to the ratio of the arithmetic mean of the official market prices of Telecom Italia ordinary shares (considered over a specific period of time) to the arithmetic mean of the corresponding values of the Dow Jones Eurostoxx for the Telecommunications sector. The first lot met the performance criteria and, consequently, the options vested. The second lot, instead, did not meet the performance criteria and, therefore, such options did not vest and were forfeited in 2003.
  At December 31, 2005, 31,862,500 options, of the Stock Option Plan 2001 were outstanding and corresponded to 105,173,383 equivalent options. During 2006, the rights to 15,000 options lapsed due to the termination of employment.
  At December 31, 2006, 31,847,500 options are outstanding and correspond to 105,123,871 equivalent options, at an exercise price equal to euro 3.177343 per equivalent option.
  At the end of 2006 and 2005, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

- In the meeting held on February 13, 2002, the Telecom Italia S.p.A. board of directors approved the introduction of the “Stock Option Plan 2002 Top”, with 11,800,000 options granted to sixteen top managers of the Group at an exercise price of euro 9.203 per option. Such options, following the merger of Telecom Italia S.p.A., in Olivetti S.p.A. corresponded to 38,950,278 equivalent options, at an exercise price of euro 2.788052 per equivalent option.

  The options of the “Stock Option Plan 2002 Top” were not subject to reaching performance parameters and vested by February 2005 and expire in February 2010.

  At December 31, 2005 and December 31, 2006, 9,480,001.33 options of Stock Option Plan 2002 Top were outstanding and corresponded to 31,292,243 equivalent options, at an exercise price equal to euro 2.788052 per equivalent option.

  At the end of 2006 and 2005, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

  In the meeting held on March 26, 2002, the Telecom Italia S.p.A. board of directors considered the objective ineffectiveness of the Stock Option Plan 2000 Top as an incentive and as a means of retaining management loyalty, in relation to the exercise price of the options compared to the general market trend of the stock market. As a result, the Board approved the introduction of the “Stock Option Plan 2002”, set aside for management of the Group who were already grantees of the Stock Option Plan 2000 and other managers hired after July 27, 2001 (starting date of the Stock Option Plan 2001). The grantees of the original Stock Option Plan 2000, on condition of voluntarily relinquishing the relative options, could take part in the new plan. The options of the “Stock Option Plan 2002” were not subject to reaching performance parameters and vested by March 2005 and expire in March 2010.

  The options were granted as follows:

  1. in March 2002, 29,958,000 options were granted at an exercise price of euro 9.665 per option. Such options, following the merger of Telecom Italia S.p.A. in Olivetti S.p.A., corresponded to 98,887,493 equivalent options, at an exercise price of euro 2.928015 for each equivalent option.

     At December 31, 2005, 19,905,053.50 options granted in March 2002 were outstanding and corresponded to 65,703,601 equivalent options. During 2006, 4,104,000 options lapsed due to the termination of employment.

     At December 31, 2006, 15,801,053.50 options are outstanding and correspond to 52,156,879 equivalent options, at an exercise price equal to euro 2.928015 per equivalent option .

     At the end of 2006 and 2005, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.
  2. in August 2002, 840,000 options were granted at an exercise price of euro 7.952 per option. Such options, following the merger of Telecom Italia S.p.A. in Olivetti S.p.A., corresponded to 2,772,723 equivalent options, at an exercise price equal to euro 2.409061 per equivalent option.

     At December 31, 2005, 719,000.43 options granted in August 2002 were outstanding and corresponded to 2,373,319 equivalent options, at an exercise price equal to euro 2.409061 per equivalent option. During 2006, 49,000 options lapsed due to the termination of service.

     At December 31, 2006, 670,000,43 options are outstanding and correspond to 2,211,577 equivalent options, at an exercise price equal to euro 2.409061 per equivalent option.

     At the end of 2006, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option whereas at the end of 2005 it was higher.

The stock option plans awarded at the time by TIM (pre-merger with Telecom Italia S.p.A.) for the period from December 31, 2005 to December 31, 2006 are described below.

- In the meeting held on December 22, 1999, the TIM S.p.A. board of directors approved the introduction of the “Stock Option Plans 2000-2002”, with 21,210,000 options granted at an exercise price of euro 6.42 per option. Such options, following the merger of TIM S.p.A. in Telecom Italia S.p.A., corresponded to 36,693,300 equivalent options, at an exercise price of euro 3.710983 per equivalent option.
  The options can be exercised subject to reaching an objective minimum parameter to be measured with reference to the results achieved by the company in terms of E.V.A. (Economic Value Added), net of financial investments, compared to the minimum measurement indicated in the annual budget, respectively, in the years 1999, 2000 and 2001. The parameter was reached and, consequently, the options vested by the end of 2002 and expire in December 2008.
  At December 31, 2005, 11,735,653 options of the Stock Option Plans 2000-2002 are outstanding and corresponded to 20,302,679 equivalent options, are outstanding . During 2006, the rights to 1,939,997 lapsed due to the termination of employment.
  At December 31, 2006, 9,795,656 options are outstanding and correspond to 16,946,391 equivalent options, at an exercise price equal to euro 3.710983 per equivalent option.
  At the end of 2006 and 2005, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

- In the meeting held on February 12, 2002, the TIM S.p.A. board of directors approved the introduction of the “Stock Option Plans 2002-2003”, with 25,510,000 options granted to managers and employees at an exercise price of euro 5.67 per option. Such options, following the merger of TIM S.p.A. in Telecom Italia S.p.A., corresponded to 44,132,300 equivalent options, at an exercise price of euro 3.277457 per equivalent option.
  The options of the Stock Option Plans 2002-2003 were not subject to reaching performance parameters and vested by the end of December 2003 and expire in December 2008.
  At December 31, 2005, 22,025,000 options of the Stock Option Plans 2002-2003 were outstanding and corresponded to 38,103,250 equivalent options. During 2006, the rights to 4,630,000 options lapsed due to the termination of employment.
  At December 31, 2006, 17,395,000 options are outstanding and correspond to 30,093,350 equivalent options, at an exercise price equal to euro 3.277457 per equivalent option.
  At the end of 2006 and 2005, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

- In the meeting held on May 6, 2002, the TIM S.p.A. board of directors approved the introduction of the “Stock Option Plans 2003-2005” set aside for management of the Group who already held options in the Stock Option Plans 2001-2003 and the Supplementary Plans 2001-2003 and new grantees. The grantees who already held options in the previous plans could take advantage of the new plans, on condition of voluntarily relinquishing the relative options beforehand. The Stock Option Plans 2003-2005 provided for 50,057,000 options to be granted at an exercise price equal to euro 5.07 per option. Such options, following the merger of TIM S.p.A. in Telecom Italia S.p.A., corresponded to 86,598,610 equivalent options, at an exercise price of euro 2.930636 per equivalent option. Of the total options, 48,142,000 were granted to grantees of the previous plans and 1,915,000 were granted to new grantees.
  The options of the Stock Option Plans 2003-2005 were not subject to reaching performance parameters and vested by December 2004 and expire in December 2010.

At December 31, 2005, 1,915,900 options of the Stock Option Plans 2003-2005 were outstanding and corresponded to 3,314,507 equivalent options. During 2006, the rights to 230,000 options lapsed due to the termination of employment.
At December 31, 2006, 1,685,900 options are outstanding and correspond to 2,916,605 equivalent options, at an exercise price equal to euro 2.930636 per equivalent option .
At the end of 2006 and 2005, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

Movements in TIM stock option plans for the period from December 31, 2004 to June 30, 2005, effective date of the merger of TIM in Telecom Italia are presented in the following table.

	Number of options	Weighted average price per option (euro)
Options outstanding at December 31, 2004	**45,132,319**	**5,87**
Exercised	(5,945,100)	5,07
Lapsed [1]	(1,136,666)	5,90
Options outstanding at June 30, 2005	**38,050,553**	5,99
Equivalent options at June 30, 2005[2]	*65,827,457*	*3,46*

(1) These options lapsed since they could no longer be exercised as a result of the termination of employment and/or other reasons (e.g. relinquished by the interested party).
(2) Equivalent number of options and relative weighted average price deriving from the application of the TIM - Telecom Italia conversion ratio equal to 1.73.

Movements in all Telecom Italia stock option plans for the period from December 31, 2004 to December 31, 2006 (including plans granted by Tim S.p.A.) are presented in the following table.

	Number of equivalent options	Weighted average price per equivalent option (euro)
Options outstanding at December 31, 2004	**253,230,091**	**3,18**
Lapsed at January 1, 2005	(755,890)	3,02
Exercised	(9,174,215)	2,83
Lapsed [1]	(4,623,274)	3,04
Expired and forfeited [2]	(2,921,970)	4,82
Equivalent options coming from the acquired company TIM S.p.A. [3]	65,827,456	3,46
Options outstanding at December 31, 2005	**301,582,198**	**3,24**
Lapsed [1]	(25,522,066)	3,14
Expired and forfeited [2]	(17,659,608)	4,19
Options outstanding at December 31, 2006	**258,400,524**	**3,19**

(1) These equivalent options lapsed since they could no longer be exercised as a result of the termination of employment and/or other reasons (e.g. relinquished by the interested party).
(2) These equivalent options expired since they were not exercised during the stated period or were forfeited since they did not become vested because of failure to reach the performance parameters.
(3) Equivalent number of options coming from the merged company TIM S.p.A. outstanding at June 30, 2005 (effective date of the merger with Telecom Italia S.p.A.).

The following tables present, with reference to the Telecom Italia stock option plans outstanding at December 31, 2006 and 2005, grouped by the range of exercise price, the residual weighted average life and the weighted average grant price of the equivalent options:

Range of grant price (euro)	Equivalent options outstanding at December 31, 2006			Equivalent options exercisable at December 31, 2006	
	Equivalent options	Residual weighted average life (years)	Weighted average grant price (euro)	Equivalent options	Weighted average grant price (euro)
2.41	2,211,577	2.27	2.41	2,211,577	2.41
2.78 – 2.94	86,365,727	2.34	2.88	86,365,727	2.88
3.17 – 3.72	152,163,612	0.82	3.26	152,163,612	3.26
4.19	17,659,608	0.50	4.19	17,659,608	4.19
	258,400,524			**258,400,524**	

Range of grant price (euro)	Equivalent options outstanding at December 31, 2006			Equivalent options exercisable at December 31, 2006	
	Equivalent options	Residual weighted average life (years)	Weighted average grant price (euro)	Equivalent options	Weighted average grant price (euro)
2.41	2,373,319	3.30	2.41	2,373,319	2.41
2.78 – 2.94	100,310,351	3.34	2.88	100,310,351	2.88
3.17 – 3.72	163,579,312	1.90	3.27	163,579,312	3.27
4.19	35,319,216	1.00	4.19	35,319,216	4.19
	301,582,198			**301,582,198**	

NOTE 40 - SIGNIFICANT NON-RECURRING EVENTS AND TRANSACTIONS

Details of non-recurring items

The effect of non-recurring events and transactions on the net income for the year, equity, net financial debt and cash flows of Telecom Italia S.p.A. is set out below in accordance with Consob communication DEM/6064293 dated July 28, 2006.

(thousands of euro)		Equity	Net income for the year	Net financial debt	Cash flows (*)
Amount - financial statements	**(A)**	**24,523,549**	**4,143,577**	**40,614,503**	**(1,024,076)**
Supplementary Antitrust fine		(2,500)	(2,500)		
Gains on sales of properties		88,135	88,135	(293,332)	293,332
Losses on sales of business segments		(6,162)	(6,162)	(200)	200
Release of Avea I.H.A.S. provisions		60,770	60,770		
Gains (losses) on sale of investments		(45,389)	(45,389)	27,153	(27,153)
Sundry financial expenses		(4,100)	(4,100)		
Collection of TLC operating fee receivable		-	-	(546,411)	546,411
Payment of Antitrust fine		-	-	115,000	(115,000)
Collection on sale of investment in Finsiel		-	-	(26,549)	26,549
Distribution of dividends by Telecom Italia Media		-	-	(361,654)	361,654
Total effect	**(B)**	**90,753**	**90,753**	**(1,085,993)**	**1,085,993**
Figurative amount - financial statements	**(A - B)**	**24,432,796**	**4,052,824**	**41,700,496**	**(2,110,069)**

(*) Cash flows refer to the increase (decrease) in cash and cash equivalents during the year.

The impact of non-recurring items on the individual lines of the statement of income is as follows:

(thousands of euro)	2006 (a)	2005 (b)	Change (a – b)
Other income:			
Release of provision for risk regarding antitrust fine	-	37,000	(37,000)
Personnel costs:			
Expenses for mobility agreements Law223/91 and extraordinary manager termination incentives	-	(263,257)	263,257
Other operating expenses:			
Settlement with Opportunity	-	(50,368)	50,368
Supplementary antitrust fine	(2,500)	-	(2,500)
IMPACT OF NON-RECURRING INCOME (EXPENSES) ON EBITDA	(2,500)	(276,625)	274,125
Gains (losses) realized on non-current assets:			
Gains on sales of properties	141,423	278,844	(137,421)
Loss on sale of “Radiomaritime activities”	(9,197)	-	(9,197)
IMPACT OF NON-RECURRING INCOME (EXPENSES) ON EBIT	129,726	2,219	127,507
Financial income (expenses):			
Release of Avea I.H.A.S. provisions	90,701	78,577	12,124
Losses on sale of investments	(45,389)	(23,334)	(22,055)
Sundry financial expenses	(4,100)	-	(4,100)
IMPACT OF NON-RECURRING INCOME (EXPENSES) ON INCOME BEFORE TAXES	170,938	57,462	113,476
Effect of income taxes	(80,185)	(43,622)	(36,563)
IMPACT OF NON-RECURRING INCOME (EXPENSES) ON NET INCOME FOR THE YEAR	90,753	13,840	76,913

NOTE 41 – POSITIONS OR TRANSACTIONS DERIVING FROM ATYPICAL AND/OR UNUSUAL TRANSACTIONS

In accordance with Consob Communication dated July 28, 2006, a statement is made to the effect that in 2006 Telecom Italia S.p.A. had no atypical and/or unusual transactions, as defined by the Communication itself.

NOTE 42 – OTHER INFORMATION

a) Remuneration to Directors, Statutory Auditors, General Managers and Key Managers

In compliance with art. 78 giving effect to Legislative Decree 58 dated February 24, 1998, adopted by Consob under Resolution 11971 dated May 14, 1999, the following table presents the remuneration to which all the individuals were entitled who, during 2006 or a part of that year, have held the position of director, statutory auditor or general manager of Telecom Italia S.p.A..
In particular:

- the column "Remuneration for the position" shows the remuneration, by period of reference, approved by the shareholders' meetings of Telecom Italia and the remuneration ex art. 2389, paragraph 3, of the Italian Civil Code;
- the column "Non-cash benefits" indicates the fringe benefits subject to taxes based on current tax laws and any insurance policies;
- the column "Bonuses and other incentives" include one-off remuneration;
- the column "Other remuneration" includes: (i) remuneration due for positions held in listed and unlisted subsidiaries; (ii) employee compensation (gross of the employees' portion of social security charges and taxes, excluding the employers' portion of obligatory social security contributions and expenses for employee severance indemnities); (iii) compensation at the end of the term of office.

Following the amendments to the above article 78, indication is also provided of the remuneration paid, for any reason and in any form, by Telecom Italia S.p.A. and by the companies which it controls, to key managers who, during 2006 or a part of that year, have held such position.

BOARD OF DIRECTORS AND BOARD OF STATUTORY AUDITORS OF TELECOM ITALIA S.P.A.

INDIVIDUAL	DESCRIPTION OF POSITION		REMUNERATION (thousands of euro)			
Name	Position held	Period during which position was held	Remuneration for the position	Non-cash benefits	Bonuses and other incentives	Other remuneration
Guido ROSSI	Chairman	9/16-12/31/2006	684	3		
Gilberto BENETTON	Deputy Chairman	1/1-12/31/2006	114			
Carlo Orazio BUORA	CEO Executive Deputy Chairman	1/1-9/15/2006 9/16-12/31/2006	1,471 692	8 12	1,220 (1)	13 (2)
Riccardo RUGGIERO	CEO General Manager	1/1-12/31/2006	829 (3)	8	1,639 (4)	968 (5)
Paolo BARATTA	Director	1/1-12/31/2006	166 (6)			
John Robert Sotheby BOAS	Director	1/1-12/31/2006	114			
Diana BRACCO	Director	4/13-12/31/2006	85			
Francesco DENOZZA	Director	1/1-12/31/2006	177 (7)			
Domenico DE SOLE	Director	1/1-12/31/2006	197 (8)			
Luigi FAUSTI	Director	1/1-12/31/2006	166 (6)			
Guido FERRARINI	Director	1/1-12/31/2006	197 (9)			
Jean Paul FITOUSSI	Director	1/1-12/31/2006	114			
Vittorio MERLONI	Director	4/13-12/31/2006	85			
Gianni MION	Director	1/1-12/31/2006	114 (10)			13 (11)
Massimo MORATTI	Director	1/1-12/31/2006	114			
Marco ONADO	Director	1/1-12/31/2006	197 (8)			
Renato PAGLIARO	Director	1/1-12/31/2006	114 (12)			
Pasquale PISTORIO	Director	1/1-12/31/2006	186 (13)			

Carlo A. PURI NEGRI	Director	1/1-12/31/2006	114			
Luigi ROTH	Director	1/1-12/31/2006	114			
Marco TRONCHETTI PROVERA	Chairman	1/1-9/15/2006	1,658	24	1,365(14)	
Giovanni CONSORTE	Director	1/1-1/23/2006	9			
Enzo GRILLI	Director	1/1-10/29/2006	95			
Giuseppe SALA	General Manager	1/1-5/31/2006		3	1,827(15)	3,853(16)
Paolo GOLIA	Acting Auditor Chairman of Board of Statutory Auditors	1/1-4/13/2006 4/14-12/31/2006	37 123			
Enrico Maria BIGNAMI	Acting Auditor	10/21-12/31/2006	25(17)			
Ferdinando SUPERTI FURGA	Acting Auditor Chairman of Board of Statutory Auditors	1/1-4/13/2006 4/14-12/31/2006	55(18) 105(18)			
Salvatore SPINIELLO	Acting Auditor	1/1-12/31/2006	128			42(19)
Gianfranco ZANDA	Acting Auditor	1/1-12/31/2006	128			20(20)
Rosalba CASIRAGHI	Acting Auditor	1/1-4/13/2006	37			
Stefano MEROI	Acting Auditor	4/14-10/20/2006	67			

(1) The amount includes variable remuneration ex art. 2389 paragraph 3 of the Italian Civil Code paid in 2006 since it was subject to reaching a consolidated EBIT 2005 budget target, with a positive EVA change. With regard to 2007, the board of directors' meeting held on March 7, 2006 approved additional remuneration of euro 1,250,000.00 which was increased by resolution of the board of directors' meeting held on November 6, 2006 to euro 1,400,000.00, the payment of which, in 2007, is subject to reaching the economic and financial targets of the Group.
(2) Remuneration ex art. 2389, paragraph 1 of the Italian Civil Code for the position of Chairman of Tim Italia S.p.A. during the period 1/1 – 2/28/2006, not received but paid over to Telecom Italia S.p.A..
(3) Remuneration ex art. 2389, paragraph 1 of the Italian Civil Code is not paid to the individual.
(4) The amount includes remuneration paid in respect of Management By Objectives (MBO), one-off "Services" (for the contribution to the corporate integration process), one-off "Retention" and one-off "Sundry Occasional" services.
(5) The amount includes gross compensation as an employee, remuneration ex art. 2389, paragraph 1 of the Italian Civil Code for the position of CEO of Tim Italia S.p.A. for the period 1/1 – 2/28/2006 and for the position of Chairman of Telecom Italia Sparkle S.p.A. for the period 4/1 – 12/31/2006, not received but paid over to Telecom Italia S.p.A..
(6) The amount includes remuneration paid as a member of the Remuneration Committee.
(7) The amount includes remuneration paid as a member of the Committee for Internal Control and Corporate Governance.
(8) The amount includes remuneration paid as a member of the Committee for Internal Control and Corporate Governance and as a member of the Strategies Committee.
(9) The amount includes remuneration paid as a member of the Committee for Internal Control and Corporate Governance and as a member of the Supervisory Panel under Legislative Decree 231/2001.
(10) Remuneration not received but paid over to Edizione Holding.
(11) The amount includes remuneration paid for the position of Deputy Chairman of the subsidiary Tim Italia S.p.A. from 1/1 – 2/28/2006, not received but paid over to Edizione Holding.
(12) Remuneration not received but paid over to Mediobanca.
(13) The amount includes remuneration paid as a member of the Committee for Internal Control and Corporate Governance.
(14) The amount includes variable remuneration ex art. 2389, paragraph 3 of the Italian Civil Code paid in 2006 since it was subject to reaching a consolidated EBIT 2005 budget target, with a positive EVA change.
(15) The amount includes remuneration paid in respect of Management By Objectives (MBO), one-off "Services", one-off "Substitute" MBO 2006 and one-off "Retention".
(16) The amount includes gross compensation as an employee, compensation for unused holidays and for the termination of employment with Telecom Italia S.p.A., according to the general settlement.
(17) The amount includes remuneration not received but paid to the Bignami e Associati corporate and tax consulting firm.
(18) The amount includes remuneration paid as a member of the Supervisory Panel under Legislative Decree 231/2001.
(19) The amounts includes remuneration for the position of Acting Auditor of Telecom Italia Media S.p.A..
(20) The amount includes remuneration for the position of Chairman of the Board of Statutory Auditors of IT Telecom S.r.l. from 1/1 – 12/31/2006 and for the position of Acting Auditor of Tim Italia S.p.A. from 1/1 – 2/28/2006.

The total compensation paid to key managers for whatsoever reason in whatsoever form by Telecom Italia S.p.A. and by companies controlled by it for 2006 amounted to euro 26,648 thousand, and included euro 16,277 thousand of remuneration paid to directors as indicated in the above table.

The following tables have been prepared according to the format required by the Regulation for the implementation of Legislative Decree dated February 24, 1998, adopted by Consob under Resolution 11971 dated May 14, 1999 and subsequent amendments and supplements, relating to the stock options granted to the general manager and key managers of the Company.

	Options held at the beginning of 2006			Options granted during 2005			Options exercised during 2006			Options expired lapsed in 2006	Options held at the end of 2006		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)=1+4-7-10	(12)	(13)
Name	Number of options (*)	Average exercise price (**)	Average expiration date	Number of options	Average exercise price	Average expiration date	Number of options	Average exercise price	Average market price during year	Number of options	Number of options (*)	Average exercise price (**)	Average expiration date
Riccardo Ruggiero	750,000	3.177343	2007	-	-	-	-	-	-	-	750,000	3.177343	2007
	200,000	2.788052	2010	-	-	-	-	-	-	-	200,000	2.788052	2010

(*) Each option corresponds to the subscription or purchase of 3.300871 Telecom Italia ordinary shares.
(**) The average exercise price means the average subscription price of Telecom Italia ordinary shares deriving from the exercise of the options.

	Options held at the beginning of 2006			Options granted during 2006			Options exercised during 2006			Options expired or lapsed in 2006	Options held at the end of 2006		
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)=1+4-7-10	(12)	(13)
Stock option plan	Number of options (*)	Average exercise price (**)	Average expiration date	Number of options	Average exercise price	Average expiration date	Number of options	Average exercise price	Average market price during the year	Number of options	Number of options (*)	Average exercise price (**)	Average expiration date
Plan 2001	**375,000**	**3.177343**	**2007**	-	-	-	-	-	-	-	**375,000**	**3.177343**	**2007**
Plan 2002	**1,128,000**	**2.697982**	**2009**	-	-	-	-	-	-	-	**1,128,000**	**2.697982**	**2009**
Plan 2002 Top	**3,200,000**	**2.788052**	**2009**	-	-	-	-	-	-	-	**3,200,000**	**2.788052**	**2009**

(*) Each option corresponds to the subscription or purchase of 3.300871 Telecom Italia ordinary shares.
(**) The average exercise price means the average subscription price of Telecom Italia ordinary shares deriving from the exercise of the options.

b) Research and development

During the year 2006, research and development activities by Telecom Italia were mainly carried out by the "Innovation & Engineering Services" function (ex-Telecom Italia Lab) under Operations, also in collaboration with Pirelli Labs, and by Olivetti S.p.A..

The total costs incurred in 2006 amount to approximately euro 133 million (euro 178 million in the prior year) and are represented by external costs, labor costs of dedicated staff and depreciation and amortization.
The research activities expensed during the year amount to euro 76 million (euro 126 million in 2005). The development costs capitalized, euro 57 million (euro 52 million in 2005), include only those expenses that have been directly attributed to the development process: in particular, such expenses were capitalized to tangible assets for network assets and to intangible assets for software.

Research and development activities conducted by the Telecom Italia are detailed in the Report on Operations in the "Sustainability Section under "Research, Development and Innovation ".

c) Operating leases

Revenue-related

Telecom Italia has signed lease contracts for direct connections, in particular numeric and analog lines, offered under wholesale plans to interconnecting operators.
At December 31, 2006, the amount of lease installments receivable on non-cancelable lease contracts, which decreased from last year due to the fact that the expiration dates of the relative contracts were reduced by one year, is the following:

(thousands of euro)	12/31/2006	12/31/2005
Within 1 year	9,582	152,114
From 2 to 5 years		87,616
Total	9,582	239,730

Expense-related

Telecom Italia has signed lease contracts for buildings (for periods from 6 to 9 years) and lines.
At December 31, 2006, the amount of lease installments payable on non-cancelable lease contracts is the following:

(thousands of euro)	12/31/2006	12/31/2005
Within 1 year	278,261	233,291
From 2 to 5 years	621,721	715,548
Beyond 5 years	262,600	310,867
Total	1,162,582	1,259,706

NOTE 43 – EVENTS SUBSEQUENT TO DECEMBER 31, 2006

Revolving Credit Facility expiring 2012

On January 15, 2007, euro 1.5 billion of the remaining available syndicated credit line expiring in March 2007 was cancelled (in addition to euro 0.5 billion of the same credit line used by Telecom Italia Finance S.A.) and at the same time the revolving credit facility of euro 2 billion expiring in 2012 was increased by the same amount. The new amount of revolving credit facility is therefore equal to euro 8 billion.
As a result of the above, Telecom Italia has kept its unused committed credit lines at euro 6.6 billion and extended the average term of the facility.

Repayment of Telecom Italia S.p.A. 5.625% bonds due 2007

On February 1, 2007, at maturity, Telecom Italia repaid the 5.625% bonds of Euro 1,250 million.

"Bersani" Decree (Decree Law 7 dated January 31, 2007)

In January 2007, the Italian Government enacted the "Bersani" Decree (Decree Law 7 dated January 31, 2007) which establishes the elimination of the fixed top-up cost for recharging prepaid phone cards. It also prohibits fixing a date for the expiration of the remaining prepaid credit on the card and eliminates certain penalties for rescinding from the subscription contract with mobile operators before expiration. Telecom Italia has estimated the potential negative impact of the "Bersani Decree" on revenues and EBITDA for 2007 in euro 350-400 million. This figure takes into account the effect of the potential changes in market share (as a result of pricing policies), the flexibility with respect to traffic volumes, the possible variation in retail rates and the efficiencies attainable on recharging costs.

NOTE 44 - INVESTMENTS

The list of investments in subsidiaries, associates and jointly controlled companies at December 31, 2006 and the movements during the year are presented on the following pages.

NON-CURRENT ASSETS - INVESTMENTS

	12/31/2005			Changes during year									12/31/2006		
(thousands of euro)	Cost	Writedowns	Carrying amount	Merger effect Tim Italia/ Nuova Tin.it	Acquisitions/ Subscriptions/ Payments to absorb losses	Use of provision on investments	Disposals / reimbursements (1)	Reductions to absorb losses (1)	Impairments/ Reversals	Fair value adjustments	Reclassifications	Total	Cost	Writedowns	Carrying amount
Investments in subsidiaries															
DOMUS ACADEMY	2.400	(1.715)	685						(170)			(170)	2.400	(1.885)	515
EMSA SERVIZI (in liquidation)	5.000	-	5.000									-	5.000	-	5.000
EUSTEMA	465	-	465				(465)					(465)	-	-	-
IT TELECOM S.r.l.	23.938	(9.472)	14.466									-	23.938	(9.472)	14.466
IRIDIUM ITALIA (in liquidation)	545	-	545									-	545	-	545
LIBERTY SURF GROUP	475.011	-	475.011						(185.311)			(185.311)	475.011	(185.311)	289.700
LOQUENDO	11.090	(7.866)	3.224									-	11.090	(7.866)	3.224
MATRIX	162.640	-	162.640									-	162.640	-	162.640
NETESI (in liquidation)	435	(369)	66						(66)			(66)	435	(435)	-
NUOVA TIN.IT	880.000	-	880.000	(880.000)								(880.000)	-	-	-
OFI CONSULTING	78.940	(43.831)	35.109									-	78.940	(43.831)	35.109
OLIVETTI GESTIONI IVREA (in liquidation)	2.667	(508)	2.159									-	2.667	(508)	2.159
OLIVETTI MULTISERVICES	41.042	(639)	40.403									-	41.042	(639)	40.403
OLIVETTI	149.525	(57.374)	92.151		100.284				(40.994)			59.290	204.000	(52.559)	151.441
PATH.NET	7.746	-	7.746									-	7.746	-	7.746
PROGETTO ITALIA	1.000	-	1.000									-	1.000	-	1.000
SAIAT	34.743	-	34.743									-	34.743	-	34.743
SATURN VENTURE PARTNERS	618	-	618				(261)		(39)			(300)	318		318
TECNO SERVIZI MOBILI	53	-	53									-	53	-	53
TECO SOFT ARGENTINA (in liquidation)	6.685	(6.685)	-									-	6.685	(6.685)	-
TELECOM ITALIA AMERICA LATINA	13.220	(13.220)	-									-	13.220	(13.220)	-
TELECOM ITALIA AUDIT AND COMPLIANCE SERVICES	2.250	-	2.250									-	2.250	-	2.250
TELECOM ITALIA CAPITAL SA	2.388	-	2.388									-	2.388	-	2.388
TELECOM ITALIA DEUTSCHLAND HOLDING	243.201	-	243.201									-	243.201	-	243.201
TELECOM ITALIA INTERNATIONAL	4.629.735	(2.381.110)	2.248.625									-	4.629.735	(2.381.110)	2.248.625
TELECOM ITALIA LEARNING SERVICES	11.167	(11.167)	-		40.157	(2.530)	(37.627)					-	-	-	-
TELECOM ITALIA MEDIA	2.046.723	(1.340.203)	706.520				(361.654)					(361.654)	998.955	(654.089)	344.866
TELECOM ITALIA SAN MARINO	-	-	-									-	-	-	-
TELECONTACTCENTER	489	-	489									-	489	-	489
TELENERGIA	40	-	40	10								10	50	-	50
TELSY	14.512	-	14.512									-	14.512	-	14.512
TELECOM ITALIA FINANCE	1.786.234	(249.280)	1.536.954						(88.564)			(88.564)	1.786.234	(337.844)	1.448.390
TELECOM ITALIA LAB SA	2.678	(685)	1.993						(579)			(579)	2.678	(1.264)	1.414
TIM ITALIA	3.769.765	-	3.769.765	(3.769.765)								(3.769.765)	-	-	-
TIM INTERNATIONAL	8.689.080	(4.102.000)	4.587.080									-	8.689.080	(4.102.000)	4.587.080
TELECOM ITALIA SPARKLE	784.765	-	784.765									-	784.765	-	784.765
TRAINET (in liquidation)	674	(674)	-									-	674	(674)	-
Consorzio Energia Gruppo Telecom Italia	5	-	5	5			(10)					(5)	-	-	-
	23.881.469	**(8.226.798)**	**15.654.671**	**(4.649.750)**	**140.441**	**(2.530)**	**(400.017)**	**-**	**(315.723)**	**-**	**-**	**(5.227.579)**	**18.226.484**	**(7.799.392)**	**10.427.092**

(1)	TELECOM ITALIA MEDIA	OLIVETTI	TELECOM ITALIA LEARNING SERVICES	EUSTEMA	SATURN VENTURES PARTNERS	Consorzio Energia Gruppo Telecom Italia
Cost	1.047.768	45.809	51.324	465	261	10
Writedowns	(686.114)	(45.809)	(13.697)			
	361.654	-	37.627	465	261	10

(thousands of euro)	12/31/2005 Cost	Writedowns	Carrying amount	Changes during year Merger effect Tim Italia/ Nuova Tin.it	Acquisitions/ Subscriptions/ Payments to absorb losses	Use of provision on investments	Disposals / reimbursements (1)	Reductions to absorb losses (1)	Impairments/ Reversals	Fair value adjustments	Reclassifications	Total	12/31/2006 Cost	Writedowns	Carrying amount
Investments in associates and jointly controlled companies															
AREE URBANE	5.589	(417)	5.172									-	5.589	(417)	5.172
ASSCOM INSURANCE BROKERS	20	-	20									-	20	-	20
IM.SER	356	-	356			(210)						(210)	146	-	146
IN.VA.	206	(45)	161									-	206	(45)	161
LI.SIT.	1.573		1.573									-	1.573	-	1.573
LUNA ROSSA CHALLENGE 2007	1.960	-	1.960		22							22	1.982	-	1.982
LUNA ROSSA TRADEMARK	10.000	-	10.000									-	10.000	-	10.000
NORDCOM	29.045	(26.902)	2.143									-	29.045	(26.902)	2.143
OCN TRADING (in liquidation)	1	-	1									-	1	-	1
PERSEO	263	(1)	262			(244)						(244)	19	(1)	18
SHARED SERVICES CENTER	919	-	919	99								99	1.018	-	1.018
SIEMENS INFORMATICA	2.417	-	2.417						(1.717)			(1.717)	2.417	(1.717)	700
SOFORA TELECOMUNICACIONES S.A.	1		1										1	-	1
TELBIOS	1.267	(1.006)	261		1.118				(534)			584	1.384	(539)	845
TELEGONO	4.653	-	4.653			(1.109)	(3.131)					(4.240)	413	-	413
TIGLIO I	116.222	(25.484)	90.738				(22.850)		(1.892)			(24.742)	86.954	(20.958)	65.996
TIGLIO II	14.190	-	14.190				(11.076)					(11.076)	3.114	-	3.114
Consorzio DREAM FACTORY (in liquidation)	89	(89)	-									-	-	-	-
Consorzio EO (in liquidation)	16	(16)	-									-	16	(16)	-
Consorzio NAVIGATE CONSORTIUM	300	-	300						(300)			(300)	300	(300)	-
Consorzio Scuola Superiore Alta Formazione Università Federico II	-	-	-	26								26	26	-	26
Consorzio S.I.A.R.C. (in liquidation)	1	-	1									-	1	-	1
Consorzio TELCAL (in liquidation)	211	-	211				(211)					(211)	-	-	-
Consorzio TURISTEL	26	-	26									-	26	-	26
	189.325	(53.960)	135.365	125	1.140	(1.563)	(37.268)	-	(4.443)	-	-	(42.009)	144.251	(50.895)	93.356

(1)

	TIGLIO I	TIGLIO II	TELBIOS	Consorzio TELCAL	Consorzio DREAM FACTORY (in liquidation)	IM.SER	TELEGONO	PERSEO
Cost	29.268	11.076	1.001	211	89	210	4.240	244
Writedowns	(6.418)		(1.001)		(89)	(210)	(1.109)	(244)
	22.850	11.076	-	211	-	-	3.131	-

(thousands of euro)	12/31/2005 Cost	12/31/2005 Writedowns	12/31/2005 Carrying amount	Changes during year: Merger effect Tim Italia/ Nuova Tin.it	Acquisitions/ Subscriptions/ Payments to absorb losses	Use of provision on investments	Disposals / reimbursements (1)	Reductions to absorb losses (1)	Impairments/ Reversals	Fair value adjustments	Reclassifications	Total	12/31/2006 Cost	12/31/2006 Writedowns	12/31/2006 Carrying amount
Investments in other companies															
ANCITEL	257	-	257									-	257	-	257
ASSICURAZIONI GENERALI (*)	-	-	-							903	4.567	5.470	5.470	-	5.470
ATESIA	662	-	662									-	662	-	662
BIOINDUSTRY PARK DEL CANAVESE	52	-	52									-	52	-	52
CAF ITALIA 2000	-	-	-									-	-	-	-
CAPITALIA (*)	-	-	-							38.753	36.018	74.771	74.771	-	74.771
CEFRIEL	36	-	36	33								33	69	-	69
CONSORTIUM	19.527	-	19.527				(1.131)				(18.111)	(19.242)	285	-	285
DIOMEDEA (in liquidation)	6	(6)	-									-	-	-	-
EDINDUSTRIA	44	(35)	9				(9)					(9)	-	-	-
EMITTENTI TITOLI	424	-	424									-	424	-	424
FIN. PRIV.	15.375	-	15.375									-	15.375	-	15.375
FONDO ABITARE SOCIALE 1	-	-	-		122							122	122	-	122
Fratelli ALINARI	2.320	(1.810)	510						(27)			(27)	483	-	483
FUNIVIE DEL PICCOLO S. BERNARDO	-	-	-									-	-	-	-
IDROENERGIA	1	-	1	-								-	1	-	1
IMSER 60	59	-	59									-	59	-	59
INSULA	248	-	248									-	248	-	248
IST. ENCICLOPEDIA ITALIANA G. TRECCANI	5.256	(1.424)	3.832									-	5.256	(1.424)	3.832
ISTITUTO EUROPEO DI ONCOLOGIA	2.116	-	2.116									-	2.116	-	2.116
ISTUD	6	-	6				(6)					(6)	-	-	-
ITALTEL NGA (ex ITALTEL CERM PALERMO)	217	(24)	193				(193)					(193)	-	-	-
MCC	36.018	-	36.018								(36.018)	(36.018)	-	-	-
MEDIOBANCA (*)	227.108	-	227.108							26.345	13.544	39.889	266.997	-	266.997
MIX	10	-	10									-	10	-	10
MOBI TOP LEVEL DOMAIN	-	-	-	600								600	600	-	600
MONTEROSA	20	-	20				(20)					(20)	-	-	-
NEW SATELLITE RADIO	-	-	-		7.000							7.000	7.000	-	7.000
PILA	6	-	6				(6)					(6)	-	-	-
PROGETTO NUOVO SANT'ANNA	-	-	-		225							225	225	-	225
PROGETTO VALLATA	-	-	-		150							150	150	-	150
QXN	-	-	-		25							25	25	-	25
S.A.G.I.T.	1	-	1				(1)					(1)	-	-	-
SIA	11.278	-	11.278									-	11.278	-	11.278
SODETEL	4	-	4									-	4	-	4
UBAE	1.898	-	1.898									-	1.898	-	1.898
Consorzio ABI LAB	1	-	1	1	1	(1)						1	2	-	2
Consorzio CIES	26	-	26			(26)						(26)	-	-	-
Consorzio COREP	10	(10)	-									-	10	(10)	-
Consorzio DISTRETTO AUDIOVISIVO E dell'ICT	5	-	5									-	5	-	5
Consorzio DISTRETTO TECNOLOGICO CANAVESE	118	-	118		12	(130)						(118)	-	-	-
Consorzio ELIS	3	-	3									-	3	-	3
Consorzio IRIS	15	-	15									-	15	-	15
Consorzio Nazionale Imballaggi - CONAI	1	-	1	2								2	3	-	3
Consorzio Univers. Ingegneria per la Qualità e l'Innovazione	-	-	-									-	-	-	-
Consorzio TECHNAPOLI	206	-	206		13							13	219	-	219
Consorzio TOPIX	100	-	100									-	100	-	100
	323.434	**(3.309)**	**320.125**	**636**	**7.548**	**(157)**	**(1.366)**	**-**	**(27)**	**66.001**	**-**	**72.635**	**394.194**	**(1.434)**	**392.760**
Total investmetns	**24.394.228**	**(8.284.067)**	**16.110.161**	**(4.648.989)**	**149.129**	**(4.250)**	**(438.651)**	**-**	**(320.193)**	**66.001**	**-**	**(5.196.953)**	**18.764.929**	**(7.851.721)**	**10.913.208**

(1)

	EDINDUSTRIA	DIOMEDEA (in liquidation)	Consorzio DISTRETTO TECNOLOGICO CANAVESE	Fratelli ALINARI	ITALTEL NGA	ISTUD	S.A.G.I.T.	PILA	MONTEROSA	CONSORTIUM	Consorzio CIES	Consorzio ABI LAB
Cost	44	6	130	1.837	217	6	1	6	20	1.131	26	1
Writedowns	(35)	(6)	(130)	(1.837)	(24)						(26)	(1)
	9	-	-	-	193	6	1	6	20	1.131	-	-

(*) Investmetns valued at fair value.

LIST OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED COMPANIES AT DECEMBER 31, 2006

(thousands of euro)	Head office		Share capital (1)	Equity (1) (2)	Net t income / l (loss) (1)	% owner-ship (%)	Share of equity (A) (3)		Carrying amount (B) (4)	Difference (B-A)
INVESTMENTS IN SUBSIDIARIES										
DOMUS ACADEMY	Milan		140	765	(254)	67.33%	515		515	-
EMSA SERVIZI (in liquidation)	Rome		5,000	5,433	(1,198)	100.00%	5,433		5,000	(433)
IT TELECOM S.r.l.	Pomezia (RM)		7,000	14,116	(357)	100.00%	14,116	(5)	14,466	350
IRIDIUM ITALIA (in liquidation) (9)	Rome		767	1,542	14	65.00%	1,002		545	(457)
LIBERTY SURF GROUP S.A.	Paris		282,559	408,377	(3,386)	100.00%	12,133	(6)	289,700	277,567
LOQUENDO	Turin		3,574	5,877	1,412	99.98%	5,876		3,224	(2,652)
MATRIX	Milan		1,100	48,100	19,285	100.00%	48,100		162,640	114,540
NETESI (in liquidation)	Milan		435	(23)	(90)	100.00%	(23)	(5)	-	23
OFI CONSULTING	Ivrea (To)		95	44,215	1,016	100.00%	44,215		35,109	(9,106)
OLIVETTI GESTIONI IVREA (in liquidation)	Ivrea (To)		1,300	2,588	(128)	100.00%	2,588		2,159	(429)
OLIVETTI MULTISERVICES	Milan		20,337	78,903	36,336	100.00%	63,903		40,403	(23,500)
OLIVETTI	Ivrea (To)		154,000	157,905	(40,902)	100.00%	151,328	(6)	151,441	113
PATH.NET (9)	Rome		7,724	12,493	2,054	100.00%	10,692		7,746	(2,946)
PROGETTO ITALIA	Milan		1,000	1,723	295	100.00%	1,723		1,000	(723)
SAIAT	Turin		35,745	45,917	1,272	100.00%	45,917		34,743	(11,174)
SATURN VENTURE PARTNERS	Delaware (USA)	US$ (.000)	25,806	2,350	134					
			19,595	1,784	107	17.85%	318		318	-
TECNO SERVIZI MOBILI	Rome		26	(6,827)	(759)	51.00%	(3,482)	(5)	53	3,535
TECO SOFT ARGENTINA (in liquidation)	Bueno Aires (Argentina)	Pesos Arg. (.000)	12	(1,228)	-					
			3	(304)	-	99.99%	(304)	(5)	-	304
TELECOM ITALIA AMERICA LATINA	Sao Paulo (Brazil)	R $ (.000)	43,614	4,285	1,801		-			
			15,490	1,522	659	99.99%	1,522		-	(1,522)
TELECOM ITALIA AUDIT AND COMPLIANCE SERVICES	Milan		2,750	2,380	27	81.82%	1,947	(5)	2,250	303
TELECOM ITALIA CAPITAL SA	Luxembourg		2,336	(3,484)	(19,012)	99.99%	(3,484)		2,388	5,872
TELECOM ITALIA DEUTSCHLAND HOLDING	Hamburg (Germany)		25	261,385	4,789	100.00%	261,385		243,201	(18,184)
TELECOM ITALIA INTERNATIONAL	Amsterdam (The Netherlands)		2,399,483	2,701,233	261,244	100.00%	2,701,233		2,248,625	(452,608)
TELECOM ITALIA MEDIA (7)	Rome		100,510	436,125	(90,052)	65.71%	235,445	(6)	344,866	109,421
TELECOM ITALIA SAN MARINO (9)	San Marino		1,550	1,838	895	0.0001%	-		-	-
TELECONTACTCENTER	Naples		770	5,889	617	100.00%	5,889		489	(5,400)
TELENERGIA	Rome		50	5,450	7,472	100.00%	1,750		50	(1,700)
TELSY	Turin		390	14,710	1,911	100.00%	14,710		14,512	(198)
TELECOM ITALIA FINANCE	Luxembourg		542,090	1,434,691	3,132	100.00%	1,434,691		1,448,390	13,699
TI LAB SA	Luxembourg	US$ (.000)	164	1,862	(373)		-			
			124	1,414	(297)	99.99%	1,414		1,414	-
TIM INTERNATIONAL	Amsterdam (The Netherlands)		555,431	5,167,349	340,120	100.00%	5,167,349		4,587,080	(580,269)
TI SPARKLE	Rome		200,000	991,499	105,696	100.00%	859,518	(6)	784,765	(74,753)
TRAINET (in liquidation)	Rome		674	(1,723)	(270)	100.00%	(1,723)	(5)	-	1,723
									10,427,092	(658,605)

(thousands of euro)	Head office		Share capital (1)	Equity (1) (2)	Net t income / l (perdita) (1)	% owner-ship (%)	Share of equity (A) (3)		Carrying amount (B) (4)	Difference (B-A)
INVESTMENTS IN ASSOCIATES AND JOINTLY CONTROLLED COMPANIES										
AREE URBANE	Milan		308	16,392	(2,351)	31.65%	5,188		5,172	(16)
ASSCOM INSURANCE BROKERS	Milan		100	645	387	20.00%	129		20	(109)
IM.SER	Milan		890	367	(922)	40.00%	146		146	0
IN.VA.	Aosta		520	2,112	349	40.00%	845		161	(684)
LI.SIT.	Milan		6,500	12,704	(7,371)	24.20%	3,074		1,573	(1,501)
LUNA ROSSA CHALLENGE 2007	Valencia (Spain)		4,000	19,031	(3,058)	49.00%	9,325		1,982	(7,343)
LUNA ROSSA TRADEMARK	Luxembourg		20,000	18,993	(470)	49.00%	9,307		10,000	693
NORDCOM	Milan		5,000	5,699	61	42.00%	2,394		2,143	(251)
OCN TRADING (in liquidation)	Ivrea (TO)		41	(58)	(23)	40.00%	(23)	(5)	1	24
PERSEO	Milan		20	133	(702)	50.00%	67	(5)	18	(49)
SHARED SERVICES CENTER	Milan		1,757	2,145	0	45.45%	975	(5)	1,018	43
SIEMENS INFORMATICA	Milan		6,192	4,973	(24,707)	49.00%	2,437		700	(1,737)
SOFORA TELECOMUNICACIONES S.A.	Buenos Aires (Argentina)	Pesos Arg. (.000)	439,702	511,000	371,000					
			109,037	126,590	92,001	32.50%	41,142		1	(41,141)
TELBIOS (8)	Milan		4,083	858	(2,995)	31.03%	1,384		845	(539)
TELEGONO	Rome		1,000	11,999	2,971	40.00%	4,800		413	(4,387)
TIGLIO I (8)	Milan		5,256	198,556	(25,701)	45.70%	67,888		65,996	(1,892)
TIGLIO II (8)	Milan		14,185	34,986	3,377	49.47%	4,561		3,114	(1,447)
Consorzio EO (in liquidation)	Rome		19	(21)	(5)	50.00%	(11)	(5)	-	11
Consorzio NAVIGATE CONSORTIUM	Milan		583	241	(345)	20.00%	48		-	(48)
Consorzio Scuola Superiore Alta Formazione Università Federico II (in liquidation)	Naples		127	117	(6)	20.00%	23	(5)	26	3
Consorzio SIARC (in liquidation)	Naples		26	17	(1)	30.00%	5		1	(4)
Consorzio TURISTEL	Rome		77	77	0	33.33%	26		26	0
									93,356	(60,373)

(1) Data taken from the last approved financial statements. For the subsidiaries, IFRS, and for the Associates, local principles.

(2) Includes net income (loss).

(3) Net of dividends paid.

(4) Includes advances on future capital contributions of subsidiaries and affiliated companies.

(5) Covered by provision for losses of subsidiaries and associates

(6) Data taken from the consolidated financial statements.

(7) Stock market price at December 31, 2006 is equal to euro 791,621 thousand.

(8) The "corresponding equity" is taken from the last approved financial statements, adjusted only by capital transactions which took place during 2006, for purpose of comparison with the carrying amount.

(9) Share capital is net of receivables from shareholders for payments still due.

NOTE 45 - TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (IFRS)

Until 2005, Telecom Italia S.p.A. prepared its annual statutory financial statements and first-half report in accordance with Italian accounting principles (Italian GAAP). Beginning from the year 2006, as set forth by law, Telecom Italia S.p.A. prepares its six-month financial statements and separate annual financial statements in accordance with IFRS.
Having said this and given CONSOB Communication DEM/6064313 dated July 28, 2006 (Guidelines regarding the 2006 first-half financial statements prepared in accordance with international standards), the information required by IFRS 1 (First-time Adoption of International Financial Reporting Standards) is presented herein.
In particular, such information regards the impact that the conversion to International Financial Reporting Standards (IFRS) had on equity at January 1, 2005 and at December 31, 2005 and on net income for the year 2005 of Telecom Italia S.p.A..
The notes describe the basis of transition for the first-time application of IFRS (IFRS 1) and the other IFRS elected, including the assumptions made by the directors on the IFRS standards and interpretations in force.
As described in greater detail in the following paragraphs, the balance sheets prepared in accordance with IFRS at January 1, 2005 and at December 31, 2005 and the statement of income prepared in accordance with IFRS for the year 2005 have been derived from data, prepared in accordance with the provisions of Italian law, to which appropriate adjustments and reclassifications have been made to reflect the changes in the presentation, recognition and measurement required by IFRS.
Since the adoption of IFRS for the preparation the 2005 consolidated financial statements required the transition to the new standards as at January 1, 2004, as a result of that conversion, Telecom Italia S.p.A. has recognized the assets and liabilities in its separate financial statements at the same amounts used in the consolidated financial statements, except for items that were adjusted on consolidation.
Consequently, reconciliations between Italian GAAP and IFRS have been prepared, together with the relative notes, for equity at January 1, 2005 (date of transition to IFRS for the separate financial statements) and at December 31, 2005 and for net income for the year 2005.
The reconciliations as well as the balance sheet and statement of income, since they were prepared solely for purposes of the transition to the first complete separate financial statements prepared in accordance with IFRS and endorsed by the European Union (separate financial statements at December 31, 2006), do not present the comparative data and the necessary explanatory notes which would be required to reliably represent the financial condition and results of operations of the Parent, Telecom Italia S.p.A. in conformity with IFRS.
The effects of the transition to IFRS are the result of changes in accounting principles and, consequently, are reflected in the opening equity at January 1, 2005. In the transition to IFRS, the estimates previously formulated in accordance with Italian GAAP have been maintained, unless the adoption of IFRS has required the calculation of estimates in accordance with different methods.

RULES FOR THE FIRST-TIME ADOPTION, ACCOUNTING OPTIONS ELECTED IN THE IFRS FIRST-TIME ADOPTION AND IFRS ELECTED BY TELECOM ITALIA S.P.A.

The restatement of the balance sheet at January 1, 2005 and the separate financial statements for the year ended December 31, 2005 has also required Telecom Italia S.p.A. to elect the following options among those provided by IFRS:

- financial statement presentation: the "current/non-current" classification has been adopted for the balance sheet, which is generally applied by industrial and commercial

enterprises, while the classification of expenses by nature has been elected for the statement of income. This has required the reclassification of the historical financial statements prepared in accordance with the formats provided by Legislative Decree 127/1991.
As for the statement of cash flows, in the financial statements at December 31, 2005 prepared in accordance with Italian GAAP, this statement had already been prepared in accordance with IAS 7 which tends to show the ability of the company to generate "cash and cash equivalents". Under this method, all cash equivalents represent short-term highly-liquid financial investments readily convertible to a known amount of cash and subject to an insignificant risk of a change in value. Therefore, only financial investments with maturities of three months or less from the date of purchase are generally classified as cash equivalents. Financial investments in equities are not considered cash equivalents. Bank overdrafts are generally considered financing activities unless they are repayable on demand and form an integral part of an enterprise's cash management activities, in which case they are classified as a deduction of cash equivalents.
Furthermore, Telecom Italia S.p.A. uses the indirect method to report cash flows from operating activities. According to this method, the net income for the year is adjusted by the effects of non-cash items, such as depreciation and amortization, changes in receivables and payables, etc.;

- optional exemptions provided by IFRS 1 upon first-time application of IFRS:

➢ valuation of property, plant and equipment and intangible assets at fair value or, alternatively, at revalued cost as the deemed cost: for certain categories of property, plant and equipment, revalued cost has been adopted instead of cost;

➢ share-based payments: the Company has elected to apply the exemptions allowed in IFRS 1, paragraph 25 B, and has therefore not applied IFRS 2 to stock options plans granted before November 7, 2002, partly in view of the fact that there were no changes in the terms and conditions of those plans;

➢ business combinations: for the first-time application of IFRS to any business combination, the purchase method set out in IFRS 3 has been applied prospectively beginning from January 1, 2004;

➢ classification and measurement of financial instruments: IAS 32 (Financial Instruments: Disclosures and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement), have been adopted earlier, as allowed, on January 1, 2004;

➢ designation date of financial instruments as instruments at fair value through profit or loss or as available for sale: as allowed by IFRS 1, the designation of financial instruments as a financial asset "at fair value through profit or loss" or "available for sale" has been carried out at January 1, 2004 instead of at the date of initial recognition provided by IAS 39;

➢ derecognition of financial assets and liabilities: in accordance with IFRS 1, if certain non-derivative financial assets and/or liabilities pertaining to transactions that occurred before January 1, 2004 have been derecognized in accordance with previous accounting policies, those assets and/or liabilities do not have to be recognized (and therefore re-recognized in the financial statements) in accordance with IAS 39, except in cases in which the information needed to apply IAS 39 to assets and/or liabilities derecognized as a result of past transactions was available at the time of initially accounting for those transactions. Telecom Italia has taken advantage of such option and has applied the "derecognition of non-derivative financial assets/liabilities" prospectively from January 1, 2003;

- accounting treatments elected from among the accounting options provided by IFRS:

✓ inventories: in accordance with IAS 2, the cost of inventories should be determined by using the FIFO method or the weighted average cost method. Telecom Italia has elected to use the weighted average cost method for each movement;

✓ valuation of tangible assets and intangible assets: subsequent to the initial recording at cost, IAS 16 and IAS 38 provide that these assets may be valued at cost (and depreciated/amortized) or at fair value. Telecom Italia has elected to adopt the cost method;

✓ borrowing costs: for the purposes of recording borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, IAS 23 provides that an entity may apply the benchmark accounting treatment, which provides for the immediate expensing of borrowing costs, or the allowed alternative accounting treatment, which provides, in the presence of certain conditions, for the capitalization of borrowing costs. Telecom Italia has elected to record borrowing costs in the statement of income;

✓ valuation of investments in subsidiaries, associates and joint ventures in the separate financial statements: in accordance with IFRS, such investments must be valued in the separate financial statements at cost or as set forth in IAS 39 at fair value. Telecom Italia has elected to adopt the cost method.

RECONCILIATION BETWEEN ITALIAN GAAP AND IFRS OF EQUITY AT JANUARY 1, 2005 AND DECEMBER 31, 2005 AND NET INCOME FOR THE YEAR 2005

The differences arising from the application of IFRS compared to Italian GAAP as well as the options elected by Telecom Italia from among the accounting options provided by IFRS described above, thus require a restatement of the accounting data prepared in accordance with the previous Italian law on financial statements, resulting in significant effects, in some cases, on the equity and the net income.
The major adjustments can be summarized as follows (before tax):

(in thousands of euro)		Equity January 1, 2005	Equity December 31, 2005	Net income year 2005
TOTAL AMOUNTS ACCORDING TO ITALIAN GAAP	(A)	**16,810,562**	**21,968,095**	**3,884,821**
ADJUSTMENTS TO ITEMS OF THE FINANCIAL STATEMENTS ACCORDING TO ITALIAN GAAP:				
1 Derecognition of start-up and expansion costs		(11,542)	-	11,542
2 Land		91,633	83,110	(35,524)
3 Sale and lease-back of properties		(320,832)	(360,667)	(39,835)
4 Investments in listed companies other than subsidiaries, associates and joint ventures		55,031	113,989	-
5 Derivative financial instruments		(300,429)	(374,079)	(29,185)
6 Bonds (including convertible bonds)		394,323	76,860	(18,377)
7 Employee severance indemnities		66,753	84,997	18,244
8 Expenses under Law 58/1992		(770,739)	(678,493)	92,246
9 Provisions for risks and charges		12,976	10,510	(2,466)
10 Restoration costs		(42,552)	(78,021)	(8,469)
11 Recognition of revenues		(437,471)	(417,742)	19,729
12 Dividends		(1,382,278)	(2,142,269)	(759,991)
13 Telecom Italia S.p.A./TIM S.p.A. merger		-	3,875,577	(1,024,133)
14 Elimination of revaluations of investments, by law		(97,185)	(97,185)	-
15 Impairment of investments		-	(104,951)	(104,951)
Other		(42,589)	21,034	75,322
Tax effect on items in reconciliation		676,324	546,957	(245,390)
TOTAL ADJUSTMENTS	(B)	(2,108,577)	559,627	(2,051,238)
TOTAL AMOUNTS ACCORDING TO IFRS	(C =A+B)	**14,701,985**	**22,527,722**	**1,833,583**

A commentary is presented here on the principal IFRS adjustments made to the Italian GAAP amounts:

1) derecognition of start-up and expansion costs: in accordance with IFRS, start-up and expansion costs incurred in relation to transactions regarding share capital are directly deducted from the reserves in equity at the date of the transaction; other start-up and expansion costs are charged to the statement of income, since the recognition requirements for an intangible asset have not been met. The impact of this different accounting treatment is the following:
   - *at January 1, 2005*: a decrease in equity of euro 11,542 thousand before a positive tax effect of euro 4,318 thousand ;
   - *at December 31, 2005*: an increase in pre-tax income of euro 11,542 thousand due to the effect of the reversal of amortization, before the relative negative tax effect of euro 4,328 thousand;

2) land: in accordance with Italian GAAP, land pertaining to buildings is depreciated together with the same buildings, while in accordance with IFRS land must be classified separately and no longer depreciated. The impact of this different accounting treatment is as follows:
   - *at January 1, 2005*: an increase in equity of euro 91,633 thousand, before the negative tax effect of euro 34,359 thousand, determined by the derecognition of accumulated depreciation on land;
   - *at December 31, 2005*: an increase in equity of euro 83,110 thousand, before a negative tax effect of euro 30,876 thousand. The income for the year 2005 decreased by euro 35,524 thousand, before the positive tax effect of euro 13,541 thousand, due to lower gains in connection with the sale of buildings to the subsidiary Olivetti Multiservices, partly compensated by the reversal of the depreciation charge for the year;

3) sale and leaseback of properties: some transactions for the sale of properties carried out by Telecom Italia in prior years were recorded in accordance with the finance method provided by IAS 17 in that the present value of the contractually provided payments approximates the fair value of the properties under lease. Accordingly, in the balance sheet, the assets sold and leased back are recognized in the assets and the residual payable is recorded in liabilities; in the statement of income, the depreciation charge and interest expense are recorded, instead of the lease payments, while the gain realized at the time of sale is deferred over the period of the contract. The application of this method has the following impact for Telecom Italia S.p.A.:
   - *at January 1, 2005:* a decrease in equity of euro 320,832 thousand, before a positive tax effect of euro 81,570 thousand. Such effect was due to an increase in tangible assets (buildings) of euro 1,282,638 thousand and an increase in financial payables of euro 1,603,470 thousand;
   - *at December 31, 2005:* a decrease in equity of euro 360,667 thousand, before a positive tax effect of euro 96,997 thousand, which takes into account the decrease in equity at January 1, 2005 and the decrease in income for the year 2005, equal to euro 39,835 thousand; the latter decrease is due to higher depreciation (euro 79,722 thousand) and higher financial expenses (euro 150,275 thousand), partly compensated by lower operating costs as a result of the reversal of lease payments (euro 190,162 thousand);

4) investments in listed companies other than subsidiaries, associates and joint ventures: these investments are classified as assets available for sale and measured at fair value in accordance with IAS 39 (*Financial instruments: recognition and measurement*). The application of this standard has the following impact:
   - *at January 1, 2005:* an increase in equity of euro 55,031 thousand following the measurement of the investment in Mediobanca at the market price;

- *at December 31, 2005:* an increase in equity of euro 113,989 thousand following the measurement of the investment in Mediobanca at the market price, before the negative tax effect of euro 6,019 thousand;

5) derivative financial instruments: under Italian GAAP, derivative financial instruments are normally presented as "off-balance sheet" items, whereas under IAS 39, it is mandatory to record derivative financial instruments in the financial statements at fair value.
   The recognition of derivative financial instruments at fair value in the financial statements has the following impact :
   - *at January 1, 2005:* a decrease in equity of euro 300,429 thousand, before a positive tax effect of euro 99,142 thousand;
   - *at December 31, 2005:* a decrease in equity of euro 374,079 thousand, before a positive tax effect of euro 123,446 thousand; this decrease also reflected the negative impact of euro 29,185 thousand on pre-tax income, before a positive tax effect of euro 9,631 thousand;

6) bonds (including convertible bonds): in accordance with Italian GAAP, bonds (including convertible bonds) are recorded at the residual nominal amount (principal); any issue premiums or discounts, as well as issue expenses, are deferred and amortized over the bond period.
   Under IFRS, bonds (without implicit derivatives) are stated in accordance with the amortized cost method, that is, at the initial amount (fair value) net of repayments of principal already made, adjusted by the amortization (at the effective interest rate) of any differences (such as premiums/discounts, issue expenses and repayment premiums) between the initial amount and the amount repayable at maturity. Instead, the amount of compound financial instruments (convertible bonds), under IFRS, should be allocated between the liability component and the implicit derivative financial instrument component. In particular, for convertible bonds, the amount of the liability component is the present value of future cash flows based on the market interest rate at the time of issue with reference to instruments having the same characteristics but without the option, whereas the amount of the option is determined as the difference between the net amount received and the amount of the liability component and is recorded as a specific component of equity.
   These recording methods have the following impact:
   - *at January 1, 2005*: an increase in equity of euro 394,323 thousand, before a negative tax effect of euro 130,127 thousand, almost entirely referring to "Telecom Italia 2001 – 2010" convertible bonds ;
   - *at December 31, 2005:* an increase in equity of euro 76,860 thousand before a negative tax effect of euro 25,365 thousand relating to "Telecom Italia 2001 – 2010" convertible bonds for euro 71,011 thousand; this increase in equity takes into account a decrease in pre-tax income of euro 18,377 thousand before a positive tax effect of euro 6,063 thousand;

7) employee severance indemnities: Italian GAAP require recognition of the liability for employee severance indemnities (TFR) based on the nominal liability matured to the end of the reporting period, in accordance with statutory regulations. Under IFRS, TFR falls under the category of defined benefit plans subject to actuarial valuation (taking into account mortality, foreseeable changes in salaries/wages, etc.) to express the present value of the benefit, payable upon termination of employment, that employees have matured up to the balance sheet date. Furthermore, all actuarial gains and losses are recognized in the statement of income. The impact of this different accounting treatment is as follows:
   - *at January 1, 2005*: an increase in equity of euro 66,753 thousand, before a negative tax effect of euro 22,021 thousand;

- *at December 31, 2005*: an increase in equity of euro 84,997 thousand, before a negative tax effect of euro 28,041 thousand, due to the corresponding decrease in the amount of the provision for employee severance indemnities; pre-tax income for the year 2005 increased by euro 18,244 thousand, before a negative tax effect of euro 6,020 thousand, as a result of lower accruals to the provision for employee severance indemnities;

8) expenses under Law 58/1992: these expenses relating to Law 58/1992 (principal and interest) were recorded in income on a cash basis in the statutory financial statements under Italian GAAP except for the residual principal relating to former Iritel employees which had already been recorded in the financial statements on the basis of the estimate referring to former ASST staff which the specific Ministerial Commission formed under Law 58/1992 had made when the assets conferred by Amministrazione P.T. to Iritel were valued and which Iritel had recorded in the financial statements at December 31, 1993.
   As a result of the introduction of IFRS such expenses are recorded on the accrual basis both with respect to the principal (relating to employees of the former companies of the Stet Group and the former Iritel) and interest. The impact of this different accounting treatment is as follows:
   - *at January 1, 2005*: a decrease in equity of euro 770,739 thousand, before a positive tax effect of euro 254,322 thousand, following the recognition of the remaining liability for principal referring to the employees of the companies of the former Stet Group and for the accrual of the portion of interest due up to January 1, 2005;
   - *at December 31, 2005*: a decrease in equity of euro 678,493 thousand, before a positive tax effect of euro 223,882 thousand, as a result of the above decrease in equity at January 1, 2005, partly compensated by the increase in pre-tax income for the year 2005 equal to euro 92,246 thousand. This increase was due to the reversal of the expenses recorded in the statement of income and paid in 2005 which are in part compensated by the accrual for interest;

9) provisions for risks and charges: the recognition of these liabilities, in accordance with IFRS, is subject to the existence of specific objective conditions and the discounting of the amounts that are expected to be paid beyond 12 months. Such impact can be summarized as follows:
   - *at January 1, 2005:* an increase in equity of euro 12,976 thousand, before a negative tax effect of euro 4,282 thousand, as a result of discounting the provisions to present value;
   - *at December 31, 2005:* an increase in equity of euro 10,510 thousand, before a negative tax effect of euro 3,468 thousand, due to the above increase in equity at January 1, 2005, partly compensated by the decrease in pre-tax income for 2005 equal to euro 2,466 thousand (due to the release to income following the discounting of the provisions to present value) before a positive tax effect of euro 814 thousand;

10) restoration costs: under IFRS, the initial cost of tangible assets also includes the expected costs for decommissioning the fixed asset and restoring the site. The corresponding liability is recognized at fair value in the period in which it arises in a balance sheet provision under Provisions for risks and future charges, with a contra-entry to the Tangible assets with which it is associated; the capitalized cost is recognized as an expense in the statement of income through the depreciation of the related Tangible assets over their useful lives. The impact of the application of this accounting treatment is the following:
    - *at January 1, 2005*: a decrease in equity of euro 42,552 thousand, before a positive tax effect of euro 15,957 thousand;
    - *at December 31, 2005*: a decrease in equity of euro 78,021 thousand, before a positive tax effect of euro 29,143 thousand; pre-tax income for the year 2005 decreased by 8,469 thousand, before the relative positive tax effect of euro 3,128 thousand, due to higher depreciation;

11) **recognition of revenues:** revenues from the activation of telephone services and from recharging prepaid cards, as well as the related costs, are deferred over the expected duration of the relationship with the customer, (generally 8 years for retail customers and 3 years for wholesale customers). The adoption of this method has the following impact, for IFRS purposes:
    - *at January 1, 2005:* a decrease in equity of euro 437,471 thousand, before a positive tax effect of euro 164,052 thousand;
    - *at December 31, 2005:* a decrease in equity of euro 417,742 thousand, before a positive tax effect of euro 156,654 thousand; pre-tax income for the year 2005 increased by euro 19,729 thousand, before a negative tax effect of euro 7,398 thousand;

12) **dividends:** under Italian GAAP, dividends from subsidiaries are recorded on the basis of the maturity principal, that is, in the year in which the earnings from which the dividends are distributed are reported by the subsidiaries. There must also be the certainty, from a substantive standpoint, of their distribution and, in any case, when the shareholders' resolution for their distribution or the appropriation of net income expressed in the draft financial statements prepared by the Directors of those subsidiaries occurs prior to the board meeting which approved the draft financial statements of the Parent. Under IFRS, dividends are recognized when the shareholders acquire the right to receive the dividends. The impact of the application of this accounting treatment under IFRS is as follows:
    - *at January 1, 2005:* a decrease in equity of euro 1,382,278 thousand following the elimination of the dividends from subsidiaries accrued under the maturity principle in the year 2004;
    - *at December 31, 2005:* a decrease in equity of euro 2,142,269 thousand following the elimination under IFRS of the dividends from subsidiaries already accrued under the maturity principle in 2005 in accordance with Italian GAAP; pre-tax income for 2005 decreased by euro 759,991 thousand which is the balance between the elimination of the dividends recorded under the maturity principle in 2005 and the recording of dividends from subsidiaries under the accrual principle, that had already been recorded in 2004 under the maturity principle in accordance with Italian GAAP;

13) **Telecom Italia S.p.A./TIM S.p.A. merger:** the Telecom Italia/TIM merger transaction, approved by the extraordinary shareholders' meetings of TIM and Telecom Italia, respectively, on April 5, and 7, 2005, was signed on June 20, 2005 with effect on June 30, 2005. The merger is effective for accounting purposes (under Italian GAAP) as from January 1, 2005. On February 24, 2005, TIM S.p.A. proceeded to spin-off the corporate operations of the domestic mobile communications business in Italy to TIM Italia S.p.A., a wholly-owned subsidiary of TIM; the spin-off was effected by a TIM Italia capital increase against the conferral of the corporate operations with effect on March 1, 2005. Under Italian GAAP, this merger transaction was accounted for on the basis of the carrying amounts; this treatment resulted in both a cancellation deficit of euro 35,461,632 thousand (being the difference between the carrying amount of the TIM shares in portfolio, inclusive of those purchased through the tender offer and the additional purchases, and the share of TIM's net equity acquired) and an exchange deficit of euro 163,696 thousand (being the difference between the capital increase to service the share exchange valued at the par value of the new share issue and the share of TIM's net equity acquired). The *cancellation deficit* was allocated as an increase to the carrying amount of the investments in TIM Italia (euro 35,048,711 thousand) and TIM International (euro 412,921 thousand), while the exchange deficit was allocated as a reduction of the reserves in shareholders' equity (merger surplus reserve).
    Under IFRS, the Telecom Italia/TIM merger became effective for accounting purposes on June 30, 2005 and the percentage interest held prior to the tender offer was accounted for at the carrying amount since the acquired company is already controlled by the acquiring company and thus the conditions for the application of IFRS 3 (*Business combinations*) do not exist. The acquisition of the remaining TIM shares under the tender offer, the share purchased on the

market and the merger, considered as a purchase of minority stakes, not regulated either by IFRS 3 or any other IFRS, was accounted for at fair value under the parent-entity extension method. As a result, goodwill was recognized on the difference between the fair value of the shares acquired and the new share issue and the share of equity acquired. The impact of this treatment is as follows: an increase in equity *at December 31, 2005* of euro 3,875,577 thousand mainly due to the fair value measurement of the shares issued on the exchange (euro 4,768,387 thousand) and the elimination of the exchange deficit (euro 163,696 thousand), partly compensated by the decrease in pre-tax income (euro 1,024,133 thousand). The latter is principally due to the elimination of the pre-tax income of TIM S.p.A., equal to euro 417,705 thousand, and the reversal of dividends on TIM shares acquired in the tender offer, euro 715,995 thousand;

14) elimination of revaluations of investments, by law: under IFRS, the investments in subsidiaries, associates and joint ventures can be valued, in the separate financial statements, at cost or, in conformity with IAS 39, at fair value. In the statutory financial statements prior to the transition date to IFRS, Telecom Italia revalued certain investments as allowed by special laws, the residual amount of which, since Telecom Italia adopted the cost method for IFRS purposes, was eliminated against an entry to a reserve under equity. This treatment has the effect of a decrease in equity at January 1, 2005 and at December 31, 2005 equal to euro 97,185 thousand;

15) impairment of investments: the application of IAS 36 required a higher writedown of the investment in the subsidiary Telecom Italia Finance with a reduction in equity and pre-tax income of euro 104,951 thousand.

IFRS balance sheets at January 1, 2005 and at December 31, 2005 IFRS statement of income for the year ended at December 31, 2005

In addition to the reconciliations of equity at January 1, 2005 and at December 31, 2005 and net income for the year 2005 accompanied by notes explaining the adjustments made to the balances prepared in accordance with Italian GAAP, the following pages present the balance sheets at January 1, 2005 and at December 31, 2005 and the statement of income for the year 2005 wherein the following is presented for each item in separate columns:

- amounts according to Italian GAAP reclassified according to IFRS presentation;
- adjustments to conform to IFRS, with a separate indication of the effects relating to the merger of TIM in Telecom Italia;
- adjusted amounts according to IFRS.

BALANCE SHEET AT JANUARY 1, 2005

(millions of euro)	Italian GAAP reclassified	IFRS adjustments	IFRS
Non-current assets:			
Intangible assets			
- Goodwill and other intangible assets with an indefinite life	3	(3)	-
- Intangible assets with a finite life	1,625	(11)	1,614
	1,628	(14)	1,614
Tangible assets			
- Property, plant and equipment owned	11,238	12	11,250
- Assets held under finance leases	-	1,579	1,579
	11,238	1,591	12,829
Other non-current assets			
- Investments	34,235	261	34,496
- Securities and financial receivables	388	(78)	310
- Miscellaneous receivables and other non-current assets	486	455	941
	35,109	638	35,747
Deferred tax assets	2,391	673	3,064
TOTAL NON-CURRENT ASSETS (A)	50,366	2,888	53,254
Current assets:			
Inventories	113	-	113
Trade receivables, miscellaneous receivables and other current assets	6,638	128	6,766
Current tax receivables	-	-	-
Investments	-	-	-
Securities other than investments	-	-	-
Financial receivables and other current financial assets	604	(272)	332
Cash and cash equivalents	6,008	-	6,008
TOTAL CURRENT ASSETS (B)	13,363	(144)	13,219
TOTAL ASSETS (A+B)	63,729	2,744	66,473
Equity:			
- Share capital issued (net of treasury shares)	8,865	(2)	8,863
- Reserves (net of treasury shares)	4,930	(383)	4,547
- Retained earnings, including net income for the period	3,016	(1,724)	1,292
TOTAL EQUITY (C)	16,811	(2,109)	14,702
Non-current liabilities:			
Non-current financial liabilities	33,374	1,264	34,638
Employee severance indemnities and other employee-related provisions	1,043	(67)	976
Deferred tax liabilities	-	-	-
Provisions for risks and charges	386	29	415
Miscellaneous payables and other non-current liabilities	646	1,406	2,052
TOTAL NON-CURRENT LIABILITIES (D)	35,449	2,632	38,081
Current liabilities :			
Current financial liabilities	4,732	1,749	6,481
Trade payables, miscellaneous payables and other current liabilities	6,716	472	7,188
Current tax liabilities	21	-	21
TOTAL CURRENT LIABILITIES (E)	11,469	2,221	13,690
TOTAL LIABILITIES (F=D+E)	46,918	4,853	51,771
TOTAL EQUITY AND LIABILITIES (C+F)	63,729	2,744	66,473

BALANCE SHEET AT DECEMBER 31, 2005

(millions of euro)	Italian GAAP reclassified	IFRS adjustments		IFRS
		TIM MERGER	Other adjustments	
Non-current assets:				
Intangible assets				
- Goodwill and other intangible assets with an indefinite life	1	39,184	(1)	39,184
- Intangible assets with a finite life	1,681	-	(2)	1,679
	1,682	39,184	(3)	40,863
Tangible assets				
- Property, plant and equipment owned	10,687	-	(22)	10,665
- Assets held under finance leases	-	-	1,558	1,558
	10,687	-	1,536	12,223
Other non-current assets				
- Investments	51,672	(35,308)	(254)	16,110
- Securities and financial receivables	475	-	172	647
- Miscellaneous receivables and other non-current assets	677	-	413	1,090
	52,824	(35,308)	331	17,847
Deferred tax assets	1,854		545	2,399
TOTAL NON-CURRENT ASSETS (A)	67,047	3,876	2,409	73,332
Current assets:				
Inventories	76	-	-	76
Trade receivables, miscellaneous receivables and other current assets	8,152	-	(1,702)	6,450
Current tax receivables	300	-	-	300
Securities other than investments	-	-	-	-
Financial receivables and other current financial assets	172	-	24	196
Cash and cash equivalents	6,601	-	-	6,601
TOTAL CURRENT ASSETS (B)	15,301	-	(1,678)	13,623
TOTAL ASSETS (A+B)	82,348	3,876	731	86,955
Equity:				
- Share capital issued (net of treasury shares)	10,668	-	(1)	10,667
- Reserves (net of treasury shares)	6,425	4,900	(565)	10,760
- Retained earnings, including net income for the period	4,875	(1,024)	(2,750)	1,101
TOTAL EQUITY (C)	21,968	3,876	(3,316)	22,528
Non-current liabilities:				
Non-current financial liabilities	39,148	-	1,992	41,140
Employee severance indemnities and other employee-related provisions	1,196	-	(92)	1,104
Deferred tax liabilities	-	-	-	-
Provisions for risks and charges	338	-	55	393
Miscellaneous payables and other non-current liabilities	514	-	1,366	1,880
TOTAL NON-CURRENT LIABILITIES (D)	41,196	-	3,321	44,517
Current liabilities :				
Current financial liabilities	12,512	-	357	12,869
Trade payables, miscellaneous payables and other current liabilities	6,663	-	369	7,032
Current tax liabilities	9	-	-	9
TOTAL CURRENT LIABILITIES (E)	19,184	-	726	19,910
TOTAL LIABILITIES (F=D+E)	60,380	-	4,047	64,427
TOTAL EQUITY AND LIABILITIES (C+F)	82,348	3,876	731	86,955

STATEMENT OF OPERATIONS FOR THE YEAR 2005

(millions of euro)	Italian GAAP reclassified	IFRS adjustments		IFRS
		TIM MERGER	Other adjustments	
Revenues	17,209	(1,281)	(15)	15,913
Other income	403	(6)	25	422
Total operating revenues and other income	**17,612**	**(1,287)**	**10**	**16,335**
Purchases of materials and external services	(7,196)	586	128	(6,482)
Personnel costs	(3,110)	88	115	(2,907)
Other operating expenses	(722)	17	(10)	(715)
Change in inventories	(5)	(26)	-	(31)
Capitalized internal construction costs	284	(7)	-	277
AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) OF NON-CURRENT ASSETS	6,863	(629)	243	6,477
Depreciation and amortization	(3,079)	211	(72)	(2,940)
Gains (losses) on disposals of non-current assets	306	(2)	(42)	262
Impairment reversals (losses) on non-current assets	(8)	-	-	(8)
OPERATING INCOME	4,082	(420)	129	3,791
Financial income	3,543	(759)	(542)	2,242
Financial expenses	(2,822)	11	(465)	(3,276)
INCOME BEFORE TAXES	4,803	(1,168)	(878)	2,757
Income taxes	(918)	144	(149)	(923)
NET INCOME FOR THE YEAR	3,885	(1,024)	(1,027)	1,834

ERNST & YOUNG

Reconta Ernst & Young S.p.A.
Via della Chiusa, 2
20123 Milano

Tel. (+39) 02 722121
Fax (+39) 02 72212037
www.ey.com

INDEPENDENT AUDITORS' REPORT
pursuant to article 156 of Legislative Decree of February 24, 1998, No. 58
(Translation from the original Italian text)

To the Shareholders of
Telecom Italia S.p.A.

1. We have audited the financial statements of Telecom Italia S.p.A. as of and for the year ended December 31, 2006, comprising the balance sheet, the statements of income, changes in equity and cash flows and the related explanatory notes. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audit. These financial statements represent the first financial statements prepared by Telecom Italia S.p.A. in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and the standards issued in accordance with article 9 of Legislative Decree No. 38/2005.

2. We conducted our audit in accordance with auditing standards and procedures recommended by CONSOB (the Italian Stock Exchange Regulatory Agency). In accordance with such standards and procedures, we planned and performed our audit to obtain the information necessary to determine whether the financial statements are materially misstated and if such financial statements, taken as a whole, may be relied upon. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, as well as assessing the appropriateness and correct application of the accounting principles and the reasonableness of the estimates made by management. We believe that our audit provides a reasonable basis for our opinion.

   For comparative purposes, the financial statements include the corresponding information for the prior year prepared in accordance with consistent accounting principles. In addition, note 45 to the financial statements explains the effects of transition to IFRS as adopted by the European Union and includes the reconciliation statements required by IFRS 1, which were previously approved by management and published as an attachment to the Telecom Italia S.p.A. half-year interim financial statements, and which have been audited by us. Reference should be made to our audit report dated September 12, 2006.

3. In our opinion, the financial statements present clearly and give a true and fair view of the financial position, results of operations, changes in equity and cash flows of Telecom Italia S.p.A. as of December 31, 2006, and for the year then ended in accordance with IFRS as adopted by the European Union and the standards issued in accordance with article 9 of Legislative Decree No. 38/2005.

Milan, Italy
March 26, 2007

Reconta Ernst & Young S.p.A.
Signed by - Nadia Locati, Partner

Reconta Ernst & Young S.p.A.
Sede Legale: 00196 Roma - Via G.D. Romagnosi, 18/A
Capitale Sociale € 1.259.500,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la CC.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584
P.I. 00891231003
(vecchio numero R.I. 6697/89 - numero R.E.A. 250904)

REPORT OF THE BOARD OF AUDITORS TO THE SHAREHOLDERS' MEETING OF TELECOM ITALIA S.P.A. PURSUANT TO ARTICLE 153 OF LEGISLATIVE DECREE 58/1998

Dear shareholders,

This Report is divided into two separate parts: the first part describes the activity of the Board of Auditors during 2006 and up to the present time, in accordance with the provisions of Consob Communication no. 1025564 issued on April 6, 2001, as amended, while in the second part the Board of Auditors reports on the investigations it carried out into the judicial affairs that involved the former head and some managers of the Group Security Function and the questions concerning the security of the network and the handling of traffic data.

* * *

Part 1

During the year ended December 31, 2005 the Board of Auditors of Telecom Italia S.p.A. (the "Company") performed the supervisory activities required by law, taking into account the standards recommended by the Italian Accounting Profession and the Consob communications on corporate controls and the board of auditors' activity f.

As in previous years, we obtained the information we needed for the performance of our duties of general supervision by holding hearings with managers in the various organizational units and regularly attending the meetings of the Board of Directors, which, even in cases that fall within the scope of the delegated powers of the executive directors, has reserved to itself, on a self-regulatory basis, the task of examining and deciding on transactions of particular significance, i.e. those that are likely, in view of their nature, strategic importance or size, to have a substantial impact on the activity of the Company and the Group. Moreover, the Board of Directors – acting in its collegial capacity, and therefore in our presence – is required to give advance approval to transactions with related parties, including intra-group transactions (except for those of a typical or customary nature to be concluded at standard conditions), in accordance with the "Rules of Conduct for Transactions with Related Parties", which the Company adopted on a self-regulatory basis in 2002 and incorporated into its Self-Regulatory Code in March 2007.

In addition, in accordance with another self-regulatory measure ("Procedure for Compliance with the Requirements of Article 150.1 of Legislative Decree 58/1998"), we received information on the action taken by the executive directors using their delegated powers and on the implementation of transactions approved by the Board of Directors. In fact this procedure governs the collection and transmission to Directors and the members of the Board of Auditors of information on: the activity carried out by the Company; the transactions of greatest significance for its profitability, financial position and assets and liabilities; transactions with related parties (including intra-group transactions); and atypical and unusual transactions. In this respect it should be noted that as part of the revision of the Company's corporate governance mechanisms to bring them into line with the changes in the law that have occurred in the meantime, in March 2007 a new procedure was introduced governing the flow of information to Directors and the members of the Board of Auditors. The new procedure incorporates that introduced in the past to fulfill the information requirements laid down by Article 150 of the Consolidated Law on Finance and serves to regulate and coordinate all the mechanisms serving the common purpose of providing the persons referred to above with the information they need on a continuous basis to perform their management and control functions properly.

* * *

1. On the basis of the information we received and the analyses we performed, the transactions having the greatest economic, financial and balance-sheet effects entered into by the Company, including those entered into through companies in which it owned a direct or indirect interest, were essentially the following:

- January 2006 saw the sale of the 100% interest in Gruppo Buffetti S.p.A. to Dylog Italia S.p.A. and Palladio Finanziaria S.p.A.;
- on March 1, 2006 the merger of Tim Italia S.p.A. into Telecom Italia S.p.A. became effective; the transaction had no effect on the consolidated financial statements since Tim

Italia S.p.A. was wholly owned by Telecom Italia S.p.A., which, as of March 1, succeeded to all Tim Italia's assets and liabilities and legal rights and obligations;

- in March 2006 a start was made on the rationalization of the structure of the Tim Brasil Group with the implementation of the following transactions:
  - the merger into Tim Celular S.A. of the subsidiaries Blah! – Sociedade Anonima de Serviços e Comercio – and CRC – Centro de Relacionamento com Clientes;
  - the contribution by Tim Brasil S.A. of the shares of Tim Celular S.A. to Tim Participaçoes S.A., by means of an increase in capital as a result of which Tim Celular S.A. increased its controlling interest in Tim Participaçoes S.A from 50.33% to 81.19%.

  Subsequently, in June 2006 Tim Sul S.A. was merged into Tim Celular S.A. and Tim Nordeste Telecomunicaçoes S.A. was merged into Maxitel S.A., which changed its name to Tim Nordeste S.A.;
- May 2006 saw the completion of the sale of the entire capital of the Venezuelan mobile operator Corporaciòn Digitel C.A. (Digitel) to Telvenco S.A.;
- May 2006 also saw the sale of Telecom Italia International's interest of about 4.99% in the capital of Neuf Télécom to Louis Dreyfus and Société Francaise du Radiotéléphone;
- July 2006 saw the completion of the sale of Telecom Italia Learning Services S.p.A. to TILS Holding S.p.A., which is jointly owned by CEGOS, a French multinational operating in the field of training services, and Camporlecchio Educational, specialized in corporate consulting and company organization;
- September 2006 saw the completion (with the granting of the prescribed authorization by the competent Turkish authorities) of the sale of the 40.55% interest in Avea I.H.A.S. to Turk Telekomunikasyon for US$ 500 million. As provided for in the agreements concluded on July 14, 2006, Telecom Italia S.p.A. reinvested US$ 250 million in Oger Telecom, thus increasing its interest in the holding company that controls Turk Telekomunikasyon to 10.36%;
- September 2006 also saw the signing of the agreement between Telecom Italia and Time Warner for the purchase of AOL Germany by Telecom Italia Deutschland.

* * *

- in 2006 Telecom Italia made the following new note issues under the Euro Medium-Term Note Programme approved for a total of €15 billion by the Board of Directors on December 21, 2005:
  - on May 19, 2006 a dual tranche issue for a total of respectively (a) EUR 750 million (coupon 4.750%, issue price 99.156, maturity May 19, 2014); and (b) GBP 400 million, corresponding to EUR 596 million at December 31, 2006 (coupon 5.875%, issue price 99.622, maturity May 19, 2023);
  - on June 9, 2006, for a total of EUR 750 million (coupon 3-month Euribor + 0.22%, issue price 100%, maturity June 9 2008).
- On July 18, 2006 Telecom Italia Capital S.A. issued notes on the US market for a total of USD 2,600 million, divided into the following tranches:
  - USD 850 million, corresponding to EUR 645 million at December 31, 2006 (coupon linked to the 3-month USDLIBOR + 0.61%, issue price 100%, maturity July 18, 2011);
  - USD 750 million, corresponding to EUR 570 million at December 31, 2006 (fixed annual interest rate of 6.20%, semi-annual coupon, issue price 99.826%, maturity July 18, 2011);

- o USD 1,000 million, corresponding to EUR 759 million at December 31, 2006 (fixed annual interest rate of 7.20%, semi-annual coupon, issue price 99.440%, maturity July 18, 2036);

- On September 14, 2006, Telecom Italia Finance S.A. extended the maturity of its "Euro 499,717,000 Guaranteed Floating Rate Extendable Notes Due 2006" to September 14, 2008. At December 31, 2006 the nominal debt outstanding amounted to EUR 499,669,000.

* * *

The above transactions are all described in the notes to the financial statements for 2006 of the Telecom Italia Group and Telecom Italia S.p.A. and summarized in the Board of Directors' Report on Operations. We verified that they were carried out in conformity with the law, the bylaws and the principles of proper management and that they were not manifestly imprudent or reckless, in contrast with the resolutions approved by the shareholders' meeting or such as to compromise the integrity of the Company's patrimony.

2. We did not find any evidence of atypical and/or unusual transactions entered into with third parties or related parties (including Group companies) during 2006 or subsequent to the balance-sheet date.

   Information on the main intra-group transactions and those with other related parties that were carried out last year, together with a description of their characteristics and economic effects, can be found in the notes to the financial statements for 2006 of the Telecom Italia Group and Telecom Italia S.p.A.

   After obtaining information on the checks carried out by the external auditors, Reconta Ernst & Young, and drawing on the support of the Group Compliance Officer, we verified that the Company had adopted specific practices aimed at ensuring the procedural and substantial fairness and transparency of the decision-making and implementation of the transactions carried out by Telecom Italia with related parties. In particular, we monitored compliance with the principles adopted by the Company; in fact last year saw the continued application of the "Guidelines for Transactions with Related Parties" (more details on this matter are provided in the Corporate Governance section of the Report on Operations).

3. The information given in the notes to the financial statements and in the notes to the consolidated financial statements regarding the Company's transactions with related parties and intra-group transactions is adequate in relation to the size and structure of the Company and the Group.

4. On March 26, 2007 the audit firm, Reconta Ernst & Young, issued the reports pursuant to Article 156 of Legislative Decree 58/1998 attesting that the financial statements of Telecom Italia S.p.A. and the consolidated Group financial statements for the year ended December 31, 2006 complied with the provisions governing the preparation of financial statements, had been drawn up clearly and gave a true and fair view of the balance-sheet situation, financial position and results for the year.

* * *

In fulfilling the obligations deriving from the Board of Auditors acting as the Company's Audit Committee pursuant to US law, in 2005 we adopted a procedure for the receipt, retention and treatment of reports, which can be of the following types:

- “statements of violations” submitted by shareholders concerning matters deemed to be censurable;
- “complaints” by any person, thus including non-shareholders, concerning alleged irregularities, censurable facts or, more generally, any problem or issue deemed to merit investigation by the control body;
- “complaints” submitted by any person regarding “accounting, internal accounting controls or auditing matters”
- “concerns” submitted anonymously or otherwise by employees of the Company or the Group regarding “questionable accounting or auditing matters”

The Governance section of the Company’s website contains the instructions for submitting reports (statements of violations, petitions, complaints and concerns) in paper-based and electronic form to the Board of Auditors/Audit Committee.

5. In 2006 we did not receive any complaints pursuant to Article 2408 of the Civil Code.

6. During the year we received thirty-six petitions, basically concerning technical, commercial and accounting problems. With the assistance of the Group Compliance Officer, we carried out appropriate inquiries into all the petitions without finding irregularities to report to the shareholders’ meeting.

7. During the 2006 fiscal year the Company engaged Reconta Ernst & Young and entities linked to it by continuing relationships and/or part of the Ernst & Young international network to perform some services other than the statutory audit (so-called “audit services” and “audit-related services”). The table below shows the fees for this work, excluding out-of-pocket expenses and VAT. These fees appear appropriate in relation to the scope, complexity and characteristics of the work carried out.

(€)

Audit procedures performed in relation to the Telecom Italia Group’s minority interests and holdings giving joint control	320,000.00
Additional audit procedures performed in relation to the accounting treatment according to US GAAP of the merger of Tim into Telecom Italia (Purchase Price Allocation)	400,000.00
Professional services provided in connection with the issue of the attestation of sales revenue for the tender organized by Consip S.p.A. for the “Supply and installation of videocommunication systems, accessory products and related services for governmental bodies”	10,000.00
Audit procedures performed for the issue of comfort letters in relation to the Telecom Italia Issue of €750,000,000 4.75 per cent Notes due 2014 and £400,000,000 5.875 per cent Notes due 2023 under the Company’s €15 billion Euro Medium-Term Note Programme	90,000.00
Professional services provided in connection with the issue of the attestation of sales revenue for the tender organized by Consip S.p.A. for the “Supply to governmental bodies of Contact Center solutions and services: lots A1 and A2 (Outsourcing of inbound and/or outbound multi-channel contact center services)	10,000.00
Auditing Tim Italia’s interim financial statements for the period ending February 28, 2006	225,000.00
Auditing Telecom Italia S.p.A.’s IFRS 1 reconciliation statements at January 1, 2005 and December 31, 2005 and limited review of	

Telecom Italia S.p.A.'s IFRS 1, paragraph 45, reconciliation statements at June 30, 2005	90,000.00
Agreed test procedures on data prepared for the Fixed-Mobile Termination Cost Procedure for 2004 as requested by the Communications Regulatory Authority pursuant to Resolution no. 399/02/CONS of 4 December 2002	8,000.00
Professional services provided in connection with the issue of the attestation of sales revenue for the electronic tender organized by Consip S.p.A. for the "Supply to governmental bodies of Microsoft Office licences, CD-ROMs, operating manuals and related services "	10,000.00
Professional services provided in connection with the issue of the attestation of sales revenue for the tender organized by Consip S.p.A. for the "Acquisition of maintenance services for local network equipment and cabling at the Roman and peripheral offices of the Ministry for the Economy and Finance"	10,000.00
Auditing Nuova Tin.it S.r.l.'s interim financial statements for the period ending September 30, 2006	47,500.00
Professional services provided in connection with the review of Telecom Italia's Form 20-F 2005 conducted by the Securities and Exchange Commission (SEC): €40,000.00 Reconta Ernst & Young €20,000.00 Capital Markets Division of Ernst & Young	60,000.00
Agreed test procedures in connection with certain costs incurred in prior years by the Telecom Italia Group's Security Function	60,000.00
Total	1,340,500.00

* * *

It should be noted that the (second) three-year audit engagement conferred on Reconta Ernst & Young S.p.A by the shareholders' meeting of Telecom Italia S.p.A. on May 6, 2004 comes to an end with the issue of the audit report on the financial statements for the year ended December 31, 2006. It should also be noted that Law 262/2005 (the protection of savings law) as amended by Legislative Decree 303/2006 (the "corrective" decree), amended the provisions of Legislative Decree 58/1998 (the Consolidated Law on Finance) concerning the rules governing the audit of issuers and their groups. The new text of Article 159 of the Consolidated Law on Finance provides for the engagement to audit the company and group annual financial statements to be conferred by the shareholders' meeting (which is also called upon to approve the corresponding fee) on the basis of a "reasoned proposal" by the control body.

Law 262/2005 also fixed the total duration of audit engagements at nine years and prohibited the renewal of an engagement and the conferment of a new engagement for at least three years from the date of the end of the previous engagement. However, the transitional provision contained in Article 8.7 of Legislative Decree 303/2006 allows companies to extend, up to the date of the first shareholders' meeting called to approve the annual financial statements, those engagements under way at the date of the entry into force of the above-mentioned decree whose total duration (taking into account the intervening renewals and extensions) has not exceeded nine fiscal years, in order to bring the duration into line with the new limit of nine years laid down in the amended version of Article 159.4 of the Consolidated Law on Finance.

Under the new rules governing the matter referred to above, the Board of Auditors of Telecom Italia S.p.A. has therefore prepared a reasoned proposal, included among the resolutions you are called to vote upon, for the extension of the engagement of Reconta Ernst & Young S.p.A to audit the annual financial statements of Telecom Italia S.p.A. and the consolidated annual financial statements of the Telecom Italia Group and to review the Company and Group half-yearly report for the fiscal years 2007, 2008 and 2009.

8. In 2006 the Company had some services performed by persons linked to Reconta Ernst & Young by continuous work relationships and/or companies belonging to the Ernst &Young international network (in particular Ernst & Young Financial – Business Advisors S.p.A.). The fees for this work, excluding out-of-pocket expenses and VAT, are summarized below:

(€)

Ernst & Young Financial – Business Advisors S.p.A.	
Test procedures regarding the adaptation of the system of cost accounting and accounting separation to the innovations of the 2006 regulatory framework, with special reference to: i) testing the adaptation of models, methods and databases; and ii) change management	185,000.00
Test procedures regarding support for the preparation of regulatory accounting report forms in connection with the innovations of the 2006 regulatory framework, with special reference to: i) checking the requirements and formats of the internal and external accounting separation report forms; ii) checking the report forms for the outturn of the 2005 regulatory accounting; and iii) change management	85,000.00
Test procedures regarding the adjustment of regulatory accounting to comply with the new regulatory framework established by Italy's Communications Authority with special reference to: i) the new cost accounting model; ii) the reporting of accounting separation and cost accounting; and iii) the mapping of internal processes	270,000.00
Total	540.000,00

9. During the year we issued six opinions pursuant to the third paragraph of Article 2389 of the Civil Code concerning the remuneration of directors entrusted with particular duties

10. In 2006 the Board of Directors of the Company held 8 meetings, in all of which we participated.

The Internal Control and Corporate Governance Committee met 15 times, the Remuneration Committee 5 times and the Strategy Committee 3 times.

The Board of Auditors met 32 times; many of these meetings were held jointly with the Internal Control and Corporate Governance Committee to discuss problems addressed in Part Two of this Report. The Board of Auditors also took part in all of the meetings held by the Internal Control and Corporate Governance Committee with the participation of its Chairman (or another auditor designated by him).

We participated in the ordinary shareholders' meeting of the Company held on April 13, 2006.

11. For matters within its sphere of authority, the Board of Auditors monitored compliance with the principles of proper management by organizing hearings, carrying out direct checks and investigations, gathering information from the heads of functional units and members of the management, and holding meetings with the person responsible for internal control, the Company's Group Compliance Officer, the Internal Control and Corporate Governance Committee and the audit firm, Reconta Ernst & Young (in the latter case for the exchange of data and information relevant for the performance of their respective duties, in accordance with Article 150.2 of Legislative Decree 58/1998).

    More specifically, as regards the decision-making of the Board of Directors, we ensured, by participating in the directors' meetings, the compliance of operational decisions with law and the bylaws. We also verified that the resolutions in question were backed by analyses and checks – with recourse made to external experts when necessary – concerning the economic and financial fairness of transactions and their correspondence with the Company's interest.

    We are of the opinion that the corporate governance mechanisms adopted by the Company are an effective means of ensuring compliance with the principles of correct management of operations; moreover, we were kept constantly informed about the revision of some of these mechanisms during the year to bring them into line with the intervening changes in the law and the self-regulatory framework. We express a basically positive opinion on them and the other corporate governance mechanisms the Company has adopted.

12. We obtained information and monitored the adequacy of the Company's organizational structure through reports from the competent structures, hearings of the heads of functional units, and meetings with the persons responsible for the internal and external audit functions.

    During 2006 the organization of the Group was configured as follows: Central Functions (responsible for the working of the Group), Operations (responsible for the unitary management and development of fixed and mobile telephony and Internet services) and Business Units (responsible for the development of the Media and Olivetti businesses). The Central Functions can be configured as Group Functions (responsible for the coordination, direction and control at Group level of the activities for which they are competent, and in particular for the formulation of policies for and overall governance of matters of transversal interest), and/or as Service Units (responsible for the performance of shared operational activities), in order to ensure a sharper focus for activities of transversal interest with respect to the typical role of providing strategic direction and/or shared operational services.

    Following the introduction of the new legislation on insider dealing and in accordance with the law on the protection of savings, the IAS/IFRS accounting standards and US securities law, in 2006 the Company's Board of Directors identified some managers and directors – known as executive officers/key managers (the Chairman, the Managing Directors, the Chief Financial Officer, the General Counsel and head of the Corporate and Legal Affairs Group Function, the heads of the Human Resources and Purchasing Group Functions, the heads within Operations of the Technology, Top Client and Customer Services, and Sales and Marketing Functions, and the head of the Media Business Unit) with strategic responsibilities, i.e. the directors and managers who are directly and indirectly responsible for the planning, direction and control of Telecom Italia's activities.

    In September 2006, after Marco Tronchetti Provera had resigned and Guido Rossi been appointed as Chairman and Carlo Buora as Executive Deputy Chairman, the operational structure of the Group provided for the following to be placed under the Chairman: the Public Affairs and General Counsel Group Functions and for the following to be placed under the

Executive Deputy Chairman: the Operations Managing Director, the Media and Olivetti Business Units, the Group Functions Advertising & Image, Brand Enrichment (Progetto Italia), Investor Relations, Finance Administration and Control, Human Resources, Organization and Security, Corporate and Legal Affairs, International Legal Affairs, Corporate Development, Purchasing, Judicial Authority Services, IT Governance, External Relations and Economic Research, as well as Telecom Italia Audit and Compliance Services and Telecom Italia Latam.

Support Activity was also placed directly under the Executive Deputy Chairman.

The Group Committees (which are a means of forging links and making comparisons with a view to providing support for top management's guidance and control role, guaranteeing the effective overall governance of the business and integrating the Group's operations) did not undergo major changes compared with the committees set up in 2005. At the end of 2006 the system of Group Committees was made up of:

- the *Management Committee*, which coordinates the Group's activities and ensures a unitary approach to the development and implementation of business strategies;
- the *Investment Committee*, which is entrusted with approving investments that exceed the thresholds established;
- the "*Technological Innovation Committee*", which ensures an integrated approach to the processes of technological innovation and development;
- the "*Information Technology Governance Committee*", which defines the information technology guidelines for the Group, establishes the IT strategies and investments in accordance with the needs of the business, and monitors the progress of the main IT initiatives and the quality and cost effectiveness of the solutions;
- the "*Risk Management Committee*" (replacing the Information Technology Risk Management Committee), which identifies, assesses and manages Group risks and coordinates the contingency plans serving to ensure business continuity.

"Business Reviews" of Operations and the Media and Olivetti businesses were continued with the aim of checking the results achieved by each structure against the original forecasts and planning any necessary remedial action.

In January 2007 the Telecom Italia Group carried out a reorganization of its activities and fully implemented the so-called One Company Model, involving the integration of line and staff activities, while the running of the business focuses on the various services and market segments it is divided into. This change has also led to the distinction in Group parlance between "Corporate" and "Operations" being superseded.

The business has been divided into the following sectors:

- Domestic Fixed Services and Domestic Mobile Services, charged with responsibility for the related client bases;
- Technology, which ensures the unitary and integrated management of network infrastructures;
- Top Clients & ICT Services.

The new organizational structure was completed with the appointment of four General Managers (Domestic Fixed Services; Domestic Mobile Services; Finance, Administration and Control; and Technology) and the consequent redefinition of the scope of the position previously responsible for Operations as a whole.

At present the following are placed under the Chairman: the Public Affairs and General Counsel & Corporate and Legal Affairs Group Functions, while the following are placed under the Executive Deputy Chairman: the Managing Director, the Olivetti Business Unit, and the Finance, Administration and Control, Human Resources Organization & Security, Domestic Legal Affairs and Judicial Authority Services, International Legal Affairs, Purchasing, Strategy, External Relations, International Affairs and Investor Relations Group Functions, as well as Telecom Italia Audit and Compliance Services. The following are placed under the Managing Director of Telecom Italia: the managers responsible for Domestic Fixed Services, Domestic Mobile Services, Top Clients & ICT Services, Technology, the company Tim Brasil and the following functions: Quality & Field Services Management, National Wholesale Services, International Wholesale & Broadband Services, as well as Business Development, Regulatory Affairs, Planning & Control, Human Resources and Legal.

In the light of the new organizational structure, at the beginning of the 2007 fiscal year the Board of Directors updated the 2006 list of the executive officers (also known as key managers and managers with strategic functions). The new list contains the Chairman, the Executive Deputy Chairman, the Managing Director, the head of the Media Business Unit, the General Managers and the heads of the Public Affairs, General Counsel & Corporate and Legal Affairs, Human Resources Organization & Security, Purchasing, Strategy e International Affairs Group Functions.

Lastly, it is worth noting that for some time now the Company has had a procedure for the appointment of the governing bodies of subsidiary and affiliated companies.

13. In 2006 we monitored the internal control system adopted by the Company and assessed its adequacy, including by means of periodic meetings with the management and the person responsible for internal control, participation in the meetings of the Internal Control and Corporate Governance Committee, joint meetings of the Board of Auditors with that Committee (depending on the subjects to be discussed) and the acquisition of documents.

The internal control system, considered as a whole and allowing for its necessarily "evolutionary" nature, did not show major problems. However, Part Two of this Report sets out our findings with regard to both operational weaknesses in the system in the Group Security sector and technical and organizational shortcomings in the Company's compliance with the rules on privacy; it also describes the corrective action taken by the Company.

As for the complex architecture of the internal control system, for some time now the performance of the internal audit function within the Company and the Group has been entrusted to a consortium company called Telecom Italia Audit & Compliance Services, whose primary object is the impartial and independent performance, on behalf of the members of the consortium, of "internal auditing", i.e. the activities aimed at checking and improving the effectiveness and efficiency of the internal control and risk management system. In view of the activity carried out by Telecom Italia Audit & Compliance Services, Telecom Italia (in the same way as the other Group company in the consortium, Telecom Italia Media) has made the internal audit consortium company, in the person of the director designated by the Company, the "person responsible for internal control".

This person reports on his work to the Board of Auditors, the Internal Control and Corporate Governance Committee and the Managing Director in charge of the internal control system (at present the Executive Deputy Chairman), who is charged with determining, in accordance with the guidelines laid down by the Board of Directors, the mechanisms and procedures for implementing the internal control system and any corrective action that needs to be taken.

The activity of the person responsible for internal control is based on quarterly programmes (comprising interventions identified autonomously by the person himself or following indications received from the Company's management, the control bodies or the audit firm). The existence of these plans obviously does not exclude ad hoc unplanned interventions in response to requests from the Company or the control bodies or made necessary by problems that arise during the year, as occurred in 2006 with regard to the matters addressed in Part Two of this Report. The person responsible for internal control reports periodically on the results obtained to the Managing Director in charge of the internal control system, the Board of Auditors and the Internal Control and Corporate Governance Committee.

In 2005 it was decided to create the position of Group Compliance Officer, charged with linking and coordinating plans for improving the Group's internal control system and with overseeing and facilitating the relationship between management and the system. The Group Compliance Officer is also required to ensure the soundness of the methods employed in the management of risk. In addition, a number of specialists on the staff of Telecom Italia Audit & Compliance Services were appointed as Compliance Managers to play a supporting role.

Moreover, two steps were taken in 2006 to ensure the centralized coordination of risk management: in the first place a Risk Management Committee was set up, chaired by the Executive Deputy Chairman and comprising the competent central managers; in the second place the function of Group Risk Officer was created within Telecom Italia Audit & Compliance Services.

Further progress was made in implementing the two transversal projects involving the internal control system of the entire Group:

– the "404 Project" (which is based on the results of the Administrative Systems Checkup project and aimed at verifying the effectiveness of the methods used in producing and controlling accounting data for internal use and disclosure to the market) is intended to ensure the traceability and documentation of the controls serving to provide basic financial and non-financial information and to achieve full compliance with Section 404 of the Sarbanes-Oxley Act as regards the attestations to be made on internal controls over financial reporting. In this respect it should be noted that we have continued to monitor, jointly with the Internal Control and Corporate Governance Committee, the progress of the "404 Project", receiving reports from the ad hoc working group set up within the Company and from the external auditor;
– the Control Risk Self-Assessment project, aimed at providing management with support in the monitoring, analysis and assessment of the main operational risks encountered in the Group's various businesses and identifying appropriate remedial measures. As of 2005 the project has led to the identification of a Portfolio of Group Risks and to the adoption of appropriate action plans for those considered of greatest importance.

As part of the check on the ability of the internal control system to ensure compliance with the provisions of Legislative Decree 231/2001 regarding administrative liability for offences committed by employees and collaborators, we remind you that in 2003 the Company adopted an "Organizational Model" based on "Rules of conduct for dealings with governmental bodies" and "internal control checklists" listing the main phases of every process, the offences that can be committed in connection with individual processes and the control activities serving to forestall the related risks.

The Model is revised periodically, both to take account of the experience gained in its application and to incorporate additional cases provided for by law. The changes made in response to the judicial affairs that involved the former head and some managers of the Company's Security Function are described in Part Two of this Report.

Monitoring of the functioning of and compliance with the Model is performed by a Supervisory Panel made up of a member of the Board of Auditors, an independent director on the Internal Control and Corporate Governance Committee and the person responsible for the internal control system. A special unit has been created within Telecom Italia Audit & Compliance Services to provide operational support to the Supervisory Panel by handling reports of violations of the organizational model and conducting compliance audits on the basis of the data received by way of the information flows provided for in the Model.

14. We evaluated and monitored the adequacy of the administrative and accounting system and its reliability in correctly representing transactions. We performed this task by obtaining information from the heads of the competent organizational structures, examining company documents and analyzing the results of the work carried out by the audit firm, Reconta Ernst & Young.

    We examined the procedures followed by management (which availed itself of the assistance of an outside consultant) to assess the recoverable amount of the value of goodwill (impairment testing) and the fairness of the valuation of equity investments. In addition, together with the Company's Internal Control and Corporate Governance Committee, we found, with reference also to the checks performed by the external auditor, Reconta Ernst & Young, that the applicable accounting standards had been correctly applied in preparing the consolidated Group financial statements and the financial statements of Telecom Italia S.p.A.

15. We examined the instructions issued by Telecom Italia to its subsidiaries pursuant to Article 114.2 of Legislative Decree 58/1998 and deemed that they were adequate for the purpose of fulfilling the Company's legal disclosure obligations. It should be noted in this respect that the Company has formal procedures governing the flow of information from its subsidiaries, especially regarding major transactions.

    As already anticipated in the Report of the Board of Auditors for 2005, in March 2006 the Company adopted a "Procedure for the management and public disclosure of inside information" that takes account of the changes introduced into national legislation as a consequence of the Market Abuse Directive. This procedure governs the management of inside information regarding the whole Telecom Italia Group and is addressed to the members of the governing bodies, employees and outside collaborators of all the companies of the Group. It also applies as an instruction to all subsidiaries for the purpose of promptly obtaining the necessary information for timely and correct compliance with public disclosure requirements. The procedure also governs the register of persons with access to inside information, which has been operational since April 1, 2006.

16. We checked – through direct verification and information obtained from the audit firm, Reconta Ernst & Young – the Company's compliance with IAS/IFRS as well as with the statutory and regulatory provisions governing the layout and preparation of the financial statements of Telecom Italia S.p.A., the consolidated financial statements for the Telecom Italia Group and the Report on Operations. In particular, we inform you: i) that the Group results by business sector and geographical area are presented taking account of IAS 14 (in accordance with the relevant Consob regulations); and ii) that the disclosures referred to in Consob Resolution 15519 of July 27, 2006 and Consob Communication Dem/6064293 of July 28, 2006 have

been made. We also took note of the checks and analyses that Reconta Ernst & Young carried out on the Sustainability Report..

17. We monitored the implementation of the principles of corporate governance laid down in the Corporate Governance Code drawn up by Borsa Italiana's Committee for the Corporate Governance of Listed Companies, which the Company has adhered to by adopting its own Self-Regulatory Code and other corporate governance mechanisms.

The Company has adjusted and amended its own corporate governance mechanisms as necessary or appropriate in the light of the recommendations contained in the latest version of Borsa Italiana's Corporate Governance Code (March 2006) and revisions to legislation, setting up an internal working group the results of whose activity we examined jointly with the Internal Control and Corporate Governance Committee. On the basis of the group's work and the related proposals that the Committee submitted to the Board of Directors, the Board approved the proposed changes to the Company's corporate governance mechanisms and resolved that the amendments regarding the bylaws and the Meeting Regulations should be submitted to the shareholders' meeting called to approve the financial statements for 2006.

The Board of Directors (at present made up of 20 directors following the appointment of two directors by the shareholders' meeting of April 13, 2006 and the death of one director) has 17 non-executive directors, 12 of whom the Board considers to qualify as independent.

In conformity with the recommendations of Borsa Italiana's Corporate Governance Code, since 2000 the Board of Directors has had an Internal Control and Corporate Governance Committee, composed entirely of independent directors, charged with advisory functions and making proposals. The Board has also had a Remuneration Committee since 2000, it too is made up exclusively of independent directors, entrusted with making proposals for the remuneration of directors who hold particular offices and the criteria for the remuneration of the Company's senior management, and a Strategy Committee since 2004, composed of the Chairman, the Executive Deputy Chairman and three independent directors, entrusted with assisting the Board of Directors in making strategic choices in relation to the evolution of the competitive environment.

With further regard to independent directors, in 2004 the Company created the position of Lead Independent Director (in the person of the Chairman of the Internal Control and Corporate Governance Committee), who is intended to provide a point of reference and coordination for the needs and inputs of the independent directors and, inter alia, is authorized to call "Independent Directors' Executive Sessions", i.e. special meetings of the independent directors to discuss issues related to operations or the working of the Board.

The Company has not established a nominations committee as it considers that the slate voting system meets the need otherwise served by the creation of such a committee. Moreover, following the recent revision of the Company's Self-Regulatory Code, the Internal Control and Corporate Governance Committee is entrusted with the power to propose candidates when it is necessary to co-opt an independent director.

The Board performance evaluation, which the directors carried out for the first time in 2005 in line with international best practice, was performed for 2006 with the assistance of an outside consultant, who was asked to issue a professional opinion upon completion of the evaluation. For the procedures with which the evaluation was conducted and its results, we refer you to the Corporate Governance section of the Report on Operations.

Following the issue of Consob regulatory provisions (Articles 152-*sexies* et seq. of Consob Regulation 11971/1999 on issuers) that govern insider dealing on an exclusive basis, the Code of Conduct on Insider Dealing that the Company adopted in 2002 in compliance with Borsa Italiana's listing requirements has been superseded. It is therefore the Consob provisions that determine the persons subject to the regulatory requirements and how filings pursuant to Article 152-*octies* of the Regulation are to be made. Even in the absence of regulatory requirements the Company has decided to introduce an obligation into the Company's Self-Regulatory Code requiring the persons subject to the rules on insider dealing to abstain from carrying out transactions involving Telecom Italia shares or financial instruments linked thereto in specific periods of the year (so-called blackout periods).

We refer you to the relevant section of the Report on Operations for more details on the Company's corporate governance and inform you that we were constantly involved in the analysis, implementation and revision of the Company's system of corporate governance, on which we pass a basically favourable judgment.

18. The oversight, monitoring and control activities we carried out as described above did not bring to light any significant facts or circumstances that needed to be mentioned in this Report or reported to the Company's control bodies or the supervisory authorities, except as described in Part Two of this Report.

    We also report that no objections came to light in the information we received on the activity performed by the boards of auditors of the Company's subsidiaries or in the statements provided by the audit firm concerning its audit reports on subsidiaries. Nor did we find any objections in the reports issued, pursuant to Articles 153 and 156 of Legislative Decree 58/1998, by the board of auditors and the external auditor of Telecom Italia Media (a subsidiary whose shares are listed on the market organized and operated by Borsa Italiana S.p.A.) and Olivetti (a business unit set up in corporate form).

19. After examining the Company's financial statements for the year ended December 31, 2006, we have no objections to the resolutions proposed by the Board of Directors regarding the allocation of the net income for the year or the size of the dividend to be paid.

* * *

The mandate granted to the Board of Directors by the shareholders' meeting of May 6, 2004 expires with the shareholders' meeting called to approve the financial statements for the year ended December 31, 2006. We therefore invite you to take the necessary steps.

* * *

Part Two

This part of the Report to the Shareholders' Meeting sets forth the activities of the Board of Auditors during 2006 and up to the present day, with reference to the well-known judicial matters involving the former head of the Group's Security Function, Giuliano Tavaroli (who held this position from March 1, 2003 to May 4, 2005), and some managers belonging to the same Function, in addition to issues pertaining to network security and the handling of traffic data.

In particular, on learning of the content of the order issued by the Magistrate responsible for the preliminary investigations by the Milan Court (30382/03 R.G.N.R.; 4728/03 R.G. GIP) in application of precautionary measures taken against several persons including Giuliano Tavaroli (filed with the registry on September 20, 2006 and temporarily published on the Internet at www.ilvelino.it, hereinafter the "Order"), we planned a series of meetings (some held jointly with the Internal Control and Corporate Governance Committee) with management and corporate structures, for the purpose of studying the circumstances arising from the examination of the Order, and more generally, of carrying out further investigations with respect to those already undertaken during the year.

It should be noted that we informed Consob of the activities carried out and the results thereof in two Memoranda dated respectively October 2 and December 19, 2006.

The investigations we carried out were intended to ascertain, on the one hand, whether the past actions of individual employees – as reconstructed in the Order – were in accordance with instructions given by the Company's managers and, on the other hand, whether the alleged actions of the individuals were indicative of a structural defect in the Company's organizational and internal control system.

It should also be noted that at the time of writing Telecom Italia has not received any notifications of charges relative to Italian Legislative Decree 231/2001 regarding the Company's liability for offences committed by its employees.

On the basis of the information acquired and the investigations undertaken – in some instances jointly with the Internal Control and Corporate Governance Committee – we found weaknesses in the internal control system in the Security sector of the group from an operational viewpoint and shortcomings of a technical and organizational nature in the Company's management of compliance with the rules on privacy.

We made a series of recommendations to management – referred to later in this section – aimed at helping to resolve the problems identified, and more generally, at improving the internal control system. In this respect, the we note that the Company – also following recommendations that we formulated – has put in place specific remedies aimed at eliminating the weaknesses encountered and strengthening its own internal control system. For our part, we plan to continue our verification and investigation of the internal control system, bringing to the Company's attention and recommending to management any corrective measures that appear necessary or desirable as a result of its activities.

Moreover, in part on the basis of our own consultants' advice, we recommended that the Company provide specific information to the public in relation to the significant facts that emerged. This recommendation was accepted by the Board of Directors which, on February 16, 2007 made available, via its transmission to Consob and publication on the Company's website (www.telecomitalia.it), the report of the Internal Control and Corporate Governance Committee on network security, traffic data and events relating to the Security Function.

Regarding the report to the US market, on February 22, 2007 the Company sent a translation of the Committee's report to the SEC using the 6K Form.

* * *

Already during 2005 and subsequently in 2006, before the Judicial Authority's investigations led to the issuance of the "Order", we had acquired information regarding recourse by the former head of the Company's Security Function to "simplified" procedures and "derogations" for awarding consultancy and professional service engagements. In actual fact, in the context of the Company's internal control system, the process for procuring consultancy and professional services permits top management to adopt "simplified" procedures or "derogations" in cases where it becomes necessary to ensure the confidentiality of the data of some initiatives, and to guarantee the timely adoption of provisions required to safeguard the interests of the business.

In particular, we had been informed that an audit of the acquisition of professional and consultancy services by the Security Function carried out in the early months of 2005 by the person responsible for internal control – through remote (computerized) access to documentation and interviews with the Head of the Security Function and his co-workers – had revealed a control system that relative to this sector and from an operational viewpoint, presented weak points, consisting in the frequent recourse (60% of the total in 2004) to purchases made using "simplified" procedures or "derogations" and the concentration of responsibility in one and the same person (the head of the Function) for the choice of supplier, the monitoring of the service provided and authorization of the payment of invoices. The person responsible for internal control later indicated that no irregularities had emerged in the accounting records of invoices and that, even taking account of the unusual nature of this sector of activity, which often did not permit recourse to traditional procedure-based control instruments, suitable action plans to remedy the weaknesses identified were being studied.

We then noted the changes to the organizational structure made as a result of the reassignment of the responsibilities previously assigned to Giuliano Tavaroli, who, as was said earlier, ceased to perform any corporate role as of May 4, 2005. In particular, the Board was informed of the establishment of an interdepartmental task force (*Security*, *Purchasing*, *Corporate and Legal Affair*s, *TI Audit and Compliance Service*s) for the advance verification – for payment authorization purposes – of invoices for consultancy and professional services managed according to the above-mentioned "derogations" or "simplified" procedures; also, from an organizational perspective, to avert problems and in any event to highlight the possible future emergence of anomalies in the procedures adopted by the Security Function in acquiring consultancy and professional services, the Company took steps to change the organizational structure of this Function. In fact, under the new organizational structure the Head of the Security Function does not have a direct operational role, but only supervises and directs; in addition, he is supported by a staff for planning and control that ensures correct application of administrative procedures, documentary support for operations and the correlation of expenses with corporate objectives.

On this issue we recommended to management, and in particular to the Executive Deputy Chairman, that the current organizational adequacy of the Security Function be verified, with special regard to the mechanisms for ensuring compliance with correct operational procedures and the effectiveness of controls.

In this regard, management reported that the reorganization of the Security sector continued in 2006 by transferring technical IT activities to the technical auditing unit of Telecom Italia Audit

& Compliance Services and focusing the activity of the Security Function on the “logical” security of data (such as defining policies on the protection of information, identifying process/system owners etc). We were also notified that reviews of the qualification systems for suppliers of “Investigation Services” and suppliers of “Executive Protection” are under way, while the definition of a vendor rating procedure to assess supplier services is also planned (in accordance with criteria established in the general procedure already used by the Company in various other product purchase areas, and based on technical, administrative and commercial quality assessments).

Moreover, the Executive Deputy Chairman informed us that compared to with pre-existing organizational model, characterized by a multiplicity of “competence centres” granted broad autonomy, the new organizational structure (with the establishment of an operational planning mechanism) has the goal of preventing any risk of overlap between the proponent, authorizer and controller. The Executive Deputy Chairman also emphasized that the new operational procedures for the Security Function have permitted more effective monitoring of expenditure for professional and consultancy services (including the termination of all relations with external “Intelligence” suppliers) resulting in a significant reduction of these costs (around 50%).

On the issue of recourse to “simplified” procedures or “derogations”, we instructed the person responsible for internal control to carry out a specific audit aimed at verifying in general, and beyond the particular cases regarding the Security Function, the efficacy of the “simplified” procedures and “derogations” for the procurement of goods, services, and consultancy/professional services; in addition to verifying the efficiency of the procedures themselves by analyzing a representative sample of purchase thresholds of varying significance. We were informed that following this audit the Executive Deputy Chairman issued – with validity from October 2006 – a directive stating that derogations of the ordinary procedures envisaged in the internal control system were prohibited unless explicitly authorized by the Executive Deputy Chairman himself. This temporary solution was discontinued following the adoption, beginning in January 2007, of a special procedure for the management of “simplified” procedures and “derogations” requiring specific documentary support, increased authorizations and specific periodic reports to the Company’s executive officers for the purpose of verifying and monitoring this phenomenon.

We note that the aforementioned initiatives are part of a broader process for the “maintenance” of the internal control system and of the Organizational Model adopted by the Company pursuant to Legislative Decree 231/2001, with respect to which it should also be noted that in November 2006 the Group 231 Steering Committee approved an addition to the control schemes for “Agents and Intermediaries”, “Consultancy and Professional services”, “Sponsorships” and “Acquisitions of goods and services”, aimed – as also requested by us – at including in contracts a specific clause prohibiting the counterparty of the Company from assigning claims or payment orders. In so doing, the intention was to further strengthen the mechanism established to ensure that the service provider and the actual recipient of the payment are one and the same person. Any derogations from this provision will be highlighted in the quarterly information flows to the Supervisory Panel, as will any payments made in a place other than the supplier’s place of residence (or registered office).

The Executive Deputy Chairman also informed us that the Company is evaluating whether to revise the Organizational Model with the assistance of outside consultants, with the goal of its future “certification”. In the meantime, the Group 231 Steering Committee is studying further interventions for the Organizational Model’s maintenance, among which the advisability of increasing the group of persons (currently the Chairman and Executive Directors) obliged to communicate directly to the Supervisory Panel – in a special declaration – any operations performed using “simplified” procedures or “derogations”.

We verified, together with the Internal Control and Corporate Governance Committee, whether the past activities of the Security Function – often involving the granting of engagements “outside the system” to companies in the Polis d’Istinto Group – were the result of specific requests by the corporate structures. To this end, the person responsible for internal control was requested to make a specific intervention aimed at identifying the tasks and reporting procedures between the head of the Security Function, and the Company’s executive officers and management in the period from March 2003 to May 2005. The person responsible for internal control presented a report on the checks made, from which it emerged that the actions taken by the Security Function (by express request of management itself or on the independent initiative of the Function) fell – so far as the executive officers and management could tell – within the ordinary activity entrusted to this corporate structure (security of information systems, physical and logistic security of equipment, intelligence activities and the protection of corporate assets, the physical safety of the Company’s executive officers and management, environmental controls and personal security services for shows or events). The corporate structures consulted by the person responsible for internal control further declared that they were unaware of the concrete operational procedures followed for actions taken by the Security Function. This Function’s interventions in terms of checks on employees and candidate employees are explored in more detail below.

With specific reference, instead, to relations between the Security Function of the Company and the Polis d’Istinto Group, referred to in the Order, we had already examined, during 2006 and before the investigations by the Judicial Authority led to the issuance of the Order, a document presented by the Company’s executive officers during a meeting of the Board of Directors regarding, among other things, the Giuliano Tavaroli issue. The document highlighted that the internal investigations had failed to produce any evidence of misappropriation or other offences. However, no adequate justification could be found regarding several expenses for services allegedly provided by companies in the Polis d’Istinto Group, despite the fact that the Company had conferred a special mandate to an outside legal consultant to verify the correlation between invoices issued and services provided. It was further highlighted in the document that with respect to the procedures for relations with suppliers, Giuliano Tavaroli had always formally acted within the limits of the powers assigned to him by entering into a multiplicity of contracts of relatively limited dimensions.

Moreover, following a request by us, the management instructed the auditing firm to carry out checks aimed at assessing the correct and regular application of the accounting procedures (in particular as regards the accounting of invoices for services acquired and checking services had actually been provided), also with the goal of evaluating the possible impact of these findings on the Company’s and the consolidated financial statements, while taking account of any fiscal repercussions and other potential problem areas.

The checks conducted by the auditing firm, initially restricted to the invoices issued by the Security providers cited in the Order and subsequently extended to include all the invoices relative to expenses sustained by the Security Function for consultancy and professional services in the period from 2001 to 2006, are still under way. It should be noted that both management and the auditing firm have informed us that in any event they do not believe the amounts in question to be material in terms of impact on the Company’s financial statements. Moreover, in light of the theoretical possibility of tax sanctions being imposed on the Company were any evidence to emerge – as the initial findings of the auditing firm appear to suggest – that for a portion of the services suitable supporting documentation cannot be found, with the consequent impossibility of determining the related costs, management, in agreement with the auditing firm itself, deemed it advisable to envisage a suitable allocation to cover the risk.

* * *

The Order then charges the defendants with using data on telephone traffic and making unlawful checks on subscriber data and network usage. These activities were made possible in part by the existence, within the Telecom Italia Group, of several information systems (such as the Radar application) which – if used improperly– were capable of furnishing sensitive data (for example, data relating to telephone subscribers, the lines used by them and the related call logs), without leaving any trace of who had accessed the database and, clearly, in the absence of any Order to this effect issued by the Judicial Authority.

We had already examined in the early months of 2006 the relevant issues of an organizational and procedural nature regarding the rules on privacy; during the hearing of management no particular critical areas emerged in this respect. Moreover, we had been able to ascertain, in an interview with the person responsible for internal control and the Group Compliance Officer, that in the definition of the Group risk portfolio account was taken (along with the related risk management plans) of the risk of administrative/penal sanctions arising from the processing of personal and/or confidential data, caused by any improper use of sensitive data.

We had also addressed, on more than one occasion and even before the Order was issued, matters regarding network security and data traffic handling systems, in addition to the services provided by the Company for the Judicial Authority. In particular, with reference to extensive press reports of alleged irregular wiretapping, including by employees of the Company, already in the early months of 2006 we were informed that – according to the initial findings of the audit carried out by the person responsible for internal control – in reality these were employees involved in episodes of improper dissemination of traffic data and not of the content of telephone conversations. Indeed, the person responsible for internal control stressed that no Telecom employee could “listen in on” or “wiretap” conversations and that this activity was restricted exclusively to the Judicial Police bodies, delegated by the Judicial Authority, through the use of technical instruments and equipment – which are unavailable in the Company – installed in the recording rooms of the Public Prosecutors’ Offices. The data transmitted therefore regarded information on the use of telephone lines that the Company is obliged to maintain and disclose, at the client’s request, with reference to the previous six months, as well as make available to the Judicial Authority.

On several occasions we addressed matters pertaining to network security and traffic data handling by the Company, both through its own investigative activities, and by acquiring information in joint meetings with the Committee for Internal Control and Corporate Governance and in the meetings of the Board of Directors in which the above-mentioned issues were discussed. We also took note that the Company had submitted several statements to the Judicial Authority reconstructing events relating to the rumours of alleged illegal activities by persons operating in Telecom Italia’s Security structures, and described events that had occurred and been verified and for which actions had been taken. Management has confirmed to us that the statements presented to the Judicial Authority did not reveal significantly different or additional findings with respect to what it had reported to us in the various phases of our investigative activity.

The issue of “wiretapping” in the strict sense of the term (in other words the possibility of listening in on and/or transmitting the content of telephone communications) did not therefore present problems in light of the information provided to us.

However, what did emerge during the various investigative activities we carried out – mostly in joint meetings with the Internal Control and Corporate Governance Committee – was a more general problem of safeguarding privacy, with significant repercussions on network security, the information systems for managing traffic data and the procedures for managing information flows on the mandatory services provided to the Judicial Authority.

In actual fact, what emerged was an inadequate perception by management of the technical and organizational requirements associated with managing compliance with the privacy rules and the consequent risks. The underestimation of the "privacy-risk" in the Company derived essentially from the fact that the self-evaluation process of the minimum security measures envisaged under the Privacy Code was found to be insufficiently effective, both due to the lack of familiarity of the persons concerned with the Code itself and due to inadequate controls. Moreover responsibility for the information systems and monitoring and information risk assessment duties had been distributed across several sectors, with various control bodies and limited powers of central governance. Finally, the analyses of the information risks carried out by the competent technical functions focused primarily on technological aspects, overlooking, instead, analyses of organizational and procedural aspects.

Faced with the emergence of the problems mentioned above, the Company implemented a series of corrective and ameliorative measures that derive from the IT Compliance project aimed at tracking and analyzing (also through the granting of a specific assignment to an independent advisor, KPMG Advisory) the security of processes and IT systems in the Company (with special reference to those that handle traffic data), as well as the performance of technological and organizational activities aimed at preventing and adequately managing the risks related to compliance with the rules on privacy.

On the safeguarding of privacy by TLC operators, the Italian Data Protection Authority intervened both with general measures, aimed at all operators, for the processing of judicial data and the management of information flows relating to mandatory services provided to the Judicial Authority, and with a specific Order of June 1, 2006 issued at the end of an investigation into a specific case of improper transmission of mobile telephone call logs, ordering the Company to adopt, not later than September 29, 2006: IT solutions suited to ensuring the control of activities carried out by each person responsible for handling traffic data (the principle of traceability of access); strict authorization processes, in terms of data access and permissible operations, limiting the handling of traffic data to the minimum required (segregation of duties and need-to-know principles); processes for logging all operations carried out on traffic data in special audit logs that ensure comprehensive and inalterable information and the non-contestability of the recordings themselves.

In the event of failure to adapt the information systems that manage traffic data to the criteria outlined above, the Order envisaged a halt to all related processing activities.

With specific reference to this last Order by the Data Protection Authority of June 1, 2006, we were informed of the presentation of the report in which the Company notified the Authority of the interventions it had completed up to the deadline prescribed under the Order (September 29, 2006). The Company also reported on the initiatives under way or planned (indicating the deadlines fixed for their completion), including the intrinsic and objective technical limits of the adaptations made and makable, the weaknesses encountered and possible areas for improvement. We subsequently received a further update from management on the state of progress of the works, which was also communicated, in November 2006, to the Data Protection Authority. On that occasion management told us that the risk of non-compliance with the privacy rules had already been substantially mitigated thanks to the steps taken by the Company. This meant that all the applications considered delicate, for example the systems from which it is possible to extract unencrypted traffic data, were appropriately adapted as of September 29, 2006. Despite this, several residual risk areas persisted, which according to management were attributable to objective problems of a technical nature or to information systems that are not a determining factor in the performance of the main activity.

On December 18, 2006, management informed us of the issue (on December 11, 2006) by the Data Protection Authority of an Order in which the deadline for completing the implementation of the prescriptions contained in the above-mentioned Order of June 1, 2006 was deferred to March 31, 2007. The Company was also ordered to transmit to the Authority (not later than January 31, February 28 and March 31, 2007) further updates on the other adaptive measures adopted in the meantime and confirmation of the completion of measures implementing the aforementioned prescriptions.

We then ascertained through an interview with management and the Executive Deputy Chairman that on February 28, 2007, in accordance with the provisions envisaged under the extension Order, the Data Protection Authority had been updated on the state of adaptation of the traffic data processing systems. Management highlighted in the document that three systems had still to be adapted (which provide value added services that are complex but of low overall importance) and that the changes will be completed by March 31, 2006, and this will be communicated to the Data Protection Authority.

In any event, we stressed the need for the Company to continue assessing with due diligence the risks linked to compliance with the privacy rules and, on this issue, agreed with and made its own the recommendations formulated by KPMG Advisory on the matters and events which, while they do not currently constitute failures to comply with the prescriptions of the Data Protection Authority, must be managed to ensure compliance with the applicable legislation as it evolves (the reference is, in particular, to the advisability of establishing procedures defining responsibilities, and procedures for the management, verification and control of the records generated). It should also be pointed out that the activities performed by the Company as part of the IT Compliance project have enabled the acquisition of some general information on the organizational model and on several methodologies and instruments for managing Telecom Italia's information security. We have, in this regard, approved the recommendations formulated by KPMG Advisory regarding the advisability of: i) "defining an integrated information security mechanism guaranteeing a unified assessment of the overall operational risk and of the necessary security measures, generating greater integration between the various corporate functions involved; ii) defining an organizational/operational model for information security based on fundamental principles that envisage agreement on criteria and rules with top management, the clear identification of roles and responsibilities that respects the division of tasks, and the spread and enhancement of security throughout the Company; and iii) improving the level of control over particularly critical areas and functions, in terms of operability and the type of information processed, for the management of information security".

On this issue, it should be noted that the Executive Deputy Chairman informed us that the Company keeps the scope of the systems for processing traffic data updated, both as regards the normal evolution of information systems (such as new implementations, divestments), and bearing in mind the Group's organizational evolution. We were was also informed that the Company had elected to adapt the systems (and at the same time maintain compliance with the prescriptions of the Order of June 1, 2006) of Telecom Italia Sparkle, despite the fact that this is not formally the object of the Order itself. The Executive Deputy Chairman also informed us of a plan aimed at ensuring respect of the Privacy rules for network systems by implementing a rapid and significant reduction of risk levels and using, as a parameter for the technological solutions adopted, the criteria for adapting to the Data Protection Authority's Order of June 1, 2006. We were also informed of the launch of a project for defining a new organizational model for the governance of IT risks and information security. This project will implement not only the KPMG recommendations but also the changes in the organizational structure of the Telecom Italia Group on January 22, 2007 (see point 12).

With reference to services provided to the Judicial Authority, in other words the set of systems designed to deliver mandatory services pursuant to statutory provisions applying to all telecommunications operators, we note that the analysis conducted by KPMG Advisory highlighted the lack of an overall, comprehensive and updated picture of the boundary of these systems and a lack of continuity in the integration process between the systems for the wired network and those applying to mobile services. Moreover, with reference to one specific system (the so-called Circe system that in the mobile sector permits the centralized management of the mandatory services requested by the Judicial Authority), the analysis highlighted some weaknesses, which could cause security risks, as well as the risk of non-compliance with the requests of the Data Protection Authority in their Order of June 1, 2006. In this regard, we advised that the actions already taken by management be supplemented and reinforced, taking particular account of the relevant recommendations made by KMPG Advisory.

On this point, management reported to us on the results of the review carried out: based on the assessment performed to date, 23 systems were identified that are used exclusively to comply with the requests of the Judicial Authority and 14 systems were identified that support the supply of mandatory services to the Judicial Authority itself. In the meantime, the project aimed at compliance with the Order issued by the Data Protection Authority of September 20, 2006, applying to all telecommunications operators, was substantially concluded within the prescribed deadline and compliance was confirmed to the Authority in a special document filed on December 22, 2006. Management emphasized that it is still the case, however, that the correct operation of the implemented solutions depends on the adoption, by the Public Prosecutors' offices that use them, of instruments suited to the reception and sending of communications in accordance with the protocols that have been defined.

The Executive Deputy Chairman informed us that in the meantime medium-term assessment activities continued, aimed, among other things, at rationalizing and integrating the various current structures and procedures. The appropriate analyses and assessments of the IT applications used and related managed processes are being carried out both on the systems used for mandatory services and the support systems for such services, with a view to determining, with the advice of KPMG Advisory, possible risks and areas for improvement.

* * *

We then carried out checks on the so-called Scanning Operation, referred to at length in the Order, for the collection and classification of data on employees or candidate employees of the Telecom Italia Group.

We learnt from the Head of the Human Resources Function that the "investigations" in question were undertaken at the initiative of the former head of the Security Function. In fact at the beginning of 2004 Giuliano Tavaroli informed the Human Resources Department of the then Business Unit Wireline of the existence of risks linked to the possible infiltration of terrorist supporters among network technicians and requested lists of employees who had been hired recently (as of November 2003) or who had been deemed suitable for hiring at the end of the application process. The Wireline Human Resources Department gave Giuliano

Tavaroli the lists, without being informed, however, of the investigative methods used by the Security Function (including recourse to external suppliers). In just two cases a verbal indication of "non-suitability" was made by the Security Function and the two candidates were not hired.

More generally, we received direct information from Company management and requested the person responsible for internal control to carry out a specific audit regarding requests made by corporate structures to the Security Function for checks on employees. The audit carried out and the information we received from management revealed that the Security Function's actions involving "checks" on employees (undertaken following a request by corporate structures or at the initiative of the Function itself) normally had the sole purpose of verifying individual episodes of disloyalty or misappropriation by employees, most often reported in anonymous notes. In any event, the corporate structures declared they were aware neither of the investigative methods used by the Security Function nor of the engagements it granted to external suppliers.

We also received assurances, first from the Executive Deputy Chairman, and subsequently from the Head of Human Resources, regarding the non-existence of corporate policies involving "investigations" of employees – for hiring purposes or during the working relationship – that were illegal or in any event for any purposes other than assessing the worker's professional aptitude. We also took note of the checks on the recruitment procedures already made by the person responsible for internal control in 2005, which failed to reveal any procedural anomalies.

Finally, the Executive Deputy Chairman informed us of the recent adoption of a new Group policy on recruitment and hiring according to which – as also requested by us and the Internal Control and Corporate Governance Committee – a ban on pre-employment inquiries, except for checks on any references provided by candidates, is expressly stated and no longer implicit in law.

* * *

We also took steps to verify allegations made in the Order of episodes in which documents concerning relations between the Company's Security Function and the Polis d'Istinto Group were destroyed. In this regard, we believed it was advisable to investigate the phenomenon insofar as it could be – where it happened in proximity to or concurrent with the Judicial Authority's investigations – a serious indication of the illegal nature of the events described in the destroyed documents.

The action we took was intended to verify whether the phenomenon was due to orders received from, or in any event known to, the top management of the Company. For this purpose we were first given direct information from the Executive Deputy Chairman, who on the one hand declared he had never given orders of this kind to employees of the Company and on the other, stated he had had no knowledge of any such behaviour.

Given it was the Order that linked the above-mentioned activity involving the destruction of documents to the Security Function of the company, and in particular, to its relations with several suppliers, we deemed it advisable to request the person responsible for internal control to carry out a specific audit. Since obtaining material or "positive" proof of the phenomenon of document destruction constitutes a sort of *probatio diabolica*, on the basis of an initial review, the person responsible for internal control excluded that the destruction of administrative documents regarding suppliers was linked to the managers of the Security Function who had succeeded Giuliano Tavaroli. At our request appropriate verifications are under way with a view to implementing the procedure for managing, retaining and filing documents.

* * *

As for several stories in the press concerning statements made to the Judicial Authority on alleged abuses in the use of a “Chairman’s fund”, after receiving information of a general nature on the corporate accounting set-up, which provides for amounts to be recorded according to their nature (plan of the accounts) and their purpose in relation to the corporate Functions involved (cost centres), we learnt from management and in particular from the CFO, that no such fund exists. There is, instead, a cost centre relative to the Company’s executive officers (as is the case for all other corporate Functions) which is the point of reference for the expenses of these officers (typically trips and entertainment expenses) and for those arising from consultancy contracts and other engagements. Management also confirmed that all the items of expense related to this cost centre have been correctly registered; nevertheless, for precautionary purposes, the person responsible for internal control launched a special audit, also at our request, that is still under way of expenses for consultancy and professional services registered in the cost centre relative to the executive officers.

* * *

Aspects of the Judicial Authority’s provisions reported in the press revealed criticism of the Company’s failure to meet the requests of the Authority or delays in doing so with reference to the episode of unauthorized access to the RCS computer network perpetrated using in-house computing structures. Management informed us that there had been no conscious delays or omissions in the Company’s cooperation with the Judicial Authority; however, we were also told that some of the responses provided to the investigating magistrates had been prepared by Mr. Ghioni, ex manager of Telecom Italia and formerly close aide of Giuliano Tavaroli, member of the so-called “Tiger Team”, and the recipient of a preventive detention order in relation to the above-mentioned episode of unauthorized access.

Management was the source of the following information concerning the activities carried out within the company by Ghioni, in charge from December 2003 onwards of the Information Security Function (later renamed Technology & Information Security), responsible for the technological aspects of IT security. The formation of the so-called Tiger Team can be traced to the beginning of 2004, with activities that were (formally) coherent with the tasks assigned to the Function of which Ghioni was in charge, in others words of *vulnerability assessment* (identifying the potential weaknesses of systems, without any attempt to actually access them) and *penetration tests* (real simulations of computer infiltration aimed at producing an objective result and shedding greater light on the problems identified). Technology & Information Security, in line with the organizational evolution within the Group, was also intended to operate on the external market, by concluding contracts for services with major clients related to penetration tests and vulnerability assessments on which the so-called Tiger Team worked directly.

We were also informed that in April 2006 these activities were transferred to the technical auditing unit of Telecom Italia Audit & Compliance Services and that subsequently, in June 2006 there were several press reports carrying excerpts from the audit of the Radar system (performed by Ghioni and which the Company had delivered to the Judicial Authority); the Company responded with a complaint to the Public Prosecutor’s office in Milan about the news leaks and Ghioni was transferred to back office activities until his dismissal in January 2007.

Regarding excerpts of orders by the Judicial Authority that appeared in the press, referring to episodes of unauthorized access to computer systems, and more generally to “intelligence” and “dossier building” activities, we inform you that these matters are currently being investigated by the Judicial Authority.

We have, however, directed the person responsible for internal control to verify the efficacy and efficiency of the reorganization of the Company’s Security Function, and to ensure there are no eventual procedural deviations from the corporate purpose and operations.

Finally, it should be noted that we held a joint meeting with the Internal Control and Corporate Governance Committee to discuss the excerpts, reported in the press from March 22, 2007 onwards, of the most recent preventive detention order regarding, amongst others, some former mangers of the Company’s Security Function. We note that in this meeting the Committee suggested management procure a due diligence report of the Security Function, entrusting the assignment to an outside party of undisputed standing.

* * *

Lastly we note that the Company presented a complaint on the payments related to activities carried out in Brazil; in this connection we requested the person responsible for internal control to carry out an audit of these payments. This audit is in addition to those already carried out in the past at the initiative of the Board of Auditors and the Supervisory Panel, regarding relations with a consultant of the Company for some matters in Latin America, which did not reveal any problems.

Milan, March 29, 2007

The Board of Auditors
The Chairman

RESOLUTIONS

SHAREHOLDERS' MEETING OF TELECOM ITALIA S.P.A. 14 – 15 – 16 APRIL 2007
AGENDA

ORDINARY MEETING

- Financial statements for the year ended 31 December 2006 – related and consequent resolutions
- Appointment of the Board of Directors
  - ✓ determination of the number of members of the Board
  - ✓ determination of the term of office of the Board
  - ✓ appointment of the Directors
  - ✓ determination of the annual compensation of the members of the Board of Directors
- Decisions consequent on the resignation of a member of the Board of Auditors
- Plan for the award of free treasury shares to the top management of the Telecom Italia Group. Authorization to purchase and dispose of treasury shares subject to revocation of the existing authorization – related and consequent resolutions
- Decisions consequent on the completion of the audit engagement awarded to Reconta Ernst & Young S.p.A.
- Amendments to the Meeting Regulations approved by the shareholders' meeting on 6 May 2004

EXTRAORDINARY MEETING

- Amendment of the following articles of the Company's bylaws: 3 (purpose); 6 (savings shares); 8 (bonds); 9 (appointment of the Board of Directors); 10 (corporate officers); 11 (meetings of the Board of Directors); 12 (powers of the Board of Directors); 13 (manager responsible for the preparation of the Company's financial reports); 14 (information flows from the executive directors to the other directors and the members of the Board of Auditors); 15 (representation of the Company); 16 (compensation of the Board of Directors); 17 (Board of Auditors); 18 (calling of shareholders' meetings); 19 (participation in shareholders' meetings); 20 (conduct of shareholders' meetings); and 21 (allocation of the profit); numbering of the paragraphs of the articles of the bylaws; and related and consequent resolutions

Financial statements for the year ended 31 December 2006 – related and consequent resolutions

Dear Shareholders,

The draft financial statements submitted for approval by the shareholders' meeting show net income for the year of € 4,143,576,591.31.

This result makes it possible to propose the distribution of a dividend in line with that paid last year, €0.1400 for each ordinary share and €0.1510 for each savings share.

The total dividend amount will depend on the number of shares with dividend entitlement outstanding on the dividend payment day, excluding treasury shares (currently 1,272,014 ordinary shares) and taking into account shares that are subscribed for in connection with the capital increases provided for in Article 5 of the Company's bylaws and actually issued by that date.

Dividends will be paid as of 26 April 2007, while 23 April 2007 has been set as the ex dividend date.

In light of the foregoing, the Board of Directors invites you to approve the following

Resolution

The shareholders' meeting of Telecom Italia S.p.A.,

- having examined the Company's financial statements for the year ended 31 December;
- having taken note of the reports of the Board of Auditors and the external auditor, Reconta Ernst & Young S.p.A.;
- considering that the shares with dividend entitlement at the proposed ex dividend date will be not more than 13,866,550,154 ordinary shares and 6,026,120,661 savings shares;

resolves

1. to approve the financial statements of Telecom Italia S.p.A. for the year ended 31 December 2006, which show net income for the year of € 4,143,576,591.31;
2. with regard to the net income for the year,
    a. to allocate to the legal reserve a maximum of € 53,583,697.31 and in any case not more than the amount necessary for such reserve to be equal to one fifth of the Company's share capital at the time this resolution is adopted;
    b. to allocate up to a maximum of € 2,851,261,241.38 for the distribution of dividends to shareholders, calculated on the basis of the following amounts per share, which will be applied to the ordinary and savings shares that they own (thus excluding treasury shares) on the ex dividend day:
        - €0.1400 for each ordinary share,

- €0.1510 for each savings share,

  gross of the withholdings required by law. It is to be understood that net income not distributed as dividends will be allocated to retained earnings;

c. to carry forward the remaining amount (equal to € 1,238,731,652.62);

3. to authorize the Board of Directors – and on its behalf its Chairman – to determine in due course, on the basis of the actual number of shares for which dividends are paid, the amount of net income distributed to shareholders and the amount carried forward as retained earnings;
4. to pay the above dividends starting on 26 April 2007, ex dividend on 23 April 2007.

Appointment of the Board of Directors

- determination of the number of members of the Board
- determination of the term of office of the Board
- appointment of the Directors
- determination of the annual compensation of the members of the Board of Directors

Dear Shareholders,

You are called upon to renew the Company's Board of Directors, appointed by the shareholders' meeting on 6 May 2004 and subsequently brought up to full strength with resolutions adopted on 7 April 2005 and 13 April 2006, whose term of office expires with today's meeting (approval of the financial statements for the year ended 31 December 2006).

Pursuant to law and the Company's bylaws, the shareholders' meeting is specifically called upon to

- determine the number of Directors (from seven to twenty-three);
- establish the term of office of the new Board (up to a maximum of three fiscal years);
- appoint the Directors using the slate voting system;
- determine the annual compensation of the members of the Board of Directors.

The Board of Directors therefore invites you to formulate proposals on the above-mentioned subjects and, in particular, to present slates of candidates, in the manner and within the time limits established by Article 9 of the Company's bylaws

In the light of the above, the Board of Directors, having regard to the provisions of law and the Company's bylaws regarding the composition, term of office, manner of appointment and compensation of the Board of Directors,

invites the shareholders' meeting

- to determine the number of Directors to be appointed;
- to establish the term of office of the new Board of Directors;
- to vote for the slates of candidates for the office of Director of the Company, filed and published in the manner and within the time limits established by Article 9 of the Company's bylaws;
- to determine the annual compensation of the members of the Board of Directors.

Decisions consequent on the resignation of a member of the Board of Auditors

Dear Shareholders,

Stefano Meroi, appointed to the Board of Auditors by the shareholders' meeting of 13 April 2006, resigned on 20 October 2006. In accordance with the Company's bylaws the vacancy was filled by the alternate member elected from the same slate, Enrico Maria Bignami, who, pursuant to law, remains in office up to today's shareholders' meeting.

The slate voting system is envisaged by the Company's bylaws only for the complete renewal of the Board of Auditors and therefore does not apply in the case in question. Accordingly, the Board of Directors proposes the appointment of Enrico Maria Bignami as a member of the Board of Auditors and Luigi Gaspari as an alternate member until the end of its term of office.

The proposal to appoint Luigi Gaspari is made following contacts between the Lead Independent Director, Guido Ferrarini, and presenters of the slate on which Stefano Meroi and Enrico Maria Bignami were candidates.

The curricula vitae of the two candidates appear as an appendix to this report.

In light of the foregoing, the Board of Directors invites you to approve the following

Resolution

The shareholders' meeting of Telecom Italia S.p.A.,

- having regard to the need to bring the Board of Auditors up to full strength following the resignation of ones of its members;
- having regard to the resolution adopted on 13 April 2006 appointing the members and alternate members of the Board of Auditors;
- in light of the provisions of the Company's bylaws concerning the composition, term of office and manner of appointment of the Board of Auditors;

resolves

- to appoint Enrico Maria Bignami (formerly alternate member of the Board of Auditors) as a member of the Board of Auditors, with a term of office expiring together with that of the incumbent members and therefore lasting up to the date of the shareholders' meeting that will be called to approve the financial statements for the year ending 31 December 2008, and consequently
- to appoint Luigi Gaspari as an alternate member in place of Enrico Maria Bignami, with a term of office expiring together with that of the incumbent members and therefore lasting up to the date of the shareholders' meeting that will be called to approve the financial statements for the year ending 31 December 2008.

CURRICULUM VITAE
ENRICO MARIA BIGNAMI

Enrico Maria Bignami was born in Milan in 1957.
He graduated in 1979 with full marks in Business Economy, with specialization in liberal profession as business expert at "Università L. Bocconi di Milano".
He was admitted to the Board of Business Experts of the City of Milan in 1981.
He has been Chartered Accountant since 1988 and Auditor since 1995.
In 1981 he started the activity as Business Expert.
He is a partner in "Bignami e Associati Studio di Consulenza Aziendale, Societaria e Tributaria", seated in Milan.
He is engaged in the following activities: general advice on corporate, business and tax laws to joint-stock companies; general advice on working of corporate bodies and, in general, on company governance; study, laying down and implementation of economic/patrimonial/financial structuring and restructuring projects; surveys and technical advice; management and winding up of companies.
He is Chairman of the Board of Auditors of Brandt Italia S.p.A., Polyphoto S.p.A., Biancamano S.p.A., and Aon Re Italia S.r.l., and he is Statutory Auditor of Butangas S.p.A. and other group companies, and of Termozeta S.p.A..

List of offices (according to article 2400 of the Italian Civil Code) held by Mr. Bignami, as of March 9, 2007

ALLFIN SPA IN LIQUIDAZIONE	Trezzano s/n MI	07659770155	Chairman of the Board of Auditors
ANDRA SPA	Opera MI	06295860156	Chairman of the Board of Auditors
ANTERA SPA	Milano	10267750155	Statutory Auditor
AON RE ITALIA SRL	Milano	00607330933	Chairman of the Board of Auditors
AUTOMOBILISTICA PEREGO SPA	Milano	04636220156	Chairman of the Board of Auditors .
BD CONSULTING SRL	Milano	07520030151	Chairman of the Board of Directors
BI-11 AMMINISTRAZIONI SRL	Milano	01761560158	Chairman of the Board of Directors
BIANCAMANO SPA	Alassio IM	01362020081	Chairman of the Board of Auditors.
BRANDT ITALIA SPA	Verolanuova BS	03535710176	Chairman of the Board of Auditors
BRANDT OVERSEAS SRL	Milano	12287310150	Chairman of the Board of Auditors
BUTAN GAS SPA	Roma	00443130588	Statutory Auditor
CAPITAL PARTNERS ITALIA SRL	Milano	10563790152	Sole Director
COTEX COMPAGNIA TESSILE ITALIANA SRL IN LIQUIDAZIONE	Milano	07526930156	Liquidator
DEL BONO AEROSOL SRL	Assago MI	01303470155	Director
DYNAMIS EQUITY PARTNERS SPA IN LIQUIDAZIONE	Milano	04108750961	Liquidator
ESSEA FINANZIARIA EDITORIALE SRL	Milano	08688290157	Chairman of the Board of Directors
GEDE LEASING SPA	Milano	05959690156	Chairman of the Board of Auditors

Gènea Srl	Milano	11108650158	Director
GORLA UTENSILI SPA	Abbiategrasso	08000000151	Statutory Auditor
IL SASSO SRL	Milano	04601610159	Statutory Auditor
IMMOBILIARE PASQUALE SRL	Milano	03550980159	Sole Director
LF MANAGEMENT SRL	Milano	07873470152	Sole Director
LONGOBARDI FINANZIARIA SRL	Milano	08457330150	Sole Director
OBRIST ITALIA SRL	Milano	00845250158	Statutory Auditor
PASO SPA Prodotti per Amplificazione e sonorizzazione	Milano	00930730155	Statutory Auditor
PETROLCHIMICA PARTENOPEA SPA	Napoli	00311880637	Statutory Auditor
POLO (ROMA) SRL	Milano	04921600963	Director
POLO SPA	Milano	03454780150	Director
POLYPHOTO SPA	Opera MI	04219520154	Chairman of the Board of Auditors
RAYWELL SRL IN LIQUIDAZIONE	Buccinasco MI	08640820158	Chairman of the Board of Auditors
REBO SPA	Milano	03584360154	Chairman of the Board of Auditors
SI.TI.A. SPA	Milano	08908370151	Chairman of the Board of Auditors
SIVA SRL	Milano	80006390159	Chairman of the Board of Auditors
TEKNOS SRL	S. Omero TE		Director
TEMA -Technologies & Manufacturing SRL IN LIQUIDAZIONE	Milano	01962120125	Chairman of the Board of Auditors
TERMOZETA SPA	Milano	02528440155	Statutory Auditor
VERONIKI REAL ESTATE SRL	Milano	05087340963	Statutory Auditor
VIDIEMME SRL IN LIQUIDAZIONE	Milano	08878130155	Liquidator

Luigi Gaspari was born in Rome on 14 September 1956.

Degree in Economics from the University of Rome “La Sapienza”

From 21 January 1976 to 11 October 1980 he worked for the Associazione Generale delle Cooperative Italiane as assistant to the head of administration.

From 13 October 1980 to 6 December 1985 he worked for RIA Società Nazionale di Certificazione S.p.A. (an auditing firm entered in the register kept by Consob under Article 8 of Presidential Decree 136/1975) with positions of operational responsibility for audits, the mandatory and voluntary certification of annual financial statements and the valuation of the economic capital of industrial firms and banks.

Since 1985 he has been a chartered accountant with offices in Rome, 4 Piazza S. Lorenzo in Lucina. He has been entered in the register of auditors since it was established in 1995.

He collaborated with the Business Economics Institute of the University of Rome “La Sapienza” from 1987 to 1997 as a member of examining boards for exams in Business Economics and General and Applied Accountancy. From 1987 to 1992 he taught Corporate Auditing at the Tax Police Training School of the Guardia di Finanza.

From 1985 to 2000 he was a consultant on a coordinated and continuous collaboration basis to ASSOGESTIONI - Associazione Italiana delle Società ed Enti di gestione mobiliare e immobiliare – for the economic aspects and supervision of asset management companies and investment firms.

In 2001 he represented ASSOGESTIONI on the steering committee for the creation of the Organismo Italiano di Contabilità. He is currently a director of that body.

From 1990 onwards he advised banks engaged in contributions of assets and mergers, both as an appraiser and as a consultant for the processes involved.

He acted as a consultant for the drafting of business plans for the setting up of new banks and financial intermediaries and for the enlargement of existing networks.

He holds and has held positions as company director, liquidator, member of boards of auditors and oversight committees, management consultant, company appraiser, technical consultant to the judicial authorities, and expert in disputes.

As regards membership of the governing bodies of listed companies and subsidiaries of listed companies, he holds the following positions:

- Chairman of the Board of Auditors of FINMECCANICA S.p.A. as of 2006 (in the preceding three-year period 2003-05 he was an auditor) and of the Board of Auditors of its subsidiary Galileo Avionica S.p.A. as of 2004.

As for membership of the governing bodies in the financial and credit sectors, he holds and has held the following positions:

<u>Member of the Board of Directors</u>:

- ARTIGIANCASSA S.p.A. (years 1994-97)

- Fabrica Immobiliare SGR S.p.A. Independent Director as of 2003 (ongoing position)

Member of the Board of Auditors:

- ISVEIMER S.p.A. in liquidation, Auditor as of 1996 (ongoing position)
- ICCREA Holding S.p.A. (Capogruppo Gruppo Bancario ICCREA) Chairman as of 1998 (ongoing position)
- BCC Gestione Crediti S.p.A.. (Gr. ICCREA) Chairman as of 2001 (ongoing position)
- BCC Gestioni Immobiliari S.p.A.. (Gr. ICCREA) Chairman as of 2004 (ongoing position)
- AUREO Gestioni SGR S.p.A. (Gr. ICCREA) Chairman as of 2005 (ongoing position)
- Banca per lo Sviluppo della Cooperazione di Credito S.p.A. Chairman from 1998 to 2005
- Banco di Sicilia S.p.A. Auditor (years 1997-98)
- INTERMONTE SIM S.p.A. Auditor as of 2006 (ongoing position)
- Istituto Bancario del Lavoro S.p.A. Alternate as of 3 May 2006

Special Administrator:

- Borsaconsult SIM S.p.A. under special administration (year 2000)
- Banca Popolare del Levante S.C. a r.l. (2000-01)
- Profit Investment SIM S.p.A. (October-December 2006)

Liquidator

- Banca di Girgenti S.p.A. in compulsory administrative liquidation as of 1991 (ongoing position)
- Profit Investment SIM S.p.A. in compulsory administrative liquidation as of 20 December 2006 (ongoing position)

Member of the Oversight Committee

- Cassa di Risparmio Molisana Monte Orsini under special administration (years 1986-87)
- Cassa di Risparmio Molisana Monte Orsini in compulsory administrative liquidation (years 1987-93)
- Cassa di Risparmi e Depositi di Prato under special administration (years 1988-89)
- Banca Agricola Industriale di Sulmona S.C. a r.l. under special administration (years 1990-91)
- Banca Popolare di Napoli S.C. a r.l. under special administration (years 1994-96)
- Credito Commerciale Tirreno S.p.A. under special administration (years 1996-97)
- BCC del Baianese S.C. a r.l. under special administration (years 2000-01)
- Cassa di Risparmio di Volterra under special administration (years 2002-03)

As for membership of the governing bodies in sectors other than the financial and credit sectors, he holds and has held the following positions:

Liquidator:

- CONIEL S.p.A. in liquidation since 2005 (ongoing position)

Plan for the award of treasury shares free of charge to the top management of the Telecom Italia Group. Authorization to purchase and dispose of treasury shares subject to revocation of the existing authorization – related and consequent resolutions

Dear Shareholders,

We invite you to approve a proposal for the award of shares free of charge to corporate officers, employees and collaborators pursuant to Article 114-*bis* of Legislative Decree 58/1998 (hereinafter “the Plan”) by means of the purchase and disposal of treasury shares.

To this end, in light of the fact that the resolution adopted by the shareholders’ meeting of 13 April 2006 granting authorization to purchase treasury shares, due to lapse on 13 October 2007, has not been executed even in part and that the number of treasury shares currently held by the Company is insufficient for the implementation of the initiative, we also invite you to approve a new authorization to purchase and dispose of ordinary shares of Telecom Italia S.p.A. (the “Shares”) in place of the existing one, in accordance with the procedures and time limits specified below (the “Authorization”).

1. Reasons for the request for the Authorization

The objective that the Board intends to pursue with the purchases of Shares is to create the stock of shares needed for the implementation of the Plan, an initiative for motivating and retaining the top management of the Telecom Italia S.p.A. Group, as described below.

The request for the Authorization is therefore not part of a plan to reduce the Company’s share capital by canceling the Shares purchased.

2. Maximum number, class and par value of the Shares to which the Authorization refers

At the date of formulation of the present proposal the share capital of Telecom Italia S.p.A. is represented by 19,406,856,470 shares, of which 13,380,735,809 ordinary shares and 6,026,120,661 savings shares; all the shares have a par value of €0.55.

We propose that you should authorize the purchase of up to a maximum of 25,000,000 Shares (corresponding to 0.187% of the capital of that class and to 0.129% of the total capital) and that it is also to be understood that buy-backs may not be made for amounts exceeding the available reserves as stated in the Company’s latest duly approved annual financial statements.

3. Information serving to assess compliance with paragraph 3 of Article 2357 of the Civil Code

At the date of writing the Company holds 1,272,014 treasury Shares, which represent approximately 0.007% of the share capital. In addition, subsidiaries hold 124,544,373 Shares, which represent approximately 0.642% of the share capital.

It follows that the maximum number of Shares whose purchase is proposed falls within the legal limits, without prejudice to the limits referred to in the last paragraph of Section 2. It should also be noted that the draft annual financial statements for the year ended 31 December 2006, which are submitted for approval by the same shareholders' meeting as is invited to approve this Authorization, show available reserves amounting to over € 5,623 million.

Whenever Shares are purchased or sold, as specified in greater detail below, appropriate entries must be made in the accounting records in accordance with the applicable law and accounting standards.

4. Duration of the Authorization

The Authorization is requested for the maximum period permitted by the applicable law. The Board will be able to carry out the purchases authorized on one or more occasions and at any time, while authorization to dispose of the Shares purchased as specified above or in any case available to the Company is requested within the time limits necessary for the implementation of the Plan.

5. Minimum and maximum consideration

The Board proposes that the purchase price of the Shares be established on each occasion and in compliance with any applicable rules and regulations or accepted market practices, with a minimum price and a maximum price fixed in accordance with the following criteria:

- the minimum purchase price may not be less than the weighed average of the official prices of the Shares recorded by Borsa Italiana S.p.A. in the last ten days of trading before the purchase date, decreased by 10%;
- the maximum purchase price may not be more than the weighted average of the official prices of the Shares recorded by Borsa Italiana S.p.A. in the last ten days of trading before the purchase date, increased by 10%.

As regards the disposal of the Shares, they will be assigned free of charge to the beneficiaries of the Plan, subject to satisfaction of the conditions laid down therein

6. Ways of carrying out transactions

The Board proposes that the Authorization be granted for the purchases to be made on regulated markets, in accordance with the procedures established by Borsa Italiana S.p.A., through financial intermediaries duly appointed by the Company.

The disposals of the treasury Shares will be made through assignments free of charge to the beneficiaries of the 2007-2010 Plan, where the conditions for this are satisfied.

7. The Plan

a) Reasons for adopting the Plan

The Company considers it desirable to adopt an instrument for motivating and retaining its top management, in line with widespread practices in Italy and abroad and recently also the object of appreciation in Borsa Italiana S.p.A.'s Corporate Governance Code for listed companies, with whose suggestions the Plan is consistent. In particular, the Plan intends to offer management a strong incentive to create value for all the shareholders by introducing a component of remuneration based on parameters directly correlated with the income and capital gains deriving from their investment.

The Board of Directors deems this consideration especially important for a company that operates in a highly competitive, continually evolving environment.

b) Beneficiaries

The Plan is addressed to

- the Executive Directors with direct organizational responsibility for the business results of Telecom Italia S.p.A., and
- managers reporting directly to the Executive Directors, and other persons holding strategic positions within the Group and having an employment or collaboration relationship with Telecom Italia S.p.A. or its subsidiaries,

who will be identified by the Board of Directors appointed by the shareholders' meeting called to approve this proposal (hereinafter "the Beneficiaries").

c) Duration of the Plan

The Plan has a duration of three years, with the right to assignment maturing at the end of the period based on the Share's performance calculated on a three-year basis.

Nevertheless, provision is made for early assignment and calculation of the performance pro rata for the single year or two years of a Beneficiary's actual participation in the Plan (in accordance with procedures detailed in the implementing Regulations of the Plan, which will be adopted in due course by the Board of Directors) in the event of

- death, retirement or disability of the Beneficiary;
- revocation of an individual Beneficiary's participation in the Plan;
- exit from the Group of the company or business segment to which the employment or collaboration relationship of the Beneficiary pertains;
- cancellation or suspension of the Plan;
- duration of the Board of Directors' term of office for less than three years.

In the case of termination of the employment or collaboration contract by mutual consent, dismissal of the Beneficiary for a justified, objective reason or resignation of the Beneficiary for just cause, it will be possible to assign up to 50% of the shares to which rights have matured on a pro rata basis.

The Board of Directors may suspend or cancel the Plan in connection with events, extraordinary corporate actions, and investment/divinvestment plans that the Board deems to be especially important and that are not foreseen today.

d) Manner of implementing the Plan

The Plan consists in awarding Beneficiaries the right to the assignment free of charge of Shares, whose number is established at the time the right is awarded and whose value may not be more than three times the Beneficiary's fixed annual compensation and varies with the degree of achievement of performance objectives.

For this purpose, suitable indicators will be used with a view to orienting the Beneficiaries to the creation of value in terms of total remuneration of the shareholders and of share performance compared with the indices of the reference market.

In particular, the parameters will consist of

- the value of the Total Shareholder Return (TSR) of Telecom Italia, where

$$TSR = \frac{(\text{Share price}_{\text{end of period}} - \text{Share Price}_{\text{start of period}}) + \text{Dividends}}{\text{Share Price}_{\text{start of period}}}$$

- the performance of the Telecom Italia share compared with the telecommunications sector of the Dow Jones Stoxx index.

e) Conditions for the assignment of Shares

The right to assignment of Shares depends on the continued existence of the directorship or employment/collaboration relationship of the Beneficiary with the Company or its subsidiaries for the whole duration of the Plan, except in the specific circumstances giving the right to early assignment of Shares, as established in the implementing Regulations

The aforesaid Regulations will also govern any amendments thereto that are made necessary or appropriate by changes to the applicable law or particular or extraordinary events likely to influence the Plan. In this regard, the Board of Directors reserves the right to act at any time, in the most appropriate ways, to revoke or modify time limits and procedures for participation in the Plan

No restrictions are foreseen on the availability of the Shares assigned to the Beneficiaries.

In light of the foregoing, the Board of Directors invites you to approve the following

Resolution

The ordinary shareholders' meeting of Telecom Italia S.p.A., having examined the report of the Board of Directors (the "Report"),

resolves

1. to revoke the authorization granted by the shareholders' meeting of 13 April 2006 for the purchase and disposal of treasury shares;
2. to authorize, for the maximum period allowed by applicable law starting from the date of this resolution, the purchase, on one or more occasions and at any time, of up to a maximum of 25,000,000 Telecom Italia S.p.A. ordinary shares and thus of up to 0.129% of the Company's share capital;

   The consideration for the purchases must be between a minimum and a maximum corresponding to the weighted average of the official prices of the ordinary shares recorded by Borsa Italiana S.p.A. in the last ten days of trading before the purchase date, respectively decreased and increased by 10%. Buy-backs must in any case be made within the limit of the available reserves as stated in the Company's latest approved annual financial statements at the time the transaction is carried out. The purchases must be made on regulated markets and according to the procedures allowed by the statutory and regulatory provisions in force;

3. to approve the plan for the award of free Telecom Italia S.p.A. ordinary shares aimed at the Executive Directors of the Company, managers reporting directly to the Executive Directors, and other persons holding strategic positions having an employment or a collaboration relationship with Telecom Italia S.p.A. or its subsidiaries, who will be identified in detail by Board of Directors *pro tempore* within the time limits laid down in the Report ("2007-2010 Plan");

4. to authorize, within the time limits necessary for the implementation of the 2007-2010 Plan, the assignment free of charge to the beneficiaries of the 2007-2010 Plan, in whole or in part, on one or more occasions and at any time, of the Telecom Italia S.p.A. ordinary shares acquired as specified above or otherwise or already held by Telecom Italia S.p.A. at the date of this resolution;

5. to confer a mandate on the Board of Directors to make the appropriate entries in the accounting records consequent on the purchases and disposals of treasury shares, in accordance with the provisions of law and the accounting standards applicable on each occasion;

6. to confer on the Board of Directors every necessary or suitable power for the execution of the 2007-2010 Plan, including, but not limited to, the power to: (i) identify the beneficiaries and determine the quantity of shares to be assigned to each of them; (ii) fix the performance parameters on which the assignment of shares is to depend; (iii) establish every other term and condition for the execution of the 2007-2010 Plan; (iv) draw up and approve the Regulations of the 2007-2010 Plan and amend them;

7. to confer a mandate on the Board of Directors, and for it on each of the legal representatives of the Company, including by means of delegates, to carry out the transactions that are the subject of this resolution in the ways indicated.

Decisions consequent on the completion of the audit engagement awarded to Reconta Ernst & Young S.p.A.

Dear Shareholders,

The audit report on the 2006 financial statements completes the three-year audit engagement awarded to Reconta Ernst & Young S.p.A. by the shareholders' meeting of 6 May 2004. You are therefore called upon to make the consequent decisions.

In this regard, as part of the reform of the legislation governing the auditing of listed companies and their groups, Law 262/2005 (the so-called Law on the Protection of Savings), as amended by Legislative Decree 303/2006, prohibited the renewal of the appointment of the external auditor and revised its duration to nine fiscal years (previously the appointment lasted three years and could be awarded for a total of three successive terms). The transitional provisions nonetheless envisaged the one-off possibility, on the occasion of the shareholders' meeting called to approve the annual financial statements, of extending the existing appointments by setting the total duration of the relationship with the incumbent external auditor at nine years.

With regard to the procedure for formalizing the appointment, the new legislative framework lays down that the decision to award the audit engagement is to be made by the shareholders' meeting acting on a reasoned proposal from the Board of Directors.

In light of the above, the Board of Directors, having regard to the provisions of law concerning the duration and award of the audit engagement,

invites the shareholders' meeting

to approve the proposal formulated to this end by the Board of Auditors.

Reasoned proposal by the Board of Auditors to the shareholders' meeting for the extension of the audit engagement of Reconta Ernst & Young S.p.A. to the three years 2007-2009

Dear shareholders,

With the passage of Legislative Decree 303/2006 (the "corrective" decree), Law 262/2005 (the protection of savings law) amended the provisions of Legislative Decree 58/1998 (the Consolidated Law on Finance) concerning the rules governing the audit of issuers and their groups. The new text of Article 159 of the Consolidated Law on Finance provides for the engagement to audit the company and group annual financial statements to be conferred by the shareholders' meeting (which is also called upon to approve the corresponding fee) on the basis of a "reasoned proposal" by the control body.

Law 262/2005 (as amended by Legislative Decree 303/2006 coordinating, among others, the Consolidated Law on Finance with that law) amended Article 159.4 of the Consolidated Law on Finance and fixed the total duration of the audit engagement at nine years and prohibited the renewal of an engagement and the conferment of a new engagement for at least three years from the date of the end of the previous engagement. However, the transitional provision contained in Article 8.7 of Legislative Decree 303/2006 allows companies to extend, up to the date of the first shareholders' meeting called to approve the annual financial statements, those engagements under way at the date of the entry into force of the above-mentioned decree whose total duration (taking into account the intervening renewals and extensions) has not exceeded nine fiscal years, in order to bring the duration into line with the new limit of nine years laid down in the amended version of Article 159.4 of the Consolidated Law on Finance.

The three-year audit engagement conferred on Reconta Ernst & Young S.p.A by the shareholders' meeting of Telecom Italia S.p.A. on 6 May 2004 comes to an end with the issue of the audit report on the financial statements for the year ended 31 December 2006.

Under the new rules governing the matter referred to above, the Board of Auditors of Telecom Italia S.p.A. is therefore called upon to issue a reasoned proposal to the shareholders' meeting on the conferment of the audit engagement.

To this end, the Board of Auditors, together with the Internal Control and Corporate Governance Committee, discussed with the management and the person responsible for internal control the desirability of exercising the legal right of extending the engagement of the audit company for an additional period (i.e. for the fiscal years 2007, 2008 and 2009) pursuant to Article 159.4 of the Consolidated Law on Finance, which establishes a limit of nine years. The decision, based in part on the arguments put forward by the management and the person responsible for internal control, with which the control body agreed, was to propose an extension of the engagement. The reasons for this decision are set out below.

In the first place the Board of Auditors considered the existence of a firmly established relationship with the present auditor, the result of years of work together that it would be necessary to develop ex novo with a different firm. It also took account of the substantial volume of implementation activity performed, as regards: internal duties; those of external auditor; those concerned with the Sarbanes-Oxley Act (in particular Section 404, i.e. the assessment of the

effectiveness of the internal controls in ensuring the reliability of the administrative and accounting information used for the preparation of the annual financial statements in compliance with the applicable accounting standards); and those associated with the introduction of IFRS. These are projects in relation to which a change of auditor could thwart the major investments made by the Company and undermine the solutions implemented in agreement with the present auditor.
In the meetings held jointly with the Committee for Internal Control and Corporate Governance on 31 January and 1 March 2007 the Board of Auditors subsequently examined the proposal for an extension put forward by Reconta Ernst & Young S.p.A., approved the economic aspects and agreed that it should be submitted to the shareholders' meeting.
During these meetings the Board of Auditors took special note, receiving confirmation from the management and the person responsible for internal control, of the consistency of the rates and volumes of work proposed by Reconta Ernst & Young S.p.A. with national benchmarks for the audit of the financial statements and accounting records of firms comparable to Telecom Italia. The breakdown of the hours and fees of the offer for professional services for each of the three years 2007, 2008 and 2009 is summarized in the following table.

Document	Type of audit work	Duration of the engagement	Number of hours per year	Fees (euro)
Company financial statements	Full-scope audit	2007/2008/2009	13,600	1,260,000
Consolidated financial statements	Coordination and control of the consolidation process and full-scope audit of the consolidated financial statements	2007/2008/2009	2,000	230,000
Company and consolidated half-yearly reports	Limited review	2007/2008/2009	2,900	280,000

The hours and fees for the audit of the Company financial statements include those for the activity referred to in Article 155.1a) of the Consolidated Law on Finance concerning checks made during the year to ensure that the Company's accounts are kept properly and their transactions reported correctly in the accounting records.
The fees indicated do not include either VAT or direct or secretarial expenses (which will be charged at cost in the manner specified in the proposal).
The offer of professional services provides for the annual revision of the fees (with the first revision to be made on 1 July 2007) on the basis of the overall change in the Istat cost-of-living index (national index of consumer prices for the entire population - NIC - including tobacco products) compared with the previous year (base: June 2006).
The estimate of hours and fees contained in the auditor's proposal does not include any additional activities that prove necessary in the event of currently unforeseeable major complex transactions; accordingly, the fees may be adjusted

ex post if exceptional or unforeseeable circumstances occur that increase or decrease the planned commitments in terms of resources and time.
The Board of Auditors also took note that:

- Reconta Ernst & Young's offer contained the audit plan for the company and consolidated financial statements for the years 2007, 2008 and 2009, so as to permit the opinion referred to in Article 156 of the Consolidated Law on Finance to be expressed, and noted that the plan was adequate and complete;
- the offer contained an explanation of the planned level of commitment for the limited review of the company and consolidated half-yearly reports for the six-month periods ending on 30 June 2007, 2008 and 2009 and noted that such commitment was adequate;
- the proposal contained a description of the procedures for carrying out the checks referred to in Articles 155.1a) and 155.1b) of the Consolidated Law on Finance and noted that such procedures appeared to be adequate;
- the auditing firm in question had been found to satisfy the independence requirements laid down by law and that, at present, there were no causes of incompatibility;
- the auditing firm in question had been found to have an adequate organization and technical capability in relation to the scale and complexity of the engagement to be carried out;
- as noted earlier, the fee requested appeared to be congruous;
- pursuant to the Self-Regulatory Code adopted by Telecom Italia S.p.A., the Committee for Internal Control and Corporate Governance, had also assessed the proposals put forward by the auditing firm and expressed a favourable view on the extension of the engagement of Reconta Ernst & Young S.p.A.

In light of the above, the Board of Auditors of Telecom Italia S.p.A. invites you to approve the following

Proposal

The ordinary shareholders' meeting of Telecom Italia S.p.A., having examined the reasoned proposal by the Board of Auditors,

resolves

1. pursuant to Article 8.7 of Legislative Decree 303/2006, to extend the engagement of Reconta Ernst & Young S.p.A. (entered in the special register of auditing firms) to audit the annual financial statements of Telecom Italia S.p.A. and the consolidated financial statements of the Telecom Italia Group for the fiscal years 2007, 2008 and 2009 and approves the fees payable to that auditing firm for each of the foregoing years of €1,260,000 for the annual financial statements of Telecom Italia S.p.A. and €230,000 for the consolidated financial statements of the Telecom Italia Group;
2. consequently, in accordance also with Consob Communication no. 97001574 of 20 February 1997, to extend the engagement of Reconta Ernst & Young S.p.A. to carry out the limited review of the Telecom Italia company and consolidated half-yearly reports for the fiscal years 2007, 2008 and 2009 and approves the fees payable to that auditing firm for each of the foregoing years of €280,000;
3. that the above-mentioned fees be revised annually (with the first revision to be made on 1 July 2007) on the basis of the overall change in the Istat cost-of-

living index (national index of consumer prices for the entire population - NIC - including tobacco products) compared with the previous year (base: June 2006);

4. that the above-mentioned fees may be adjusted ex post if exceptional or unforeseeable circumstances occur during the engagement that increase or decrease the planned commitments in terms of resources and time.

Amendments to the Meeting Regulations approved by the shareholders' meeting on 6 May 2004

Dear Shareholders,

In close connection with the amendments to the Company's bylaws to be examined in the extraordinary shareholders' meeting, you are called on to examine the revision of the Meeting Regulations adopted by the shareholders' meeting on 6 May 2004 (following the merger of the "old" Telecom Italia, which had such an instrument, into Olivetti, which lacked one) pursuant to Article 20 of the Company's bylaws.

The most important changes concern the impact on the organization of the conduct of the shareholders' meeting of the introduction by Law 262/2005 (the so-called Law on the Protection of Savings) of the possibility for items to be added to the agenda at the request of shareholders. Consequently, explicit provision is made for the possibility of the Chairman of the meeting

- to grant room for oral presentations by the shareholders proposing the items of the subjects they have added to the agenda;
- to change the order in which the subjects are to be discussed, to take account of the agenda as supplemented at the request of the shareholders.

At the same time, the shareholders proposing the items are ensured the same right as recognized to the Board of Directors to amend their proposals during the proceedings.

With regard to postal voting, the relevant provisions are reduced to the essential aspects, in order to give the Company the maximum flexibility in adjusting the related technicalities, with account also taken of the stimuli coming from the European Commission to consider the new opportunities offered by the technologies for voting *in absentia*. It therefore appears appropriate to endow the Company immediately with the necessary instruments so that it can seize the above-mentioned possible opportunities promptly, within a continuing framework of protection of its shareholders and thus without prejudice to the need to ensure the efficiency of the proceedings at shareholders' meetings.

The remaining amendments are formal and made for the purposes of clearer wording.

In the light of the above, the Board of Directors invited you to approve the following

Resolution

The ordinary shareholders' meeting of Telecom Italia S.p.A.,

- having regard to Article 20 of the Company's bylaws;
- having regard to the resolution adopted by the shareholders' meeting on 6 May 2004;
- having examined the report by the Board of Directors,

resolves

to amend the current Articles 3, 4, 11, 13, 14 and 15 of the Meeting Regulations, approved by the shareholders' meeting of 6 May 2004 referred to in the preamble, and to introduce a new Article 8, with a consequent updating of the overall numbering of the articles, in accordance with the text shown below:

CURRENT TEXT	PROPOSED TEXT (WITH THE CHANGES HIGHLIGHTED)
ARTICLE 1 - These Rules shall apply to the Company's ordinary and extraordinary shareholders' meetings.	**ARTICLE 1** 1.1 - These Rules shall apply to the Company's ordinary and extraordinary shareholders' meetings.
ARTICLE 2 - To ensure the regular conduct of shareholders' meetings, for matters not expressly governed by these Rules, the Chairman of the meeting (hereinafter the "Chairman") shall adopt the measures and solutions deemed most appropriate, in compliance with the law and the bylaws.	**ARTICLE 2** 2.1 - To ensure the regular conduct of shareholders' meetings, for matters not expressly governed by these Rules, the Chairman of the meeting (hereinafter the "Chairman") shall adopt the measures and solutions deemed most appropriate, in compliance with the law and the bylaws.
ARTICLE 3 - Meetings may be attended, with the right to take part in the discussion and to vote, by persons entitled to do so pursuant to the applicable provisions (hereinafter the "Participants"). - Unless stated otherwise in the notice convening the meeting, personal identification and verification of the right to attend the meeting shall begin at the place where it is to be held at least one hour before the time fixed for it to start. When the Participants have been identified and their right to attend verified, under the supervision of the Chairman, the auxiliary staff provided by the Company shall issue badges serving for the purposes of control and the exercise of the right to vote. - The Participants shall be enabled to follow the debate, intervene therein and exercise their right to vote in the ways specified on each occasion by the Chairman. - Participants who, after being admitted to the meeting, intend for any reason to leave the premises where it is being held must inform the auxiliary staff.	**ARTICLE 3** 3.1 - Meetings may be attended, with the right to take part in the discussion and to vote, by persons entitled to do so pursuant to the applicable provisions (hereinafter the "Participants"). 3.2 - Unless stated otherwise in the notice convening the meeting, personal identification and verification of the right to attend the meeting shall begin at the place where it is to be held at least one hour before the time fixed for it to start. When the Participants have been identified and their right to attend verified, under the supervision of the Chairman, the auxiliary staff provided by the Company shall issue them with badges serving for the purposes of control and the exercise of the right to vote. 3.3 - The Participants shall be enabled to follow the debate, intervene therein and exercise their right to vote in the ways specified on each occasion by the Chairman. 3.4 - Participants who, after being admitted to the meeting, intend for any reason to leave the premises where it is being held must inform the auxiliary staff.
ARTICLE 4 - Directors, managers and employees of the Company and of Group companies may attend meetings, as may other persons whose presence is deemed useful in relation to the matters to be discussed. - With the agreement of the Chairman, the proceedings may be followed by professionals, consultants, experts, financial analysts and suitably qualified journalists, accredited for a single meeting. - Persons accredited to follow the proceedings	**ARTICLE 4** 4.1 - Directors may attend meetings, as may, in the manner established by the Chairman, managers and employees of the Company and ~~of~~ Group companies ~~may attend meetings,~~ and ~~as may~~ other persons whose presence is deemed useful in relation to the matters to be discussed. 4.2 - With the agreement of the Chairman and in the manner established by same, the proceedings may be followed by professionals, consultants, experts, financial analysts and suitably qualified journalists, accredited for a single meeting.

must report for identification by the Company's appointees at the entrance of the premises where the meeting is to be held and collect a special badge to be exhibited upon request.	4.3 - Persons accredited to follow the proceedings must report for identification by the Company's appointees at the entrance of the premises where the meeting is to be held and collect a special badge to be exhibited upon request.
ARTICLE 5 - In accordance with the law and the Bylaws, it is up to the Chairman to direct the meeting and ensure the best conditions for its orderly and effective conduct. - The Chairman may authorize the use of recording and transmission equipment.	**ARTICLE 5** 5.1 - In accordance with the law and the bylaws, it is up to the Chairman to direct the meeting and ensure the best conditions for its orderly and effective conduct. 5.2 - The Chairman may authorize the use of recording and transmission equipment.
ARTICLE 6 - The Chairman shall be assisted in the conduct of the meeting and the preparation of the minutes by a Secretary, where a Notary public is not present. The Secretary or the Notary public may in turn arrange to be assisted by persons of their trust. - The Chairman, for the purposes of conducting the voting procedures (including the verification of the validity of mail votes), shall be assisted by scrutineers; he may use auxiliary staff to provide the necessary technical support and to maintain order.	**ARTICLE 6** 6.1 - The Chairman shall be assisted in the conduct of the meeting and the preparation of the minutes by a Secretary, where a Notary public is not present. The Secretary or the Notary public may in turn arrange to be assisted by persons of their trust. 6.2 - The Chairman, for the purposes of conducting the voting procedures (including the verification of the validity of mail votes), shall be assisted by scrutineers; he may use auxiliary staff to provide the necessary technical support and to maintain order.
ARTICLE 7 - When the quorum is not reached, after a congruous length of time the Participants shall be informed of the fact and the discussion of the matters on the agenda shall be understood as deferred to the subsequent call, if any. - During a meeting the Chairman may, if he deems it desirable and the majority of the capital represented at the meeting does not object, suspend the proceedings for up to three hours.	**ARTICLE 7** 7.1 - When the quorum is not reached, after a congruous length of time the Participants shall be informed of the fact and the discussion of the matters on the agenda shall be understood as deferred to the subsequent call, if any. 7.2 - During a meeting the Chairman may, if he deems it desirable and the majority of the capital represented at the meeting does not object, suspend the proceedings for up to three hours.
	ARTICLE 8 8.1- At the start of the proceedings the Chairman shall summarize the items on the agenda. 8.2- The Chairman may grant shareholders who have requested, in accordance with the law and the bylaws, the addition of items to the agenda up to 15 minutes to describe the corresponding proposed resolutions and set out the reasons therefor.
ARTICLE 8 - The Chairman shall establish the order in which the items on the agenda are to be discussed, which may differ from that indicated in the notice convening the meeting. - He may provide for several items to be discussed together or for the discussion to proceed item by item. - The Chairman and, at his invitation, persons attending the meeting pursuant to the first paragraph of Article 4, shall explain the items on the agenda.	**ARTICLE 9~~8~~** 9.1 - The Chairman shall establish the order in which the items on the agenda are to be discussed, which may differ from that indicated in the notice convening the meeting. 9.2 - He may provide for several items to be discussed together or for the discussion to proceed item by item. 9.3 - The Chairman and, at his invitation, persons attending the meeting pursuant to the first paragraph of Article 4, shall explain the items on the agenda.

ARTICLE 9 - It is up to the Chairman to direct and regulate the discussion, ensure its correctness and prevent the regular course of the meeting from being disturbed. - The Chairman, taking account of the subject matter and importance of the individual items on the agenda, may establish at the start of the meeting the time – not less than 15 minutes – available to each speaker. - The Chairman shall call on Participants to comply with the time limits established in advance for interventions and to keep to the matters specified in the agenda. In the event of an overrun and/or an abuse, the Chairman shall interrupt the speaker.	**ARTICLE 10~~9~~** 10.1 - It is up to the Chairman to direct and regulate the discussion, ensure its correctness and prevent the regular course of the meeting from being disturbed. 10.2 - The Chairman, taking account of the subject matter and importance of the individual items on the agenda, may establish at the start of the meeting the time – not less than 15 minutes – available to each speaker. 10.3 - The Chairman shall call on Participants to comply with the time limits established in advance for interventions and to keep to the matters specified in the agenda. In the event of an overrun and/or an abuse, the Chairman shall interrupt the speaker.
ARTICLE 10 - Persons who intend to speak must apply to the Chairman or the Secretary, indicating the subject they will address. Such requests may be submitted until the Chairman closes the discussion on the subject to which they refer. - Participants may ask to take the floor a second time during the same discussion, for not more than five minutes, exclusively in response to other interventions or to declare how they intend to vote.	**ARTICLE 11** 11.1 - Persons who intend to speak must apply to the Chairman or the Secretary, indicating the subject they will address. Such requests may be submitted until the Chairman closes the discussion on the subject to which they refer. 11.2 - Participants may ask to take the floor a second time during the same discussion, for not more than five minutes, exclusively in response to other interventions or to declare how they intend to vote.
ARTICLE 11 - The Board of Directors and the Participants may put forward, giving reasons, proposals for alternative or amended resolutions with respect to those originally put forward by the Board of Directors. - The Chairman shall evaluate the compatibility of such proposals in relation to the agenda of the meeting and to the applicable provisions. In any case Participants proposals for matters on which, in compliance with the law, the Meeting resolves on Directors proposals or on the basis of a plan or report prepared by them, are not accepted.	**ARTICLE 12~~1~~** 12.1- The Board of Directors and the Participants may put forward, giving reasons, proposals for alternative, ~~or~~ amended and additional resolutions with respect to any ~~those originally~~ put forward by the Board of Directors or by shareholders requesting the addition of the item to the agenda in accordance with the law and the bylaws. 12.2 The Chairman shall evaluate the compatibility of such proposals in relation to the agenda of the meeting and to the applicable provisions. ~~In any case Participants proposals for matters on which, in compliance with the law, the Meeting resolves on Directors proposals or on the basis of a plan or report prepared by them, are not accepted.~~
ARTICLE 12 - The members of the Board of Directors and the Board of Auditors may intervene in the discussion; at the invitation of the Chairman, persons attending the meeting pursuant to the first paragraph of Article 4 may also take the floor, *inter alia* to respond to requests for clarification.	**ARTICLE 13~~2~~** 13.1 - The members of the Board of Directors and the Board of Auditors may intervene in the discussion; at the invitation of the Chairman, persons attending the meeting pursuant to the first paragraph of Article 4 may also take the floor, *inter alia* to respond to requests for clarification.
ARTICLE 13 - The Chairman shall take appropriate measures to ensure the orderly conduct of polls and provide for the poll on an item to be held immediately after the close of the discussion thereof or at the end of the discussion of all the items on the agenda. - The Chairman shall establish how each poll is to be conducted and the procedures for	**ARTICLE 14~~3~~** 14.1 - The Chairman shall take appropriate measures to ensure the orderly conduct of polls and provide for the poll on an item to be held immediately after the close of the discussion

identifying and counting the votes cast and shall be responsible for ascertaining the results.	thereof or at the end of the discussion of all the items on the agenda. 14.2 - The Chairman shall establish the order of voting on the proposals concerning the various items and how each poll is to be conducted and the procedures for identifying and counting the votes cast and shall be responsible for ascertaining the results.
ARTICLE 14 - Votes may only be cast by mail using the vote by mail ballot issued by the Company, which must reach the address indicated in the notice convening the meeting not later than 48 hours before the date set for the meeting in question. - Proxies may not cast votes by mail. - The vote by mail ballot must be filled in according to the instructions given on the accompanying form and bear the voter's signature. Where the right to vote is jointly held, all the joint holders are required to sign. - The vote by mail ballot must be accompanied by suitable documents authenticating the entitlement of the person(s) signing it. The suitability of such documents shall be evaluated by the Chairman. - Interpreting the votes indicated on the voting by mail ballot shall be up to the Chairman. Ballots shall not be counted in the poll where the Chairman deems the voting intentions they express to be ambiguous.	ARTICLE 15~~4~~ ~~-~~15.1 - Votes may ~~only~~ be cast by mail using the ~~vote by mail ballot issued~~ instruments made available by the Company~~, which must reach the address indicated in the notice convening the meeting not later than 48 hours before the date set for the meeting in question~~. ~~-Proxies may not cast votes by mail.~~ ~~-The vote by mail ballot must be filled in according to the instructions given on the accompanying form and bear the voter's signature. Where the right to vote is jointly held, all the joint holders are required to sign.~~ 15.2 - The Chairman shall be responsible for verifying voters' right to vote and in general for evaluating the validity of votes and interpreting them. ~~-The vote by mail ballot must be accompanied by suitable documents authenticating the entitlement of the person(s) signing it. The suitability of such documents shall be evaluated by the Chairman.~~ ~~-Interpreting the votes indicated on the voting by mail ballot shall be up to the Chairman. Ballots shall not be counted in the poll where the Chairman deems the voting intentions they express to be ambiguous.~~
ARTICLE 15 - Upon completion of the polling and the necessary counting of the votes with the help of the scrutineers and the Secretary, the results of the poll shall be announced.	ARTICLE 16~~5~~ 16.1 - Upon completion of the ~~polling and the necessary~~ counting of the votes with the help of the scrutineers and the Secretary, the results of the poll shall be announced. ....

Amendment of the following articles of the Company's bylaws: 3 (purpose); 6 (savings shares); 8 (bonds); 9 (appointment of the Board of Directors); 10 (corporate officers); 11 (meetings of the Board of Directors); 12 (powers of the Board of Directors); 13 (manager responsible for the preparation of the Company's financial reports); 14 (information flows from the executive directors to the other directors and the members of the Board of Auditors); 15 (representation of the Company); 16 (compensation of the Board of Directors); 17 (Board of Auditors); 18 (calling of shareholders' meetings); 19 (participation in shareholders' meetings); 20 (conduct of shareholders' meetings); and 21 (allocation of the profit); numbering of the paragraphs of the articles of the bylaws; and related and consequent resolutions

Dear Shareholders,

You are also called upon, in the extraordinary shareholders' meeting, to examine a considerable series of proposed amendments to the Company's bylaws.

The occasion for action is the need to adapt the text of the bylaws to the provisions of Law 262/2005 (the so-called Law on the Protection of Savings), as amended by Legislative Decree 303/2006, not later than 30 June 2007. Some amendments are also proposed that respond to the recommendations and criteria drawn from Borsa Italian's new Corporate Governance Code (March 2006 edition).

Unfortunately, it has not been possible instead to take into account the Consob regulations implementing the Law on the Protection of Savings inasmuch as they were not available at the time this shareholdings' meeting was called. In this regard, the Board will proceed subsequently, when and as appropriate, in light of the number and type of interventions suggested by the reading of the Consob regulations.

The necessity of submitting the above-mentioned "other-directed" amendments to the bylaws to the shareholders' meeting also represents an opportunity to propose additional amendments to update and – in the opinion of the Board of Directors – improve the text, with a view to making the set of rules on which the relationship among Telecom Italia shareholders is based clearer, more systematic and more complete.

The proposed amendments are summarized below.

Purpose (Article 3)

The amendments to Article 3 serve to bring the description of the Company's mission (dating back to 1997 in its current formulation) into line with a reality that has changed considerably.

The telecommunications services that are at the centre of the description of Telecom Italia's corporate purpose are distinguished in the text by a dynamic reference represented by technological evolution. On the other hand, the wording of the text gives prominence to activities that have been dropped or are out of date, while a series of references are now out of date in the light of legislative and regulatory developments.

The formal revision of the clause therefore serves to clarify and modernize a text that is now obsolete, obviously without making any substantive change and thus without constituting grounds for withdrawal under Article 2437 of the Civil Code.

Savings shares and bonds (Articles 6 and 8)

Rules are introduced for the first time concerning the organization of savings shareholders (Article 6) and bondholders (Article 8). In both cases the principle is introduced that the Company should bear the related costs, primarily in connection with the organizational costs of the meetings and the compensation of the common representative of the savings shareholders (inasmuch as they too are shareholders) and only secondarily, and in any case within the limits to be fixed in advance by the Board of Directors, in connection with the compensation of the common representatives of the bondholders (inasmuch as they are creditors and third parties vis-à-vis the Company) or of the plurality of common representatives of the holders of the various bond issues made by the Company.

The aim of this is to find a practical remedy, respectful of the roles and autonomy of the different stakeholders, to the difficulties of functioning encountered by the meetings of these important providers of finance for the business, difficulties that are probably due to a legislative framework no longer suited to the reality of the financial markets.

Board of Directors (Articles 9, 10, 11, 12, 13, 14, 15 and 16)

Various changes are proposed to the provisions on the Board of Directors, some serving merely to clarify or simplify the text (specifically, Articles 15 and 16), others instead to adapt the provisions to the new legislative and regulatory framework.

As regards the procedures for electing the Board (Article 9), the system of competing slates, adopted in 1997 at the time of privatization, stands. However, more diversified provisions are introduced governing the percentage shareholding needed to present a slate of candidates in relation to the possibility of a Consob regulation allowing this fundamental right to be exercised by a smaller number of shareholders.

The time limit for the presentation by shareholders of slates of candidates is made more demanding for those who put forward the candidates, to meet the market's general interest in having the necessary information promptly available in preparation for the shareholders' meeting. To bring the time limit into line with that recommended Borsa Italiana's 2006 Corporate Governance Code, the documentation must be filed at least fifteen (rather than ten) days before the meeting. The same purposes motivate the changes regarding the prior publication of the information required (candidates' acceptance of the candidacy, declarations of eligibility, and curricula vitae, etc.).

Operational needs make it advisable to revise the provisions concerning corporate offices (Article 10) with the possibility of appointing more than one Deputy Chairman, which also requires governing their acting as substitutes. Operational considerations also dictate the elimination of the reference to the (disused) mechanism of the issue of extracts from the register of minutes of Board meetings by the Directors together with the Secretary.

Article 11 contains a better formulation of the Chairman's power to call Board meetings. In the second paragraph, taking into account technological innovation and the growing availability of rapid and effective means of communication, it is proposed that the minimum notice for calling Board meetings in urgent cases be reduced from twenty-four to twelve hours.

With a view to adapting Article 12 to the provisions of law, the references in the first paragraph regarding the Board's powers are simplified and the possibility of so-called simplified spin-offs is added to the decision-making powers listed in the second paragraph, completing those already provided for in the case of mergers of companies that are at least 90% owned by Telecom Italia.

As established by law, the Board is entrusted with appointing the manager responsible for the preparation of the Company's financial reports (Article 13), a figure instituted by the Law on the Protection of Savings, whose incorporation into the bylaws is required. The proposed clause links the term of office of the manager responsible for the preparation of the Company's financial statements to that of the Board of Directors that appointed him: in view of the close fiduciary relationship between the two, in the event of the cessation of the term of office of the Board, the manager also ceases to hold office. As regards the experience requirements, provision is made for the manager to be an expert in administration, finance and auditing, and for failure to satisfy these requirements to result in removal from office.

The amendments to Article 14 clarify the references to the (written) reports that must be made by the Executive Directors to the remaining Directors and the members of the Board of Auditors.

Board of Auditors (Article 17)

Pending the issue of the relevant Consob regulation, the description of the election procedure (slate voting) is aligned with that for the Board of Directors.

The occasion has been taken to eliminate the possibility of an alternative composition of the Board of Auditors consisting of seven members (which derived from an obsolete legislative framework), while the clause entrusting the Board of Auditors with electing its Chairman is eliminated, in order to take into account the power given to the shareholders' meeting by the Law on the Protection of Savings. Similarly, the clause setting a limit on the number of positions held by members of the Board of Auditors appears obsolete and is eliminated, considering that the matter is now entrusted by law to Consob.

The remaining changes to Article 17 (in particular the system for substituting the Chairman of the Board of Auditors and the powers of members of the Board of Auditors to call meetings thereof) are also the consequence of the legislative developments on which the amendments already described are based.

Shareholders' meeting (Articles 18, 19 and 20)

The articles concerning the shareholders' meeting are modified by amendments serving both to adapt them to the new legislative provisions and to clarify and simplify their formulation.

The amendments of the first type include the proposed rules for the addition of items to the agenda at the request of shareholders (new paragraph 4 of Article 18). The clause completes the legal rules by requiring that those requesting the addition bear the cost of preparing an ad hoc report for the benefit of fellow shareholders and making it promptly available (albeit within less demanding time limits than those applied to the Board of Directors).

Similarly aimed at completing the rules of the bylaws are the provisions specifying the manner of calling meetings of savings shareholders (Article 18, paragraph 3) and regulating the chairing of the various types of shareholders' meetings (Article 20).

The amendments to Article 19 concerning shareholders' meetings and Article 21 regarding the allocation of the profit for the year are of a purely formal nature.

The resolution proposed to the shareholders' meeting is given below with the complete text of the bylaws in the current version shown side by side with that incorporating the proposed amendments.

In light of the foregoing, the Board of Directors invites you to approve the following

Resolution

The extraordinary shareholders' meeting of Telecom Italia S.p.A.,

- having regard to Law 262/2005 (the so-called Law on the Protection of Savings), as amended by Legislative Decree 303/2006;
- having examined the report of the Board of Directors,

resolves

1. to amend Articles 3, 6, 8, 9, 10, 11, 12, 13, 14, 15, 16, 17, 18, 19, 20 and 21 of the bylaws of Telecom Italia S.p.A. as in the text given below highlighting the amendments introduced

CURRENT TEXT	PROPOSED TEXT (WITH THE CHANGES HIGHLIGHTED)
NAME - REGISTERED OFFICE - PURPOSE AND DURATION OF THE COMPANY	NAME - REGISTERED OFFICE - PURPOSE AND DURATION OF THE COMPANY
Article 1 The name of the Company shall be "TELECOM ITALIA S.p.A."	**Article 1** 1.1 - The name of the Company shall be "TELECOM ITALIA S.p.A."
Article 2 The registered office of the Company shall be in Milan.	**Article 2** 2.1 - The registered office of the Company shall be in Milan.
Article 3 The Company's purpose shall be: - the installation and operation, using any technique, method or system, of fixed and	**Article 3** 3.1 - The Company's purpose shall be: - the installation and operation, using any technique, method or system, of fixed and

mobile equipment and installations, including space systems which use artificial satellites, radio stations, including shipboard stations, links for maritime wireless communications, and dedicated and/or integrated networks, for the purpose of providing and operating, without territorial restrictions, licensed telecommunications services for public use and telecommunications services in a free-market environment, including those resulting from technological progress, and the performance of activities directly or indirectly related thereto, including the design, construction, operation, maintenance and distribution of telecommunications, remote-computing, online and electronic products, services and systems;	mobile equipment and installations, including ~~space systems which use artificial satellites,~~ radio stations, ~~including shipboard stations,~~ links for maritime wireless communications, and dedicated and/or integrated networks, for the purpose of providing, ~~and~~ operating and marketing, without territorial restrictions, ~~licensed tele~~communications services ~~for public use and telecommunications services in a free-market environment~~, including those resulting from technological progress, and the performance of activities directly or indirectly related thereto, including the design, construction, operation, maintenance, integration and marketing ~~distribution~~ of telecommunications, information technology ~~remote-computing, online~~ and electronic products, services, networks and systems and, in general, ICT (Information Communication Technology) solutions for final users;
- the performance of activities related to or otherwise serving the pursuit of the corporate purpose, including publishing, advertising, information technology, online and multimedia activities and, in general, all commercial, financial, property, research, training and consulting activities;	- the performance of related and instrumental activities ~~related to or otherwise serving the pursuit of the corporate purpose~~, including publishing, advertising, information technology, online and multimedia activities and, in general, all commercial, financial, property, research, training and consulting activities;
- the acquisition, provided it is not the Company's principal activity, of equity interests in other companies and undertakings falling within the scope of the corporate purpose or related, complementary or similar thereto, including companies involved in manufacturing electronic products and insurance;	- the acquisition, provided it is not the Company's principal activity, of equity interests in other companies and undertakings falling within the scope of the corporate purpose or related, complementary or similar thereto~~, including companies involved in manufacturing electronic products and insurance~~;
- the control and the strategic, technical and administrative and financial coordination of subsidiary companies and undertakings, and the financial planning and management thereof, with the implementation of all related transactions.	- the control and the strategic, technical and administrative and financial coordination of subsidiary companies and undertakings, and the financial planning and management thereof, with the implementation of all related transactions.
Activities reserved to persons entered in a professional register, activities involving dealings with the public covered by Article 106 of Legislative Decree 385/1993, and those which are otherwise prohibited by applicable legislation shall be expressly excluded.	3.2 - Activities reserved to persons entered in a professional register~~,~~ and activities involving dealings with the public covered by Article 106 of Legislative Decree 385/1993~~, and those which are otherwise prohibited by applicable legislation~~ shall be expressly excluded.
Article 4 The duration of the Company shall be until December 31, 2100. Extension of the time limit shall not result in shareholders who do not vote in favour of such resolution having the right of withdrawal.	**Article 4** 4.1 - The duration of the Company shall be until December 31, 2100. Extension of the time limit shall not result in shareholders who do not vote in favour of such resolution having the right of withdrawal.
SHARE CAPITAL – SHARES - BONDS	**SHARE CAPITAL – SHARES – BONDS**

Article 5	Article 5
The subscribed and fully paid-up share capital shall be equal to Euro 10,673,764,056.45, divided into 13,380,723,078 ordinary shares with a par value of Euro 0.55 each and 6,026,120,661 savings shares with a par value of Euro 0.55 each.	5.1 - The subscribed and fully paid-up share capital shall be equal to Euro 10,673,764,056.45, divided into 13,380,723,078 ordinary shares with a par value of Euro 0.55 each and 6,026,120,661 savings shares with a par value of Euro 0.55 each.
In resolutions to increase the share capital by issuing shares for cash, the right of pre-emption may be excluded for up to a maximum of ten per cent of the previously existing capital, provided the issue price corresponds to the market value of the shares and this is confirmed in a report prepared by the firm appointed to audit the accounts.	5.2 - In resolutions to increase the share capital by issuing shares for cash, the right of pre-emption may be excluded for up to a maximum of ten per cent of the previously existing capital, provided the issue price corresponds to the market value of the shares and this is confirmed in a report prepared by the firm appointed to audit the accounts.
The Shareholders' Meeting of May 26, 2003, reiterating, updating and, where necessary, renewing earlier resolutions of the Shareholders' Meeting and the Board of Directors resolved to increase the share capital by up to a maximum of Euro 624,936,779.50 (at December 31, 2006 Euro 125,784,211.30), by means of the issue of up to a maximum of 1,136,248,690 (at December 31, 2006 228,698,566) ordinary shares with a par value of Euro 0.55 each to be reserved irrevocably and exclusively for the conversion of the "Olivetti 1.5% 2001-2010 convertibile con premio al rimborso" (now Prestito "Telecom Italia 1.5% 2001-2010 convertibile con premio al rimborso") convertible bonds, on the basis of 0.471553 ordinary shares for each bond presented for conversion.	5.3 - The Shareholders' Meeting of May 26, 2003, reiterating, updating and, where necessary, renewing earlier resolutions of the Shareholders' Meeting and the Board of Directors resolved to increase the share capital by up to a maximum of Euro 624,936,779.50 (at December 31, 2006 Euro 125,784,211.30), by means of the issue of up to a maximum of 1,136,248,690 (at December 31, 2006 228,698,566) ordinary shares with a par value of Euro 0.55 each to be reserved irrevocably and exclusively for the conversion of the "Olivetti 1.5% 2001-2010 convertibile con premio al rimborso" (now Prestito "Telecom Italia 1.5% 2001-2010 convertibile con premio al rimborso") convertible bonds, on the basis of 0.471553 ordinary shares for each bond presented for conversion.
The Shareholders' Meeting of May 26, 2003 also resolved to increase the share capital by up to a maximum of Euro 183,386,986.75 (at December 31, 2006 Euro 114,644,297.90), by means of the issue of up to a maximum of 333,430,885 (at December 31, 2006 208,444,178) ordinary shares with a par value of Euro 0.55 each, divided into the following outstanding divisible tranches: 1 a tranche of up to a maximum of Euro 37,398,868.65 (at December 31, 2006 Euro 9,712,784.40) for the exercise of the "Piano di Stock Option 2000" stock options, increase to be implemented by July 30, 2008 by means of the issue of up to a maximum of 67,997,943 (at December 31, 2006 17,659,608) shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 13.815 per option held (i.e. at a price of Euro 4.185259 for each newly-issued share); 2 a tranche of up to a maximum of Euro 58,916,834.35 (at December 31, 2006 Euro 57,818,129.05) for the exercise of the "Piano di Stock Option 2001" stock options, increase to be implemented by April 30, 2008 by means of the issue of up to a maximum of 107,121,517 (at December 31, 2006 105,123,871) shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 10.488 per option held (i.e. at a price of Euro 3.177343 for each newly-issued share);	5.4 - The Shareholders' Meeting of May 26, 2003 also resolved to increase the share capital by up to a maximum of Euro 183,386,986.75 (at December 31, 2006 Euro 114,644,297.90), by means of the issue of up to a maximum of 333,430,885 (at December 31, 2006 208,444,178) ordinary shares with a par value of Euro 0.55 each, divided into the following outstanding divisible tranches: 1 a tranche of up to a maximum of Euro 37,398,868.65 (at December 31, 2006 Euro 9,712,784.40) for the exercise of the "Piano di Stock Option 2000" stock options, increase to be implemented by July 30, 2008 by means of the issue of up to a maximum of 67,997,943 (at December 31, 2006 17,659,608) shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 13.815 per option held (i.e. at a price of Euro 4.185259 for each newly-issued share); 2 a tranche of up to a maximum of Euro 58,916,834.35 (at December 31, 2006 Euro 57,818,129.05) for the exercise of the "Piano di Stock Option 2001" stock options, increase to be implemented by April 30, 2008 by means of the issue of up to a maximum of 107,121,517 (at December 31, 2006 105,123,871) shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 10.488 per option held (i.e. at a price of Euro 3.177343 for each newly-issued share); 3 a tranche of up to a maximum of Euro

3 a tranche of up to a maximum of Euro 21,422,652.90 (at December 31, 2006 Euro 17,210,733.65) for the exercise of the “Piano di Stock Option Top 2002” stock options, increase to be implemented by February 28, 2010 by means of the issue of up to a maximum of 38,950,278 (at December 31, 2006 31,292,243) shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 9.203 per option held (i.e. at a price of Euro 2.788052 for each newly-issued share);
4 a tranche of up to a maximum of Euro 50,268,799.90 (at December 31, 2006 Euro 29,902,650.80) for the exercise of the “Piano di Stock Option 2002” stock options, increase to be implemented by March 31, 2008 for the first lot, by March 31, 2009 for the second lot and by March 31, 2010 for the third lot by means of the issue of up to a maximum of 91,397,818 (at December 31, 2006 54,368,456) shares with a par value of Euro 0.55 each, to be subscribed for at a total price for the different options of respectively Euro 9.665, Euro 7.952 and Euro 7.721 per option held (i.e. at a price for the different options of respectively Euro 2.928015 Euro 2.409061 and Euro 2.339080 for each newly-issued share).

The Shareholders’ Meeting of April 7, 2005 resolved to increase the share capital by up to a maximum of Euro 38,655,832.60 (at December 31, 2006 Euro 27,475,990.30), by means of the issue of up to a maximum of 70,283,332 (at December 31, 2006 49,956,346) ordinary shares with a par value of Euro 0.55 each, divided into the following outstanding divisible tranches:

1. a tranche of up to a maximum of Euro 11,705,656.05 (at December 31, 2006 Euro 9,320,515.05) for the exercise of the “2000-2002 Stock-Option Plans” stock options, increase to be implemented by December 31, 2008 by means of the issue of up to 21,283,011 (at December 31, 2006 16,946,391) Telecom Italia ordinary shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 6.42 per option held (i.e. at a price of Euro 3.710983 for each newly-issued share);
2. a tranche of up to a maximum of Euro 22,150,920 (at December 31, 2006 Euro 16,551,342.50) for the exercise of the “2002-2003 Stock-Option Plans” stock options, increase to be implemented by December 31, 2008 by means of the issue of up to 40,274,400 (at December 31, 2006 30,093,350) Telecom Italia ordinary shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 5.67 per option held (i.e. at a price of Euro 3.277457 for each newly-issued share);
3. a tranche of up to a maximum of Euro 3,192,173.05 (at December 31, 2006 Euro 1,604,132.75) for the exercise of the “2003-

21,422,652.90 (at December 31, 2006 Euro 17,210,733.65) for the exercise of the “Piano di Stock Option Top 2002” stock options, increase to be implemented by February 28, 2010 by means of the issue of up to a maximum of 38,950,278 (at December 31, 2006 31,292,243) shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 9.203 per option held (i.e. at a price of Euro 2.788052 for each newly-issued share);
4 a tranche of up to a maximum of Euro 50,268,799.90 (at December 31, 2006 Euro 29,902,650.80) for the exercise of the “Piano di Stock Option 2002” stock options, increase to be implemented by March 31, 2008 for the first lot, by March 31, 2009 for the second lot and by March 31, 2010 for the third lot by means of the issue of up to a maximum of 91,397,818 (at December 31, 2006 54,368,456) shares with a par value of Euro 0.55 each, to be subscribed for at a total price for the different options of respectively Euro 9.665, Euro 7.952 and Euro 7.721 per option held (i.e. at a price for the different options of respectively Euro 2.928015 Euro 2.409061 and Euro 2.339080 for each newly-issued share).

5.5 - The Shareholders’ Meeting of April 7, 2005 resolved to increase the share capital by up to a maximum of Euro 38,655,832.60 (at December 31, 2006 Euro 27,475,990.30), by means of the issue of up to a maximum of 70,283,332 (at December 31, 2006 49,956,346) ordinary shares with a par value of Euro 0.55 each, divided into the following outstanding divisible tranches:

1. a tranche of up to a maximum of Euro 11,705,656.05 (at December 31, 2006 Euro 9,320,515.05) for the exercise of the “2000-2002 Stock-Option Plans” stock options, increase to be implemented by December 31, 2008 by means of the issue of up to 21,283,011 (at December 31, 2006 16,946,391) Telecom Italia ordinary shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 6.42 per option held (i.e. at a price of Euro 3.710983 for each newly-issued share);
2. a tranche of up to a maximum of Euro 22,150,920 (at December 31, 2006 Euro 16,551,342.50) for the exercise of the “2002-2003 Stock-Option Plans” stock options, increase to be implemented by December 31, 2008 by means of the issue of up to 40,274,400 (at December 31, 2006 30,093,350) Telecom Italia ordinary shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 5.67 per option held (i.e. at a price of Euro 3.277457 for each newly-issued share);
3. a tranche of up to a maximum of Euro 3,192,173.05 (at December 31, 2006 Euro 1,604,132.75) for the exercise of the “2003-2005 Stock-Option Plans” stock options,

2005 Stock-Option Plans" stock options, increase to be implemented by December 31, 2008 for the first lot, by December 31, 2009 for the second lot and by December 31, 2010 for the third lot by means of the issue of up to a maximum of 5,803,951 (at December 31, 2006 2,916,605) shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 5.07 per option held (i.e. at a price of Euro 2.930636 for each newly-issued share).	increase to be implemented by December 31, 2008 for the first lot, by December 31, 2009 for the second lot and by December 31, 2010 for the third lot by means of the issue of up to a maximum of 5,803,951 (at December 31, 2006 2,916,605) shares with a par value of Euro 0.55 each, to be subscribed for at a total price of Euro 5.07 per option held (i.e. at a price of Euro 2.930636 for each newly-issued share).
For five years starting from May 6, 2004 the Directors may increase the share capital in one or more tranches by up to a maximum total amount of Euro 880,000,000 by means of cash issues of up to a maximum of 1,600,000,000 ordinary shares, all or part of which: (i) to be offered with the right of pre-emption to shareholders and holders of convertible bonds; or (ii) to be offered for subscription to employees of Telecom Italia S.p.A. or its subsidiaries, with the exclusion of the right of pre-emption, provided such increase in capital does not exceed 1% of the capital attested at the date of the offering, pursuant to the combined effects of Article 2441, last paragraph, of the Civil Code and Articles 134(2) of Legislative Decree 58/1998.	5.6 - For five years starting from May 6, 2004 the Directors may increase the share capital in one or more tranches by up to a maximum total amount of Euro 880,000,000 by means of cash issues of up to a maximum of 1,600,000,000 ordinary shares, all or part of which: (i) to be offered with the right of pre-emption to shareholders and holders of convertible bonds; or (ii) to be offered for subscription to employees of Telecom Italia S.p.A. or its subsidiaries, with the exclusion of the right of pre-emption, provided such increase in capital does not exceed 1% of the capital attested at the date of the offering, pursuant to the combined effects of Article 2441, last paragraph, of the Civil Code and Article~~s~~ 134(2) of Legislative Decree 58/1998.
Resolutions to increase the share capital adopted by the Board of Directors in exercising the powers attributed above shall set the subscription price (including any premium) and a time limit for the subscription of the shares; they may also provide, in the event that the increase approved is not fully subscribed within the time limit established for each issue, for the capital to be increased by an amount equal to the subscriptions received up to such time.	5.7 - Resolutions to increase the share capital adopted by the Board of Directors in exercising the powers attributed above shall set the subscription price (including any premium) and a time limit for the subscription of the shares; they may also provide, in the event that the increase approved is not fully subscribed within the time limit established for each issue, for the capital to be increased by an amount equal to the subscriptions received up to such time.
The Board of Directors may issue, in one or more tranches and for up to a maximum of five years from May 6, 2004, convertible bonds up to a maximum amount of Euro 880,000,000.	5.8 - The Board of Directors may issue, in one or more tranches and for up to a maximum of five years from May 6, 2004, convertible bonds up to a maximum amount of Euro 880,000,000.
Article 6 Savings shares shall have the preferential rights set forth in this Article.	Article 6 6.1 - Savings shares shall have the preferential rights set forth in this Article.
The net profit shown in the duly approved annual accounts, less the amount to be allocated to the legal reserve, must be distributed to the savings shares up to five per cent of their par value.	6.2 - The net profit shown in the duly approved annual accounts, less the amount to be allocated to the legal reserve, must be distributed to the savings shares up to five per cent of their par value.
The net profit that remains after the allocation to the savings shares of the preferred dividend provided for in the second paragraph, payment of which must be approved by the Shareholders' Meeting, shall be divided among all the shares in such a way that the dividend per savings share is higher by two per cent of its par value than the dividend per ordinary share.	6.3 - The net profit that remains after the allocation to the savings shares of the preferred dividend provided for in the second paragraph, payment of which must be approved by the Shareholders' Meeting, shall be divided among all the shares in such a way that the dividend per savings share is higher by two per cent of its par value than the dividend per ordinary share.
	6.4 - When the dividend paid on savings share in a fiscal year is less than that indicated in the second

When the dividend paid on savings share in a fiscal year is less than that indicated in the second paragraph, the difference shall go to increase the preferred dividend in the next two fiscal years. In the event of a distribution of reserves, the savings shares have the same rights as the other shares. If the net profit for the year is nil or insufficient to satisfy the property rights referred to in the preceding paragraphs, the Shareholders' Meeting called to approve the annual accounts may resolve to satisfy the right referred to in the second paragraph and/or the right to the premium referred to in the third paragraph by drawing on the reserves. Payment made by drawing on the reserves shall exclude application of the mechanism for carrying over, to the two following fiscal years, the right to preferred dividends not received through the distribution of profits referred to in the fourth paragraph. A reduction of the share capital due to losses shall not entail a reduction of the par value of the savings shares, except for the amount of the loss that exceeds the total par value of the other shares. Upon dissolution of the Company, the savings shares shall have priority in the repayment of the capital up to their entire par value. If the Company's ordinary or savings shares are delisted, holders of savings shares may apply to the Company for their conversion into ordinary shares, in the manner approved by an ad hoc Extraordinary Shareholders' Meeting called within two months of the delisting.	paragraph, the difference shall go to increase the preferred dividend in the next two fiscal years. 6.5 - In the event of a distribution of reserves, the savings shares have the same rights as the other shares. If the net profit for the year is nil or insufficient to satisfy the property rights referred to in the preceding paragraphs, the Shareholders' Meeting called to approve the annual accounts may resolve to satisfy the right referred to in the second paragraph and/or the right to the premium referred to in the third paragraph by drawing on the reserves. Payment made by drawing on the reserves shall exclude application of the mechanism for carrying over, to the two following fiscal years, the right to preferred dividends not received through the distribution of profits referred to in the fourth paragraph. 6.6 - A reduction of the share capital due to losses shall not entail a reduction of the par value of the savings shares, except for the amount of the loss that exceeds the total par value of the other shares. 6.7 - Upon dissolution of the Company, the savings shares shall have priority in the repayment of the capital up to their entire par value. 6.8 - If the Company's ordinary or savings shares are delisted, holders of savings shares may apply to the Company for their conversion into ordinary shares, in the manner approved by an ad hoc Extraordinary Shareholders' Meeting called within two months of the delisting. 6.9 - The organization of savings shareholders shall be governed by law and these bylaws. The costs associated with organizing special meetings of savings shareholders and remunerating the common representative shall be borne by the Company.
Article 7 The shares shall be indivisible. In the event of joint ownership, the rights of the joint owners shall be exercised by a common representative. Fully paid-up shares may be bearer shares when the law permits. In such case, shareholders may apply for their shares to be converted, at their own expense, into registered shares or vice versa. Vis-à-vis the Company, shareholders shall be deemed to elect domicile for all legal purposes at the domicile indicated in the Shareholders' Register. The imposition or removal of restrictions on the circulation of shares shall not result in shareholders who do not vote in favour of such resolution having the right of withdrawal.	Article 7 7.1 - The shares shall be indivisible. In the event of joint ownership, the rights of the joint owners shall be exercised by a common representative. Fully paid-up shares may be bearer shares when the law permits. In such case, shareholders may apply for their shares to be converted, at their own expense, into registered shares or vice versa. 7.2 - Vis-à-vis the Company, shareholders shall be deemed to elect domicile for all legal purposes at the domicile indicated in the Shareholders' Register. 7.3 - The imposition or removal of restrictions on the circulation of shares shall not result in shareholders who do not vote in favour of such resolution having the right of withdrawal.
Article 8 The Company may issue bonds and shall establish the terms and conditions of their placement.	Article 8 8.1 - The Company may issue bonds and shall establish the terms and conditions of their placement.

	8.2 - The costs associated with organizing meetings of bondholders shall be borne by the Company, which, in the absence of a bondholder resolution in the form prescribed by law, shall also bear the cost of the common representatives up to the maximum amount set by the Board of Directors for each issue, taking account of its size.
BOARD OF DIRECTORS	BOARD OF DIRECTORS
Article 9 The Company shall be managed by a Board of Directors consisting of not less than seven and not more than twenty-three members. The Shareholders' Meeting shall establish the number of members of the Board, which shall remain unchanged until the Meeting establishes a different number.	**Article 9** 9.1 - The Company shall be managed by a Board of Directors consisting of not less than seven and not more than twenty-three members. The Shareholders' Meeting shall establish the number of members of the Board of Directors, which shall remain unchanged until ~~the Meeting establishes~~ a different number is established.
The Board of Directors shall be appointed on the basis of slates presented by the shareholders pursuant to the following paragraphs or by the outgoing Board of Directors, on which the candidates shall be listed by serial number.	9.2 - The Board of Directors shall be appointed on the basis of slates presented by ~~the~~ shareholders pursuant to the following paragraphs or by the outgoing Board of Directors, on which the candidates shall be listed by serial number.
When the Board of Directors presents its own slate, it shall be filed at the registered office of the Company and published in at least one Italian daily newspaper with national circulation, at least twenty days prior to the date set for the Shareholders' Meeting on the first call.	9.3 - When the Board of Directors presents its own slate, it shall be filed at the registered office of the Company and published in at least one Italian daily newspaper with national circulation, at least twenty days prior to the date set for the Shareholders' Meeting on the first call.
The slates presented by the shareholders shall be filed at the registered office of the Company and published at the expense of the shareholders in the manner indicated in the preceding paragraph at least ten days prior to the date set for the Shareholders' Meeting on the first call.	9.4 - The slates presented by ~~the~~ shareholders shall be filed at the registered office of the Company and published at the expense of the shareholders in the manner indicated in the preceding paragraph at least fifteen ~~ten~~ days prior to the date set for the Shareholders' Meeting on the first call.
Each shareholder may present or participate in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.	9.5 - Each shareholder may present or participate in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.
Only shareholders who alone or together with other shareholders hold a total number of shares representing at least 1% of the share capital entitled to vote at the Ordinary Shareholders' Meeting may submit slates, subject to their proving ownership of the number of shares needed for the presentation of slates at least two days prior to the date set for the Shareholders' Meeting at the first call on pain of nullity.	9.6 - Only shareholders who alone or together with other shareholders hold a total number of shares representing at least 1% (or less, according to Consob regulations) of the share capital entitled to vote at the Ordinary Shareholders' Meeting may submit slates, subject to their proving ownership of the number of shares needed for the presentation of slates at least two days prior to the date set for the Shareholders' Meeting at the first call on pain of nullity.
Together with each slate, and within the respective time limits specified above, declarations must be filed in which the individual candidates agree to their candidacy and attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet any requirements prescribed for the positions in question. Together with the declarations, a curriculum vitae shall be filed for each candidate	9.7 - Together with each slate, and within the respective time limits specified above, it is necessary to file individual candidates' acceptances of their candidacy and declarations ~~must be filed in which the individual candidates agree to their candidacy and~~ in which they attest, on their own responsibility, that there are no grounds for

setting out their main personal and professional data with an indication, where appropriate, of the grounds for their qualifying as independent.	ineligibility or incompatibility, and that they meet any requirements prescribed for the positions in question as well as any other piece of information requested by applicable law or regulation or the bylaws. Together with the declarations, a curriculum vitae shall be filed for each candidate setting out their main personal and professional data with an indication ~~where appropriate,~~ of the positions held in management and control bodies of other companies and of the grounds for their qualifying as independent in accordance with the criteria established by law and the Company. Any changes that occur up to the day the Shareholders' Meeting is held must be promptly notified to the Company.
Each person entitled to vote may vote for only one slate.	9.8 - Each person entitled to vote may vote for only one slate.
The Board of Directors shall be elected as specified below: a) four fifths of the directors to be elected shall be chosen from the slate that obtains the majority of the votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it shall be rounded down to the nearest whole number; b) the remaining directors shall be taken from the other slates; to that end, the votes obtained by the various slates shall be divided first by one, then by two, then by three, then by four and then by five, up to the number of directors to be chosen. The quotients thus obtained shall be assigned to the candidates on each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates shall be arranged in a single decreasing ranking. Those who have obtained the highest quotients shall be elected. If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected any director or that has elected the smallest number of directors shall be elected. If none of such slates has yet elected a director or all of them have elected the same number of directors, the candidate from the slate that obtained the largest number of votes shall be elected. If the different slates have received the same number of votes and their candidates have been assigned the same quotients, a new vote shall be held by the entire Shareholders' Meeting and the candidate obtaining the simple majority of the votes shall be elected.	9.9 - The Board of Directors shall be elected as specified below: a) four fifths of the directors to be elected shall be chosen from the slate that obtains the majority of the votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it shall be rounded down to the nearest whole number; b) the remaining directors shall be taken from the other slates; to that end, the votes obtained by the various slates shall be divided successively by whole numbers from one ~~first by one, then by two, then by three, then by four and then by five,~~ up to the number of directors to be chosen. The quotients thus obtained shall be assigned to the candidates on each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates shall be arranged in a single decreasing ranking. Those who have obtained the highest quotients shall be elected. If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected any director or that has elected the smallest number of directors shall be elected. If none of such slates has yet elected a director or all of them have elected the same number of directors, the candidate from the slate that obtained the largest number of votes shall be elected. If the different slates have received the same number of votes and their candidates have been assigned the same quotients, a new vote shall be held by the entire Shareholders' Meeting and the candidate obtaining the simple majority of the votes shall be elected.
In appointing directors who for any reason have not been appointed pursuant to the procedure specified above, the Shareholders' Meeting shall vote on the basis of the majorities required by law.	9.10 - In appointing directors who for any reason have not been appointed pursuant to the procedure specified above, the Shareholders' Meeting shall vote on the basis of the majorities required by law.
If in the course of the fiscal year one or more vacancies occur on the Board, the procedure specified in Article 2386 of the Civil Code shall be followed.	9.11 - If in the course of the fiscal year one or more vacancies occur on the Board, the procedure specified in Article 2386 of the Civil Code shall be followed.
Should a majority of the seats on the Board of Directors become vacant for any cause or reason,	

the remaining directors shall be deemed to have resigned and they shall cease to hold office from the time the Board has been reconstituted by persons appointed by the Shareholders' Meeting.	9.12 - Should a majority of the seats on the Board of Directors become vacant for any cause or reason, the remaining directors shall be deemed to have resigned and they shall cease to hold office from the time the Board of Directors has been reconstituted by persons appointed by the Shareholders' Meeting.
Article 10 The Board of Directors shall elect a Chairman from among its member – if the Shareholders' Meeting has not already done so – and may also appoint a Deputy Chairman; both may be re-elected.	**Article 10** 10.1 - The Board of Directors shall elect a Chairman from among its member – if the Shareholders' Meeting has not already done so – and may also appoint one or more ~~a~~ Deputy Chairme~~a~~n~~; both may be re-elected~~.
If the Chairman is absent or unable to act, the Deputy Chairman, if appointed, shall take his/her place or, in the absence of a Deputy Chairman, the most senior director by age.	10.2 - If the Chairman is absent or unable to act, the senior Deputy Chairman by age, if appointed, shall take his/her place or, in the absence of a Deputy Chairman, the most senior director by age.
The Board of Directors may elect a Secretary who need not be a director. Extracts from the register of the minutes of meetings of the Board of Directors signed by the Chairman or by two directors and countersigned by the Secretary shall be conclusive evidence.	10.3 - The Board of Directors may elect a Secretary who need not be a director. ~~Extracts from the register of the minutes of meetings of the Board of Directors signed by the Chairman or by two directors and countersigned by the Secretary shall be conclusive evidence.~~
Article 11 The Chairman or his/her substitute shall call meetings of the Board of Directors at the Company's registered office or elsewhere, whenever he/she deems this appropriate in the interests of the Company or receives a written request to do so from at least one fifth of the directors holding office or from the members of the Board of Auditors. The Chairman shall give advance notice of the matters to be discussed in Board meetings and arrange for adequate information on the questions to be examined to be provided to all the Directors, taking account of the circumstances of each case.	**Article 11** 11.1 - The Chairman or his/her substitute shall call meetings of the Board of Directors at the Company's registered office or elsewhere, on his/her own initiative and whenever he/she ~~deems this appropriate in the interests of the Company or~~ receives a written request to do so from at least one fifth of the directors holding office or from the members of the Board of Auditors. The Chairman shall give advance notice of the matters to be discussed in Board meetings and arrange for adequate information on the questions to be examined to be provided to all the Directors, taking account of the circumstances of each case.
In general, meetings shall be called at least five days prior to the date thereof, except in urgent cases, when it may be given by telegram, fax or e-mail with at least twenty-four hours' notice.	11.2 - ~~In general,~~ Meetings shall be called, using suitable means in relation to the notice to be given, normally at least five days prior to the date thereof, except in urgent cases, when ~~it may be given by telegram, fax or e-mail with~~ at least twelve ~~twenty-four~~ hours' notice must in any case be given.
Notice shall be given to the Board of Auditors within the same time limits.	11.3 - Notice shall be given to the Board of Auditors within the same time limits.
Participation in Board meetings may – if the Chairman or his/her substitute verifies the necessity – be by means of telecommunication techniques that permit participation in the discussion and informational equality for all those taking part.	11.4 - Participation in Board meetings may – if the Chairman or his/her substitute verifies the necessity – be by means of telecommunication techniques that permit participation in the discussion and informational equality for all those taking part.
Article 12 The Board of Directors shall have the broadest possible powers of ordinary and extraordinary administration of the Company, since all matters not expressly reserved to the General Shareholders' Meeting by law or these bylaws are within its	**Article 12** 12.1 - The Board of Directors shall be responsible for running ~~have the broadest possible powers of~~

jurisdiction. Within the limits established by law, the Board of Directors shall be entrusted with deciding on the merger of companies of which Telecom Italia owns at least 90% of the shares or capital parts, the reduction of the share capital in the event of the withdrawal of shareholders, the revision of the bylaws to conform with statutory provisions, the relocation of the registered office within Italy, and the opening and closing of secondary offices.	~~ordinary and extraordinary administration of~~ the Company, since all matters not expressly reserved to the ~~General~~ Shareholders' Meeting by law or these bylaws are within its jurisdiction. 12.2 - Within the limits established by law, the Board of Directors shall be entrusted with deciding on the merger into Telecom Italia and the spin-off in favour of Telecom Italia of companies of which Telecom Italia owns at least 90% of the shares or capital parts, the reduction of the share capital in the event of the withdrawal of shareholders, the revision of the bylaws to conform with statutory provisions, the relocation of the Company's registered office within Italy, and the opening and closing of secondary offices.
Article 13 To implement its own resolutions and manage the Company, the Board of Directors, subject to the limits provided for by law, may: - create an Executive Committee, establishing its powers and the number of members; - delegate suitable powers, establishing the limits thereof, to one or more directors, possibly with the title of Chief Executive Officer; - appoint one or more General Managers, establishing their powers and duties; - appoint attorneys, who may be members of the Board of Directors, for specific transactions and for a limited period of time. The Board may set up committees from among its members charged with giving advice and making proposals and shall establish their powers and duties.	Article 13 13.1 - To implement its own resolutions and manage the Company, the Board of Directors, subject to the limits provided for by law, may: - create an Executive Committee, establishing its powers and the number of members; - delegate suitable powers, establishing the limits thereof, to one or more directors, possibly with the title of Chief Executive Officer; - appoint one or more General Managers, establishing their powers and duties; - appoint attorneys, who may be members of the Board of Directors, for specific transactions and for a limited period of time. 13.2 - The Board of Directors may set up committees from among its members charged with giving advice and making proposals and shall establish their powers and duties. 13.3 - The Board of Directors shall appoint the manager responsible for preparing the Company's financial reports after consulting the Board of Auditors. Unless revoked for good cause after consulting the Board of Auditors, the appointment shall terminate together with that of the Board of Directors that made it. 13.4 - The manager responsible for preparing the Company's financial reports must be an expert in the fields of administration, finance and control and satisfy the integrity requirements established for directors. Subsequent failure to satisfy these requirements shall entail disqualification from the position, which must be announced by the Board of Directors within thirty days of its learning of the failure.
Article 14 Persons with delegated powers shall report to the Board of Directors and the Board of Auditors on the activities carried out, the general results of operations and their foreseeable development, and the transactions of greatest economic, financial or balance sheet significance concluded by the Company or its subsidiaries; in particular, they shall report on transactions in which they have an interest, directly or on behalf of third parties, or that	Article 14 14.1 - Persons with delegated powers shall report to the Board of Directors and the Board of Auditors on the activities carried out, the general results of operations and their foreseeable development, and the transactions of greatest economic, financial or balance sheet significance concluded by the Company or its subsidiaries; in particular, they shall

are influenced by the person, if any, who performs the activity of direction and coordination. Such reports shall be made promptly, and at least once in each quarter, on the occasion of the meetings of the Board of Directors and the Executive Committee or in a written memorandum. In accordance with the times and procedures for disclosing information to the market, the representative of the holders of savings shares must be informed by the Board of Directors or the persons delegated to that end of any corporate events that might affect the price of the shares of that class.	report on transactions in which they have an interest, directly or on behalf of third parties, or that are influenced by the person, if any, who performs the activity of direction and coordination. Such reports shall be made promptly, and at least once in each quarter, in meetings or in writing.~~on the occasion of the meetings of the Board of Directors and the Executive Committee or in a written memorandum.~~ 14.2 - In accordance with the times and procedures for disclosing information to the market, the representative of the holders of savings shares must be informed by the Board of Directors or the persons delegated to that end of any corporate events that might affect the price of the shares of that class.
Article 15 The representation of the Company vis-à-vis third parties and in legal proceedings shall pertain to the Chairman and, or if he/she is absent or unable to act, the Deputy Chairman, if one is appointed; it shall also pertain severally to each of the directors with delegated powers.	Article 15 15.1 - The representation of the Company vis-à-vis third parties and in legal proceedings shall pertain to the Chairman or if he/she is absent or unable to act, the Deputy Chairman, if one is appointed; it shall also pertain severally to each of the Chief Executive Officers.~~directors with delegated powers.~~
Article 16 The directors shall be entitled to the reimbursement of expenses incurred in the performance of their duties. The Ordinary Shareholders' Meeting shall also decide the annual remuneration payable to the Board. Once fixed, this remuneration shall remain unchanged until a different amount is established.	Article 16 16.1 - The directors shall be entitled to the reimbursement of expenses incurred in the performance of their duties. The Ordinary Shareholders' Meeting shall also decide the annual remuneration payable to the Board of Directors. Once fixed, this remuneration shall remain unchanged until a different amount is established.
BOARD OF AUDITORS Article 17 The Board of Auditors shall consist of five or seven auditors. The Shareholders' Meeting shall establish the exact number, which shall remain unchanged until the Meeting establishes a different number. The Meeting shall also appoint two alternates. The Board of Auditors shall elect a Chairman from among its members by majority vote. In the absence or disability to act of the Chairman, he/she shall be replaced by the most senior auditor by age. Without prejudice to the situations of incompatibility established by law, persons who are members of the boards of auditors of more than five companies listed on Italian regulated markets may not be appointed auditors and shall forfeit the post if they are elected. Telecom Italia S.p.A. and its subsidiaries shall not be included when computing the above limit. For the purposes of Articles 1(2)(b) and 1(2)(c) of the regulation referred to in Justice Minister Decree 162/2000, the following sectors of activity and matters shall be considered closely linked to those of the Company: telecommunications, information technology, online systems, electronics and multimedia technology, and matters related to	BOARD OF AUDITORS Article 17 17.1 - The Board of Auditors shall consist of five ~~or seven~~ auditors. The Shareholders' Meeting ~~shall establish the exact number, which shall remain unchanged until the Meeting establishes a different number. The Meeting~~ shall also appoint two alternates. ~~The Board of Auditors shall elect a Chairman from among its members by majority vote. In the absence or disability to act of the Chairman, he/she shall be replaced by the most senior auditor by age.~~ ~~Without prejudice to the situations of incompatibility established by law, persons who are members of the boards of auditors of more than five companies listed on Italian regulated markets may not be appointed auditors and shall forfeit the post if they are elected. Telecom Italia S.p.A. and its subsidiaries shall not be included when computing the above limit.~~ 17.2 - For the purposes of Articles 1(2)(b) and 1(2)(c) of the regulation referred to in Justice Minister Decree 162/2000, the following sectors of activity and matters shall be considered closely

private and administrative law, economics and business administration.	linked to those of the Company: telecommunications, information technology, online systems, electronics and multimedia technology, and matters related to private and administrative law, economics and business administration.
The appointment of the Board of Auditors shall be based on the slates presented by shareholders who individually or together with other shareholders hold a total number of shares representing at least 1% of the share capital entitled to vote at the Ordinary Shareholders' Meeting, subject to their proving ownership of the number of shares needed for the presentation of slates at least two days prior to the date set for the Shareholders' Meeting at the first call on pain of nullity.	17.3 - The appointment of the Board of Auditors shall be based on ~~the~~ slates presented by shareholders, filed at the Company's registered office and published at the expense of the shareholders who present them in at least one daily newspaper with national circulation at least fifteen days prior to the date set for the Shareholders' Meeting on the first call. ~~who individually or together with other shareholders hold a total number of shares representing at least 1% of the share capital entitled to vote at the Ordinary Shareholders' Meeting, subject to their proving ownership of the number of shares needed for the presentation of slates at least two days prior to the date set for the Shareholders' Meeting at the first call on pain of nullity.~~
Each shareholder may present or participate in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.	17.4 - Each shareholder may present or participate in the presentation of only one slate and each candidate may appear on only one slate on pain of ineligibility.
The slates must be filed at the registered office of the Company and published at the expense of the shareholders who present them in at least one Italian daily newspaper with national circulation, at least ten days prior to the date set for the Shareholders' Meeting on the first call.	17.5 - Only shareholders who alone or together with other shareholders hold a total number of shares representing at least 1% (or less, according to Consob regulations for the appointment of the Board of Directors) of the voting share capital, may submit slates, subject to their proving ownership of the number of shares needed for the presentation of slates at least two days prior to the date set for the Shareholders' Meeting at the first call on pain of nullity. ~~The slates must be filed at the registered office of the Company and published at the expense of the shareholders who present them in at least one Italian daily newspaper with national circulation, at least ten days prior to the date set for the Shareholders' Meeting on the first call.~~
Together with each slate, declarations must be filed in which the individual candidates agree to their candidacy and attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet the requirements prescribed by law and these bylaws. Together with the declarations, a curriculum vitae for each candidate shall be filed setting out their main personal and professional data.	17.6 - Together with each slate, it is necessary to file individual candidates' acceptances of their candidacy and declarations ~~must be filed~~ in which they ~~individual candidates agree to their candidacy and~~ attest, on their own responsibility, that there are no grounds for ineligibility or incompatibility, and that they meet the requirements as well as any other piece of information requested ~~prescribed~~ by applicable law ~~and these bylaws.~~ or regulation or the bylaws 17.7 - Together with the declarations, a curriculum vitae for each candidate shall be filed setting out their main personal and professional data with an indication of the positions held in management and control bodies of other companies. Any changes that occur up to the day the Shareholders' Meeting is held must be notified to the Company.
The slates shall be divided into two sections: one for candidates to the position of auditor and the other for candidates to the position of alternate. The first candidate in each section must be selected from among persons entered in the register of auditors who have worked on statutory audits for a period of not less than three years.	17.8 - The slates shall be divided into two sections:

Each person entitled to vote may vote for only one slate. The Board of Auditors shall be elected as specified below: a) from the slate that obtains the majority of the votes cast by the shareholders (the Majority Slate) one alternate and all the auditors not chosen from the other slates (the Minority Slates) shall be chosen in the order in which they are listed on the slate; b) from the Minority Slates two auditors shall be chosen. One alternate shall be chosen from the Minority Slate that obtains the largest number of votes. For the appointment of the auditors from the Minority Lists, the votes obtained by the various slates shall be divided first by one and then by two. The quotients thus obtained shall be assigned to the candidate auditors on each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates shall be arranged in a single decreasing ranking and those who have obtained the highest quotients shall be elected. If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected an auditor shall be elected or, subordinately, there shall be a tiebreaker vote by the entire Shareholders' Meeting and the slate that obtains the simple majority of the votes shall prevail. In appointing auditors who for any reason have not been appointed pursuant to the procedure specified above, the Shareholders' Meeting shall vote on the basis of the majorities required by law. In the event of the substitution of an auditor chosen from the Majority Slate or one of the Minority Slates, the alternate chosen respectively from the Majority Slate or the Minority Slates shall take his/her place. Appointments to fill vacancies on the Board of Auditors pursuant to Article 2401 of the Civil Code shall be made by the Shareholders' Meeting on the basis of the majorities required by law. After notifying the Chairman of the Board of Directors, the Board of Auditors, or at least two auditors, may call, as provided for by law, a meeting	8one for candidates to the position of auditor and the other for candidates to the position of alternate. The first candidate in each section shall ~~must~~ be selected from among persons entered in the register of auditors who have worked on statutory audits for a period of not less than three years. 17.9 - Each person entitled to vote may vote for only one slate. 17.10 - The Board of Auditors shall be elected as specified below: a) from the slate that obtains the majority of the votes cast by the shareholders (the Majority Slate) one alternate and three ~~all the~~ auditors ~~not chosen from the other slates (the Minority Slates)~~ shall be chosen in the order in which they are listed on the slate; b) two auditors ~~from the Minority Slates two auditors~~ shall be chosen from the other slates (the Minority Slates);~~. One alternate shall be chosen from the Minority Slate that obtains the largest number of votes.~~ ~~For the appointment of the auditors from the Minority Lists,~~ To this end the votes obtained by the various slates shall be divided first by one and then by two. The quotients thus obtained shall be assigned to the candidate auditors on each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates shall be arranged in a single decreasing ranking and those who have obtained the highest quotients shall be elected. If more than one candidate obtains the same quotient, the candidate from the slate that has not yet elected an auditor shall be elected or, subordinately, there shall be a tiebreaker vote by the entire Shareholders' Meeting and the candidate who ~~slate that~~ obtains the simple majority of the votes shall be elected~~prevail~~. c) -one alternate auditor shall be chosen from the Minority Slate that obtained the largest number of votes. In the event of a tie, there shall be a tiebreaker vote by the entire Shareholders' Meeting and the candidate who obtains the simple majority of the votes shall be elected. 17.11 - The Shareholders' Meeting shall appoint the Chairman of the Board of Auditors from among the auditors elected from Minority Slates. 17.12 - In appointing auditors who for any reason have not been appointed pursuant to the procedure specified above, the Shareholders' Meeting shall vote on the basis of the majorities required by law. 17.13 - In the event of the termination of the appointment ~~substitution~~ of an auditor chosen from the Majority Slate or one of the Minority Slates, the alternate chosen respectively from the Majority Slate or the Minority Slates shall take his/her place. Appointments to fill vacancies on the Board of Auditors pursuant to Article 2401 of the Civil Code

of the shareholders, the Board of Directors or the Executive Committee.	shall be made by the Shareholders' Meeting on the basis of the majorities required by law.
	17.14 - After notifying the Chairman of the Board of Directors, the Board of Auditors~~, or at least two auditors~~, may call, as provided for by law, a Shareholders' Meeting or a meeting of the Board of Directors or the Executive Committee. This power to call meetings may be exercised individually by each auditor, except for the power to call a Shareholders' Meeting, which must be exercised by at least two auditors.
Participation in the meetings of the Board of Auditors may – if the Chairman verifies the necessity – be by means of telecommunication techniques that permit participation in the discussion and informational equality for all those taking part.	17.15 - Participation in the meetings of the Board of Auditors may – if the Chairman verifies the necessity – be by means of telecommunication techniques that permit participation in the discussion and informational equality for all those taking part.
	17.16 - If the Chairman is absent or unable to act, the other auditor elected from the Minority Slates shall take his/her place.
SHAREHOLDERS' MEETING	SHAREHOLDERS' MEETING
Article 18 An Ordinary Shareholders' Meeting must be called within 120 days or, where special circumstances make this necessary, within 180 days of the end of the fiscal year; if the meeting is called within 180 days, the Directors shall give the reasons for the delay in the report on operations included in the annual report.	**Article 18** 18.1 - An Ordinary Shareholders' Meeting must be called within 120 days or, where special circumstances make this necessary, within 180 days of the end of the fiscal year; if the meeting is called within 180 days, the Directors shall give the reasons for the delay in the report on operations included in the annual report.
An Extraordinary Shareholders' Meeting shall be called whenever it is deemed desirable by the Board of Directors and when it is required in accordance with the law. If the quorum is not reached at the second call, there may be a third call.	18.2 - An Extraordinary Shareholders' Meeting shall be called whenever it is deemed desirable by the Board of Directors and when it is required in accordance with the law. If the quorum is not reached at the second call, there may be a third call.
	18.3 - Special meetings of savings shareholders shall be called by the common representative of the savings shareholders or by the Company's Board of Directors whenever they deem this to be desirable or when requested in accordance with the law.
	18.4 - Requests by shareholders to add items to the agenda of a Shareholders' Meeting in accordance with the law must be accompanied by a report, to be filed at the Company's registered office in time to be made available to shareholders at least 10 days prior to the date set for the meeting on the first call.
Ordinary and Extraordinary Shareholders' Meetings may be held in a place other than the Registered Office, provided it is in Italy.	18.5 - Ordinary and Extraordinary Shareholders' Meetings and special meetings of savings shareholders may be held in a place other than the registered office, provided it is in Italy.
Article 19 Shareholders are entitled to attend a Shareholders' Meeting when the Company has received the documentation for them pursuant to Article 2370, second paragraph of the Civil Code, at least two days prior to the date set for each meeting. Ordinary shareholders may exercise their right to vote by mail in accordance with the applicable law.	**Article 19** 19.1 - Shareholders are entitled to attend a Shareholders' Meeting when the Company has

	received the documentation for them pursuant to Article 2370, second paragraph of the Civil Code, at least two days prior to the date set for each meeting.
	19.2 - Ordinary shareholders may exercise their right to vote by mail in accordance with the applicable law.
Every shareholder entitled to attend may be represented at the Shareholders' Meeting by giving a proxy to an individual or legal entity, subject to the restrictions established by law.	19.3 - Every shareholder entitled to attend may be represented at the Shareholders' Meeting by giving a proxy to an individual or legal entity, subject to the restrictions established by law.
In order to facilitate the collection of proxies among employees of the Company or its subsidiaries who hold shares of the Company and belong to shareholder associations satisfying the requirements established by law, special areas shall be made available in accordance with the procedures and time limits established by the Board of Directors either directly or through its agents where information can be provided and proxy forms collected.	19.4 - In order to facilitate the collection of proxies among employees of the Company or its subsidiaries who hold ordinary shares of the Company and belong to shareholder associations satisfying the requirements established by law, special areas shall be made available in accordance with the procedures and time limits established by the Board of Directors either directly or through its agents where information can be provided and proxy forms collected.
Article 20 The Chairman of the Board of Directors or his/her substitute or, in the absence thereof, the person elected with the favourable vote of the majority of the capital represented at the meeting, shall chair the Shareholders' Meeting and govern its proceedings.	Article 20 20.1 - The Chairman of the Board of Directors or his/her substitute ~~or, in the absence thereof, the person elected with the favourable vote of the majority of the capital represented at the meeting,~~ shall chair Ordinary and Extraordinary ~~the~~ Shareholders' Meeting and govern its proceedings; the same function shall be performed by the common representative in special meetings of savings shareholders. In the absence respectively of the Chairman of the Board of Directors (and his/her substitute) and of the common representative, the meeting shall be chaired by the person elected with the favourable vote of the majority of the capital represented at the meeting.
To this end, the Chairman of the Meeting shall, amongst other things, verify its regularity, ascertain the identity and right to attend of those present, direct the business, including by establishing a different order for the discussion of the items indicated in the notice convening the Meeting. The Chairman shall take appropriate measures to ensure the orderly conduct of the discussion and polls; he shall establish how each poll is to be conducted and verify the results; he may choose two or more scrutineers from among those present.	20.2 - ~~To this end,~~ The Chairman of the m~~M~~eeting shall, amongst other things, verify its regularity, ascertain the identity and right to attend of those present, direct the business, including by establishing a different order for the discussion of the items indicated in the notice convening the m~~M~~eeting. The Chairman shall take appropriate measures to ensure the orderly conduct of the discussion and polls; he shall establish how each poll is to be conducted and verify the results; he may choose two or more scrutineers from among those present.
The Secretary shall be appointed with the favourable vote of the majority of the capital represented at the meeting and a person who is not a shareholder may be selected.	20.3 - The Secretary shall be appointed with the favourable vote of the majority of the capital represented at the meeting and a person who is not a shareholder may be selected.
Shareholders' meetings shall be governed by the law, these bylaws and the Rules of Proceeding approved by the Ordinary Shareholders' Meeting.	20.4 - Shareholders' meetings shall be governed by the law, these bylaws and, exclusively for Ordinary an Extraordinary Shareholders' Meetings, the Rules of Proceeding approved by the Ordinary Shareholders' Meeting.
FISCAL YEAR - DIVIDENDS	
Article 21 The fiscal year shall end on December 31 of each year.	

From the net profit reported in the annual accounts, 5% shall be allocated to the legal reserve until this reaches an amount equal to one-fifth of the share capital.

The remainder shall be used to pay the dividend determined by the Shareholders' Meeting, and for such other purposes as the Meeting deems most appropriate or necessary.

During the course of the fiscal year, the Board of Directors may distribute interim dividends to the shareholders.

SPECIAL POWERS

Article 22

Pursuant to Article 2(1) of Decree Law 332/1994, ratified with amendments by Law 474/1994, as replaced by Article 4(227) of Law 350/2003, the Minister for the Economy and Finance, in agreement with the Minister for Productive Activities, shall have the following special powers:

a) to oppose the acquisition by parties subject to the limitations on share ownership referred to in Article 3 of Decree Law 332/1994, ratified with amendments by Law 474/1994, of major holdings, taken to mean holdings that, as specified by Treasury Minister Decree of 24 March 1997, are equal to at least 3% of the share capital represented by shares with a right to vote in ordinary shareholder's meetings. The objection must be made within ten days of the date of the communication that the directors must send at the time of the application for entry in the shareholders' register if the Minister deems that the transaction is prejudicial to the vital interests of the state. During the interval for the exercise of the right of objection the voting rights and any rights other than the property rights attaching to the shares that represent the major holding shall be suspended. In the event of the exercise of the right of objection, by means of a measure giving the reasons in relation to the actual prejudice caused by the transaction to the vital interests of the state, the transferee may not exercise the voting rights or any rights other than the property rights attaching to the shares that represent the major holding and must sell the shares within one year. If this is not done, the Court, at the request of the Minister for the Economy and Finance, shall order the sale of the shares representing the major holding pursuant to the procedures established in Article 2359-ter of the Civil Code. The objection may be appealed within sixty days by the transferee before the Lazio Regional Administrative Court;

b) to veto, giving the reasons in relation to the actual prejudice caused to the vital interests of the state, the adoption of resolutions to dissolve

FISCAL YEAR - DIVIDENDS

Article 21

21.1 - The fiscal year shall end on December 31 of each year.

21.2 - From the net profit reported in the annual accounts, 5% shall be allocated to the legal reserve until this reaches an amount equal to one-fifth of the share capital.

21.3 - The remainder shall be used to pay the dividend determined by the Shareholders' Meeting, and for such other purposes as the Shareholders' Meeting deems most appropriate or necessary.

21.4 - During the course of the fiscal year, the Board of Directors may distribute interim dividends to the shareholders.

SPECIAL POWERS

Article 22

22.1 - Pursuant to Article 2(1) of Decree Law 332/1994, ratified with amendments by Law 474/1994, as replaced by Article 4(227) of Law 350/2003, the Minister for the Economy and Finance, in agreement with the Minister for Productive Activities, shall have the following special powers:

a) to oppose the acquisition by parties subject to the limitations on share ownership referred to in Article 3 of Decree Law 332/1994, ratified with amendments by Law 474/1994, of major holdings, taken to mean holdings that, as specified by Treasury Minister Decree of 24 March 1997, are equal to at least 3% of the share capital represented by shares with a right to vote in ordinary shareholder's meetings. The objection must be made within ten days of the date of the communication that the directors must send at the time of the application for entry in the shareholders' register if the Minister deems that the transaction is prejudicial to the vital interests of the state. During the interval for the exercise of the right of objection the voting rights and any rights other than the property rights attaching to the shares that represent the major holding shall be suspended. In the event of the exercise of the right of objection, by means of a measure giving the reasons in relation to the actual prejudice caused by the transaction to the vital interests of the state, the transferee may not exercise the voting rights or any rights other than the property rights attaching to the shares that represent the major holding and must sell the shares within one year. If this is not done, the Court, at the request of the Minister for the Economy and Finance, shall order the sale of

the Company, transfer the business, merge or divide the Company, transfer the registered office outside Italy, change the corporate object, or amend these bylaws with a view to eliminating or modifying the powers specified in this article. The veto may be appealed within sixty days by the transferee before the Lazio Regional Administrative Court. The right of objection referred to in subparagraph a) may be exercised with reference to the cases specified in Article 4(228) of Law 350/2003. The special powers referred to in subparagraphs a) and b) shall be exercised in conformity with the criteria established by the decree issued by the President of the Council of Ministers on 10 June 2004.	the shares representing the major holding pursuant to the procedures established in Article 2359-ter of the Civil Code. The objection may be appealed within sixty days by the transferee before the Lazio Regional Administrative Court; b) to veto, giving the reasons in relation to the actual prejudice caused to the vital interests of the state, the adoption of resolutions to dissolve the Company, transfer the business, merge or divide the Company, transfer the registered office outside Italy, change the corporate object, or amend these bylaws with a view to eliminating or modifying the powers specified in this article. The veto may be appealed within sixty days by the transferee before the Lazio Regional Administrative Court. 22.2 - The right of objection referred to in subparagraph a) may be exercised with reference to the cases specified in Article 4(228) of Law 350/2003. The special powers referred to in subparagraphs a) and b) shall be exercised in conformity with the criteria established by the decree issued by the President of the Council of Ministers on 10 June 2004.

2. to number the articles as amended above, identifying the individual paragraphs;
3. to confer severally on the Company's legal representatives *pro tempore* the powers needed to perform all the necessary formalities for the approved resolutions to be entered in the Company Register, accepting and making thereto any changes, additions or deletions not of a substantive nature that may be requested by the competent authorities.

USEFUL INFORMATION

A free copy of this report can be obtained by:

Calling to	Free Number 800020220 (for calls inside Italy) or number +39 011 4356503 (for calls outside Italy) to disposal for information and help to shareholders
E – mail	corporate.affairs@telecomitalia.it
Internet	Users of the world wide can access the 2006 Annual Report and obtain information about Telecom Italia and its products and services at the following address: http://www.telecomitalia.it
Investor Relations	+ 39 – 0285954131/0285954132 (fax) investor_relations@telecomitalia.it

TELECOM ITALIA
Registered office, Piazza degli Affari, 2 – 20123 Milan
Headquarters and secondary office in Corso d'Italia, 41 – 00198 Rome
Share Capital euro 10,673,776,048.65
Tax code/Vat no. And Milan Companies register file no. 00488410010