Telecom Italia S.p.A.

2007 Annual Report

CONTENTS

Corporate boards at December 31, 2007

Board of Directors

The board of directors was elected by the ordinary shareholders' meeting held on April 16, 2007 which established the number of directors at 19 and set the expiration for the term of office as one year, that is, up to the date of the shareholders' meeting called to approve the financial statements for the year ended December 31, 2007.
On April 17, 2007, the new board of directors of Telecom Italia met and elected Pasquale Pistorio as chairman and confirmed Carlo Orazio Buora as executive deputy chairman and Riccardo Ruggiero as CEO.
On July 4, 2007, the director Luciano Gobbi tendered his resignation; the board of directors' meeting held on July 24, 2007 Gaetano Miccichè was appointed a director.
On October 25, 2007, the directors Claudio De Conto and Carlo Alessandro Puri Negri resigned and the board of directors in its meeting held on November 8, 2007 appointed César Alierta Izuel and Julio Linares López as directors.
Subsequently, the directors Pasquale Pistorio, Carlo Orazio Buora and Riccardo Ruggiero resigned from their respective posts and from the board of directors, besides the director Diana Bracco, all with effect from December 3, 2007, the date of the board of directors' meeting that co-opted Gabriele Galateri di Genola and Franco Bernabé, appointing them as chairman and CEO, respectively.
At December 31, 2007, the board of directors of the Company is thus composed of 17 directors, as follows:

Chairman	Gabriele Galateri di Genola
Chief Executive Officer	Franco Bernabé
Consiglieri	César Alierta Izuel Paolo Baratta (independent) Gilberto Benetton Stefano Cao (independent) Renzo Capra (independent) Domenico De Sole (independent) Luigi Fausti (independent) Jean Paul Fitoussi (independent) Julio Linares López Gaetano Miccichè Aldo Minucci Gianni Mion Renato Pagliaro Cesare Giovanni Vecchio (independent) Luigi Zingales (independent)
Secretary to the Board	Francesco Chiappetta

The composition of the board's internal committees noted below was established by the board of directors' meeting held on May 8, 2007 and, with regard to the Strategies Committee, changes were made by the board of directors' meeting held on December 3, 2007.
Both the Remuneration Committee and the Committee for Internal Control and Corporate Governance named the respective chairmen in their first meeting.

Remuneration Committee	Luigi Zingales - Chairman Stefano Cao Renzo Capra Luigi Fausti
Committee for Internal Control and Corporate Governance	Paolo Baratta - Chairman Domenico De Sole Luigi Fausti Cesare Giovanni Vecchio
Strategies Committee	Gabriele Galateri di Genola Franco Bernabé Paolo Baratta Domenico De Sole Jean Paul Fitoussi Renato Pagliaro

Board of Statutory Auditors

The shareholders' meeting held on April 16, 2007 added members to the board of statutory auditors, appointing Enrico Maria Bignami (previously an alternate auditor) as acting auditor and Luigi Gaspari as alternate auditor up to the expiry of the term of office of the board of statutory auditors in office (approval of the 2008 financial statements). At December 31, 2007, the board of statutory auditors is composed of the following members:

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

Common representatives

– Savings shareholders — Carlo Pasteris

Appointed for the three-year period 2007–2009 by the special shareholders' meeting held on May 16, 2007.

– Bondholders — Francesco Pensato
"Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium"

Appointed by the May 2, 2005 decree of the Milan Court, 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 the July 8, 2005 decree of the Milan Court, after failure to establish the corresponding bondholders' meeting.

– Bondholders — Francesco Pensato
"Telecom Italia S.p.A. euro 750,000,000 4.50% notes due 2011"

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

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

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

Manager responsible for financial reporting

On November 8, 2007, the board of directors appointed Enrico Parazzini (General Manager of the Company and head of the Finance, Administration and Control Function of the Group) as the manager responsible for Telecom Italia's financial reporting.

Independent Auditors

The shareholders' meeting held on April 16, 2007, based on the proposal put forward by the board of statutory auditors, extended the engagement of the audit firm of Reconta Ernst & Young S.p.A. for the three-year period 2007-2009.

Managers with key responsibilities

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 directors, during the course of the year 2007, were the following:

Directors:	
Gabriele Galateri di Genola (1)	Chairman
Pasquale Pistorio (2)	Chairman
Guido Rossi (3)	Chairman
Franco Bernabè (1)	Chief Executive Officer
Carlo Orazio Buora (4)	Executive Deputy Chairman
Riccardo Ruggiero (4)	Chief Executive Officer General Manager
Managers:	
Enrico Parazzini	General Manager Head of Finance, Administration and Control Chairman of Telecom Italia Media S.p.A.
Antonio Campo Dall'Orto (7)	Chief Executive Officer of Telecom Italia Media S.p.A. Head of the Media Business Unit
Stefano Pileri	General Manager Head of Technology
Massimo Castelli	General Manager Head of Domestic Fixed Services
Luca Luciani	General Manager Head of Domestic Mobile Services
Gustavo Bracco	Head of Human Resources, Organization and Industrial Relations
Francesco Chiappetta	Head of General Counsel & Corporate & Legal Affairs
Germanio Spreafico	Head of Purchasing
Franco Rosario Brescia (5)	Head of Public Affairs
Paolo Annunziato (6)	Head of Public Affairs
Filippo Bettini (7)	Head of Strategy
Giampaolo Zambeletti (7)	Head of International Affairs

(1) From December 3, 2007
(2) From April 17, 2007 to December 2, 2007
(3) To April 6, 2007
(4) To December 2, 2007
(5) From February 16, 2007 to May 24, 2007
(6) From May 25, 2007
(7) From February 16, 2007

Committees

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

– monitoring the implementation of strategies, development of plans and attainment of results;
– ensuring the overall coordination of business actions and management of relative cross-over issues;
– building-up the necessary operational synergies among the various functions involved in technological, business and support processes.

The Group Committee System is currently undergoing a review and transformation. Specifically, as of December 31, 2007, the following committees have been formed:

– *Risk Management Committee* of the Group, which ensures the identification, the assessment and the management of the risks of the Group as well as the policy regarding IT security and information, coordinating preventive action plans designed to ensure the operating continuity of the business and monitoring the effectiveness of the countermeasures adopted;

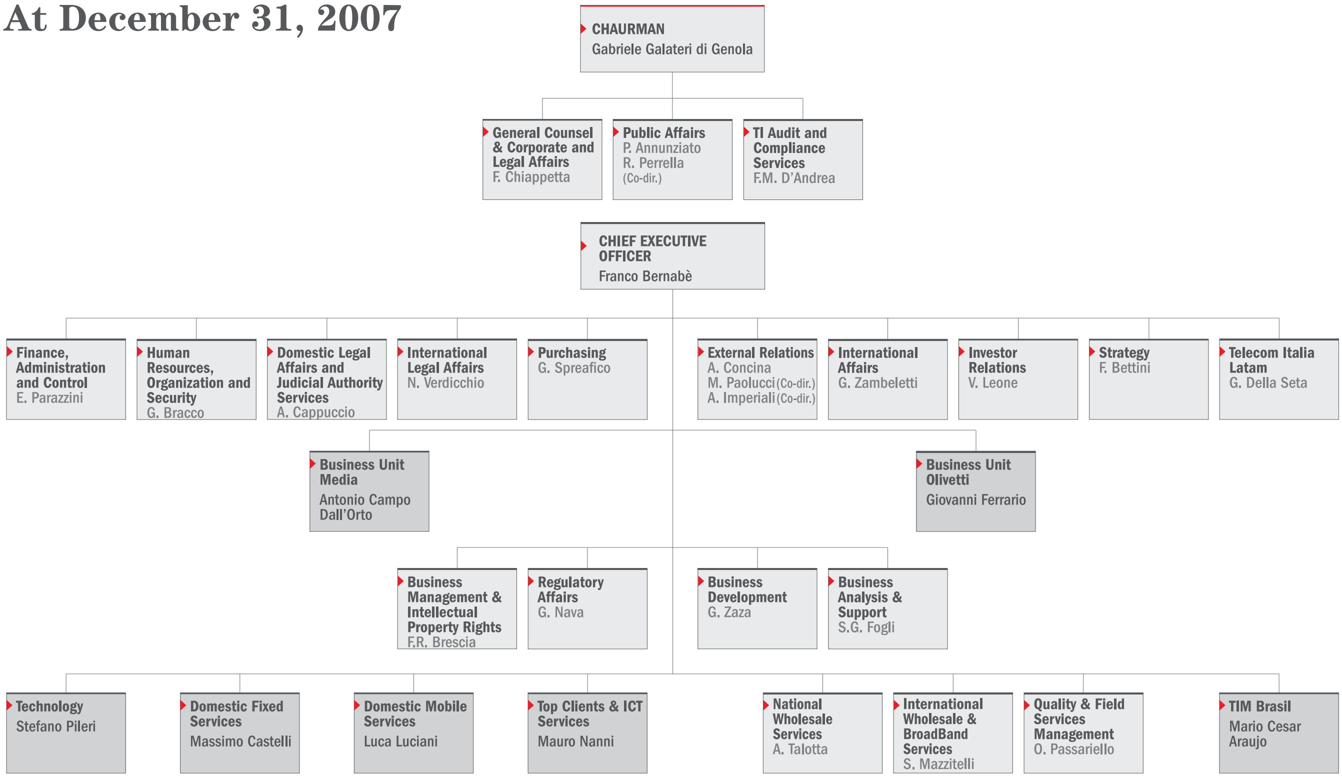
– *IT Governance Committee* of the Group, which defines the guidelines for the information strategies of the Group, guides IT strategic decisions and investments consistently with business needs, monitors the progress on the most important IT projects, quality of solutions and cost effectiveness;

– *Security Committee* of the Group, which ensures the integrated coordination of security and crisis management activities of the Group, monitoring the progress on major projects and effectiveness of the solutions adopted;

– *Steering Committee for Relations with Telefonica* Group, which aims to meet the following objectives:
  - identify areas and business activities suitable for possible industrial synergies between the two Groups;
  - design consequent plans for execution;
  - control consistency with national and international laws, with measures by public authorities and with rules of self-regulation.

Macro-organization chart - Telecom Italia Group

At December 31, 2007



The Operational Structure of the Telecom Italia Group at December 31, 2007 can be described as follows:

- **Group Functions**, with responsibility for:
  - guaranteeing direct control over the system supporting the Telecommunications Business in addition to the coordination, direction and control at Group level of their specific activities, particularly ensuring the definition of policies and the overall governing of issues across the Departments and Functions and Business Units;
  - promoting, within the Group, a control model which ensures guidance over the Professional Families with particular emphasis on the development, utilization and coordination of distinctive expertises as well as the implementation of paths for infragroup mobility;
  - ensuring, across the entire Group, control over any operating activities serving the business.
- **TLC Business Departments/Functions**, with responsibility for the specific results of their areas of competence, particularly through the business management and development of fixed and mobile Telecommunications and Internet services.
- **Business Units**, with responsibility for business development in their respective businesses.

To the ***Chairman*** – who is entrusted with, for the purpose of guaranteeing functionality and effectiveness of action of the board of directors, responsibility for the supervision of the formulation of strategic, industrial and financial plans, the definition of the organization structures and the economic and financial performance of the Group as well as the overall governance of the internal control system – the following report:

The Group Functions:

- *General Counsel & Corporate and Legal Affairs;*
- *Public Affairs.*

The Company:
- *Telecom Italia Audit & Compliance Services.*

To the ***Chief Executive Officer*** – who is assigned responsibility for the overall governance of the Group, especially with regard to the definition, implementation and development of strategic, industrial and financial plans, the definition of the organization structure and also business development and management – the following report:

The Group Functions:
- *Finance, Administration and Control;*
- *Human Resources, Organization and Security;*
- *Domestic Legal Affairs and Judicial Authority Services;*
- *International Legal Affairs;*
- *Purchasing;*
- *External Relations;*
- *International Affairs;*
- *Investor Relations;*
- *Strategy;*
- *Telecom Italia Latam.*

The Departments:
- *Domestic Fixed Services*, with responsibility for ensuring – at the national level – business development and management relating to fixed Telecommunications for consumer and business customer;
- *Domestic Mobile Services*, with responsibility for ensuring – at the national level – business development and management relating to mobile Telecommunications for consumer and business customer;
- *Top Clients & ICT Services*, with responsibility for ensuring business development and management relating to fixed and mobile Telecommunications and the relative ICT services for Top Clients;
- *Technology*, with responsibility for ensuring the technological innovation of the Group and the development and operation of the fixed and mobile Telecommunications networks, systems and IT infrastructures.

The Company:
- *TIM Brasil*, with responsibility for ensuring business development and management of mobile Telecommunications in Brazil.

The Business Units:
- *Olivetti*, for product development and Information Technology solutions;
- *Media*, content offerings (as the Competence Center of the Telecom Italia Group), news and television.

The Functions:
- *Quality & Field Services Management*, with responsibility for ensuring control over the processes of delivery and technical assistance to the clientele, in addition to the monitoring of customer satisfaction and the coordination of plans to improve the quality of service;
- *National Wholesale Services*, with responsibility for ensuring the management of national licensee operators;
- *International Wholesale and Broadband Services*, with responsibility for ensuring the international wholesale business development of the Group, as well as the coordination of broadband activities outside Italy;
- *Business Management & Intellectual Property Rights*, with responsibility for ensuring support in reaching the objectives of customer management and development in the Public Sector Market, as well as guaranteeing control, management and definition of IPR issues, patent production and relative exploitation;
- *Regulatory Affairs*, with responsibility for ensuring control over national and international regulatory issues;
- *Business Development*, with responsibility for ensuring across-the-board integration of business development plans;
- *Business Analysis & Support*, with responsibility for ensuring the support of the CEO and the technical and sales structures in preliminary analyses and assessments related to the evolution and transformation of the Telecommunications business control model.

***

Beginning January 1, 2008, the Telecom Italia Group has effected certain changes in the organization structure of its operations. In particular:

– on January 1, 2008, the Group ***Security*** Function was transferred and now reports directly to the CEO. The name of the Group *Human Resources, Organization and Security* Function was changed to ***Human Resources, Organization and Industrial Relations***;

– on January 11, 2008, the Group Quality Governance Committee was established and has responsibility for:
  - directing and supervising the initiatives and activities geared to the end-to-end improvement of the quality of the processes;
  - monitoring the results of the quality obtained and also analyzing them according to the quality requisites required by Authorities, as well as the most important or recurring customer complaints and – generally – feedback from all the stakeholders;
  - supervising the process for the creation, quality certification and launch of new products and services offered to the clientele – in particular those with a greater impact in terms of image and competitive market positioning – with the specific operating responsibilities of the technical structures and the businesses involved remaining unchanged.

– effective January 14, 2008, the *Business Strategies & International Development Department* was set up and assigned the following responsibilities:
  - guaranteeing the strategic planning of the Group, ensuring the consistency of the relative implementation policies and the transversal integration of the plans of the individual areas of business;
  - guaranteeing the operational coordination of the international development initiatives;
  - ensuring the consistency of the management of national licensee operators and international wholesale services;
  - coordinating international broadband initiatives;
  - supervising the safeguarding of the legal interests of the Group internationally.

The following Functions report to the *Business Strategies & International Development Department*:

- *Strategy,*
- *Business Development,*
- *National Wholesale Services,*
- *International Wholesale & Broadband Services,*
- *International Affairs,*
- *International Legal Affairs,*

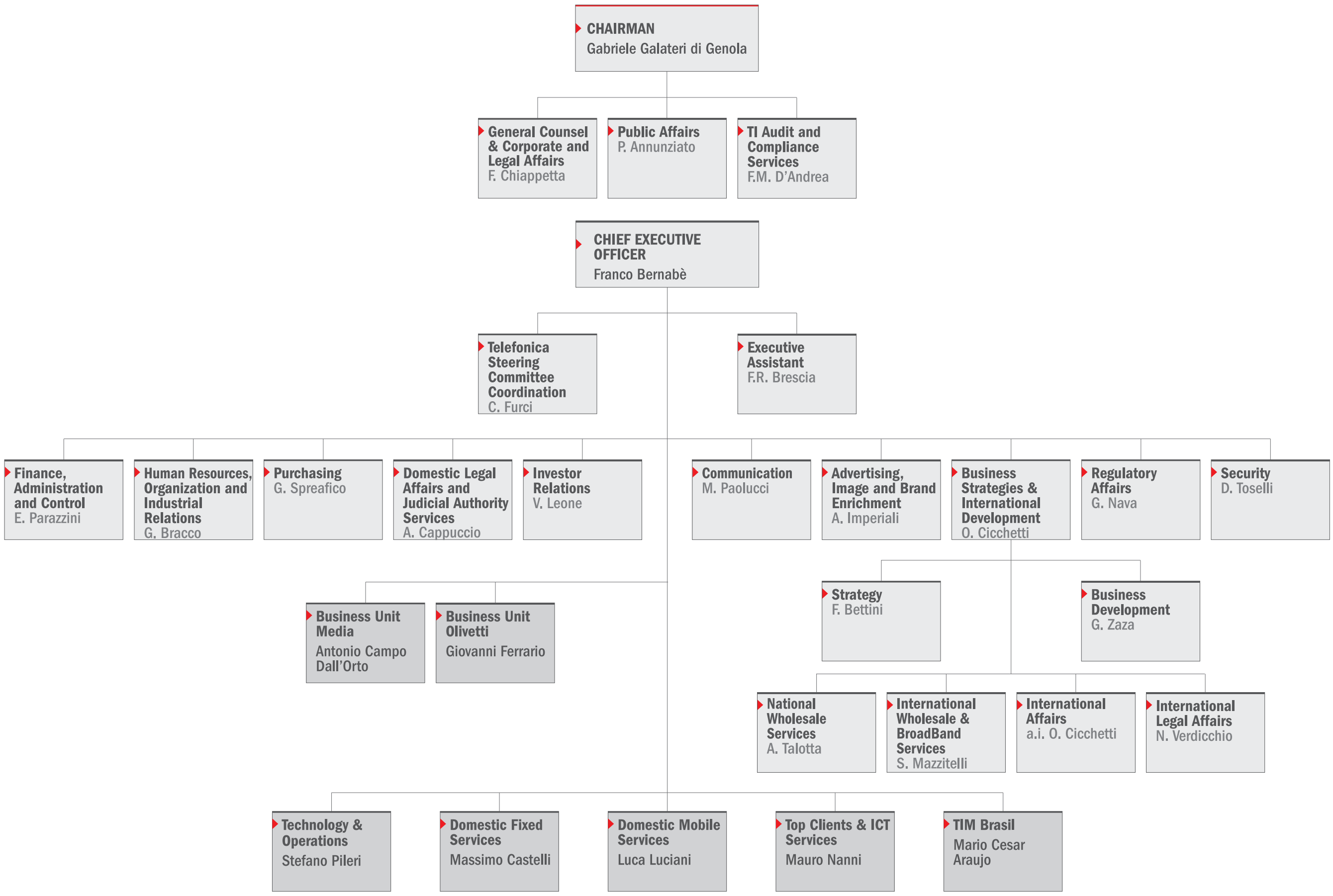
and their organization structure and related responsibilities have remained unchanged.

– creation, on February 13, 2008, of the *Technology & Operations Department*, which is responsibility for guaranteeing the technological innovation of the Group and ensuring the integrated control of the development, implementation and operation of the network, property and installation infrastructures and information technology, as well as the processes of delivery and assurance of services to the clientele;

– on February 21, 2008 the *Business Management & Intellectual Property Rights* function was eliminated and the activities relating to control of IPR issues and patent production and exploitation was transferred to the Technology & Operations Department;

– creation, on February 21, 2008, of the position of Executive Assistant to the CEO.

The new operational structure:



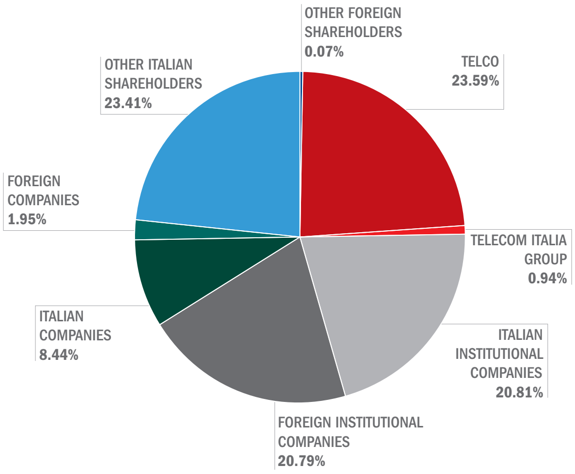
Information for investors

Telecom Italia S.p.A. Share capital at December 31, 2007

Share capital (issued)	euro 10,673,793,335.70
Number of ordinary shares (par value of euro 0.55 each)	13,380,776,313
Number of savings shares (par value of euro 0.55 each)	6,026,120,661
Number of Telecom Italia ordinary treasury shares	1,272,014
Number of Telecom Italia ordinary shares held by Telecom Italia Finance	124,544,373
Percentage of treasury shares held by the Group to share capital	0.64%
Market capitalization (based on December 2007 average prices)	euro 39,345 million

Shareholders

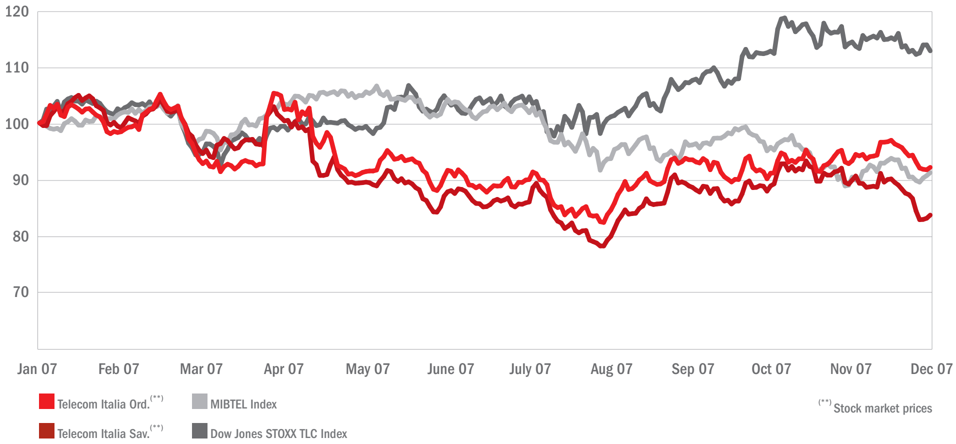
Composition of Telecom Italia S.p.A. shareholders according to the Shareholders Book at December 31, 2006, supplemented by communications received and other sources of information (ordinary shares)



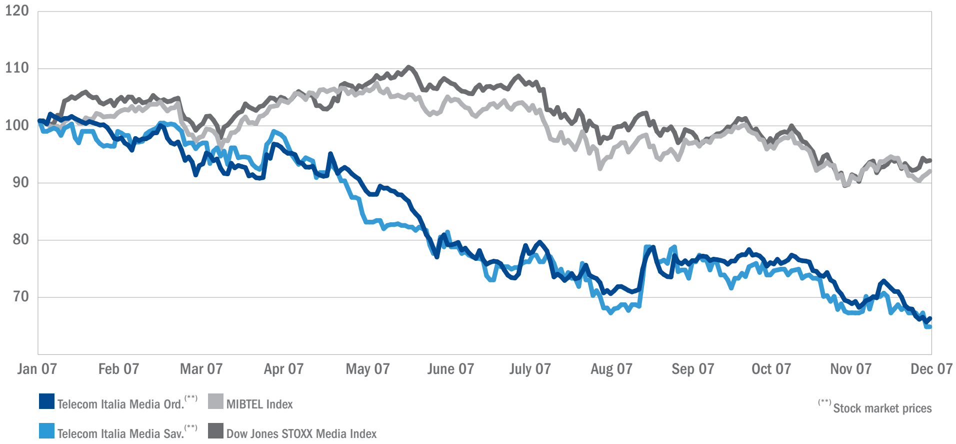
On April 28, 2007, Pirelli & C. S.p.A., Sintonia S.p.A. and Sintonia S.A. announced that they had reached an agreement with leading financial institutional investors and industrial operators for the sale of 100% of the share capital of Olimpia S.p.A., a company 80%-owned by Pirelli & C. S.p.A. and 20%-owned together by Sintonia S.p.A. and Sintonia S.A..
The acquisition was executed on October 25, 2007 by a vehicle company, Telco S.p.A., to which Telecom Italia ordinary shares equal to 5.6% of the class of shares were conferred on that same date by Mediobanca S.p.A. and companies of the Generali Group. The total investment held by Telco S.p.A. is therefore currently equal to 23.59% of Telecom Italia ordinary share capital, of which 17.99% through Olimpia S.p.A. later merged in Telco S.p.A..
Telco S.p.A. is held by Generali Group (28.1%), Intesa San Paolo S.p.A. (10.6%), Mediobanca S.p.A. (10.6%), Sintonia S.A. (8.4%) and Telefonica S.A. (42.3%).

Performance of the stocks of the major companies in the Telecom Italia Group (*)

Relative performance Telecom Italia S.p.A. 1.1.2007-12.31.2007 vs. MIBTEL and DJ Stoxx TLC Indexes
(Source: Reuters)



Relative performance Telecom Italia Media S.p.A. 01.01.2007-12.31.2007 vs. MIBTEL and DJ Stoxx Media Indexes
(Source: Reuters)



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

Ratings at December 31, 2007

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

Standard&Poor's, on March 13, 2007, confirmed its rating of Telecom Italia of BBB+ with a negative outlook.

Moody's, on March 12, 2007, although confirming its rating of Baa2 changed the outlook on the Group's debt from stable to negative.

Fitch Ratings, on March 15, 2007, confirmed its rating of BBB+ with a stable outlook.

Financial ratios

(euro)	2007	2006	2005
Telecom Italia S.p.A.			
Stock prices (December average)			
– Ordinary	2.18	2.28	2.44
– Savings	1.68	1.94	2.08
Dividends per share			
– Ordinary	0.08	0.1400	0.1400
– Savings	0.091	0.1510	0.1510
Pay Out Ratio (*)	87%	69%	72%
Market to Book Value	1.67	1.72	2.06
Dividend Yield (based on December average)			
– Ordinary	3.67%	6.14%	5.74%
– Savings	5.42%	7.78%	7.26%

	2007	2006	2005
Telecom Italia Group			
Basic earnings per share - ordinary shares	0.12	0.15	0.17
Basic earnings per share - savings shares	0.13	0.16	0.18

(*) In 2007 the ratio is calculated on the basis of the resolutions for the distribution of net income proposed in the shareholders' meeting on April 14, 2008.

Selected operating and financial data - Telecom Italia Group

The operating and financial results of the Telecom Italia Group for the year 2007 and the prior years presented for comparison have been prepared in accordance with International Accounting Standards issued by the International Accounting Standards Board ("IFRS") and endorsed by the European Union.

In 2007, the scope of consolidation shows the following principal variations compared to the annual consolidated financial statements at December 31, 2006:

– inclusion of the AOL internet businesses in Germany (consolidated from March 1, 2007 and later merged in and with HanseNet Telekommunikation GmbH) and InterNLnet B.V. (a Dutch company acquired from BBNed in July 2007);
– inclusion of the company Shared Service Center (consolidated line-by-line from October 2007) following the acquisition of control by the Parent in the last quarter of 2007. Previously the company was accounted for in the financial statements using the equity method;
– exclusion of Digitel Venezuela (sold in May 2006), which was already classified in Discontinued operations/Non-current assets held for sale, 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, Discontinued operations/Non-current assets held for sale had included the investments held in Solpart Participações and Brasil Telecom Participações following the decision to proceed with the disposal of these holdings, which were sold during 2007.

Segment information

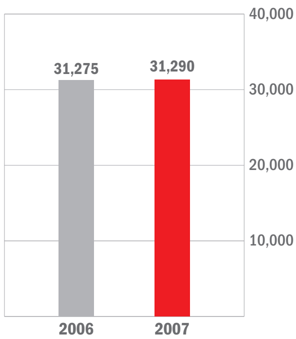
Starting from the first quarter of 2007, the disclosure of segment information has been modified to reflect the organizational structure in effect from January 22, 2007. The new structure aims to ensure greater operational flexibility and facilitate the convergence among the various areas of business (fixed communications, mobile communications, broadband internet and media content). The accounting representation is the following:

– Domestic
– European BroadBand
– Brazil Mobile
– Media
– Olivetti
– Other operations

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

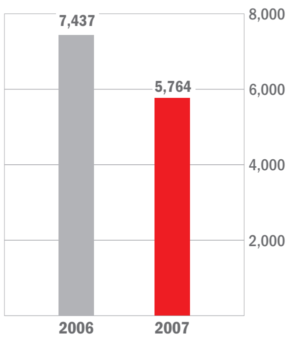
	2007	2006	2005	2004
Consolidated Operating and Financial Data (millions of euro)				
Revenues	31,290	31,275	29,919	28,292
EBITDA (*)	11,617	12,850	12,517	12,864
EBIT (*)	5,764	7,437	7,499	7,603
Profit before tax from continuing operations	4,101	5,515	5,535	5,606
Profit from continuing operations	2,419	2,996	3,140	2,952
Profit (loss) from discontinued operations/non-current assets held for sale	36	7	550	(118)
Profit for the year	2,455	3,003	3,690	2,834
Profit attributable to the equity holders of the Parent	2,448	3,014	3,216	1,815
Capital expenditures:				
– Industrial	5,520	5,114	5,173	5,002
– Financial	635	206	14,934	868

Revenues (millions of euro)



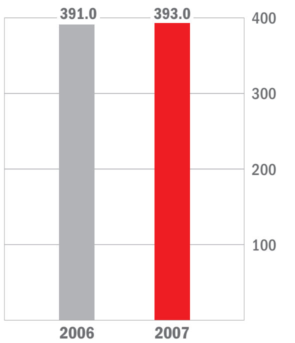
	12/31/07	12/31/06	12/31/05	12/31/04 restated(°)
Consolidated Balance Sheet Data (millions of euro)				
Total assets	87,425	89,457	96,010	81,997
Total equity	26,985	27,098	26,985	20,798
– attributable to the equity holders of the Parent	25,922	26,018	25,662	16,248
– attributable to the Minority Interest	1,063	1,080	1,323	4,550
Total liabilities	60,440	62,359	69,025	61,199
Total equity and liabilities	87,425	89,457	96,010	81,997
Share capital	10,605	10,605	10,599	8,809
Net financial debt	35,701	37,301	39,858	32,862
Debt Ratio (Net financial debt/Net invested capital(1))	57.0%	57.9%	59.6%	61.2%
Headcount, number in the Group at year-end(2)				
Headcount (excluding headcount relating to discontinued operations/non-current assets held for sale)	83,429	83,209	85,484	82,620
Headcount relating to discontinued operations/non-current assets held for sale	–	–	1,047	11,402

EBIT (millions of euro)



	2007	2006	2005	2004
Headcount, average number in the Group(2)				
Headcount (excluding headcount relating to discontinued operations/non-current assets held for sale)	79,628	79,993	79,869	79,602
Headcount relating to discontinued operations/non-current assets held for sale	–	279	4,478	11,248

Revenues/Employees (thousands of euro)



Consolidated Profit Ratios				
EBITDA(*)/Revenues	37.1%	41.1%	41.8%	45.5%
EBIT(*)/Revenues (ROS)	18.4%	23.8%	25.1%	26.9%
Net financial debt/EBITDA(*)	3.1	2.9	3.2	2.6
Revenues/Headcount (average number in the Group, thousands of euro)	393.0	391.0	374.6	355.4
EBITDA(*)/Headcount (average number in the Group, thousands of euro)	145.9	160.6	156.7	161.6

(°) The data at 12/31/2004 has been restated for purposes of comparison by considering the following companies as discontinued operations: Finsiel group, Digitel Venezuela, Entel Chile group, Tim Hellas, Tim Perù and Gruppo Buffetti.
(*) Details are provided in the section "Alternative performance indicators".
(1) Net invested capital = Total equity + Net financial debt.
(2) The number includes persons with temp work contracts.

Alternative performance measures

In this Report on Operation, in the consolidated financial statements of the Telecom Italia Group and in the separate financial statements of the Parent, Telecom Italia S.p.A. for the years ended December 31, 2007 and 2006, in addition to the conventional financial performance measures established by IFRS, certain alternative performance measures are presented for purposes of a better understanding of the trend of operations and the financial condition. Such measures, which are also presented in the Report on Operations in other periodical reports, however, should not be considered as a substitute for those 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 the Parent, Telecom Italia S.p.A., in addition to **EBIT**. These measures are calculated as follow:

Profit before tax from continuing operations

+	Finance expenses
–	Finance income
+/–	Share of losses (profits) of associates and joint ventures accounted for using the equity method (*)

EBIT - operating profit

+/–	Impairment losses (reversals) on non-current assets
+/–	Losses (gains) on disposals of non-current assets
+	Depreciation and amortization

EBITDA (Operating profit before depreciation and amortization, Capital gains (losses) realized and Impairment reversals (losses) on non-current assets)

(*) Line in consolidated financial statements only.

- **Organic change in Revenues, EBITDA and EBIT.** These measures express 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 believes that the presentation of such additional information allows for a more complete and effective understanding of the operating performance of the Group (as a whole and at the level of the Business Units) and the Parent. The organic change in Revenues, EBITDA and EBIT is also used in presentations to analysts and investors. Details and a graphic representation of the economic amounts used to arrive at the organic change are provided in this Report as well as an analysis of the major non-organic components for the years 2007 and 2006.

- **Net financial debt:** Telecom Italia believes that 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. Two schedules are presented in this Report that show the amounts taken from the balance sheet and used to calculate the Net Financial Debt of the Group and the Parent, respectively.

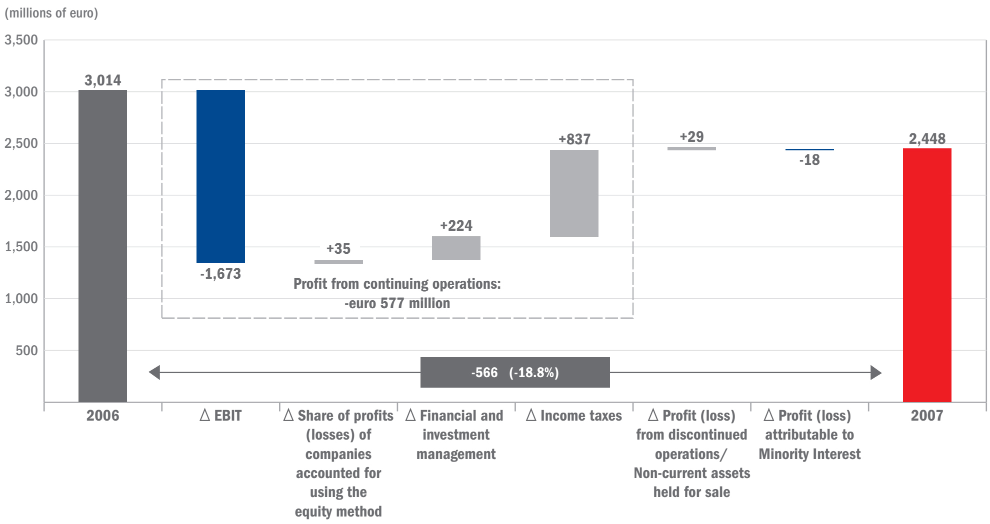
Comments on operating and financial performance - Telecom Italia Group

Profit attributable to the equity holders of the Parent is euro 2,448 million (euro 2,455 million before profit attributable to Minority Interest); in 2006 Profit attributable to the equity holders of the Parent was euro 3,014 million (euro 3,003 million before the loss attributable to Minority Interest).

Briefly, the reduction in the profit attributable to the equity holders of the Parent compared to 2006 can be analyzed as follows:

- lower *operating profit*, euro 1,673 million;
- higher *share of profits (losses) of associates and joint ventures accounted for using the equity method*, euro 35 million;
- lower *finance expenses*, net of finance income, euro 224 million;
- lower *income tax expenses*, euro 837 million;
- higher *profit from Discontinued operations/Non-current assets held for sale*, euro 29 million;
- higher *profit attributable to Minority Interest*, euro 18 million.

The following chart summarizes the main items which had an impact on the profit attributable to the equity holders of the Parent in 2007:



CONSOLIDATED INCOME STATEMENTS

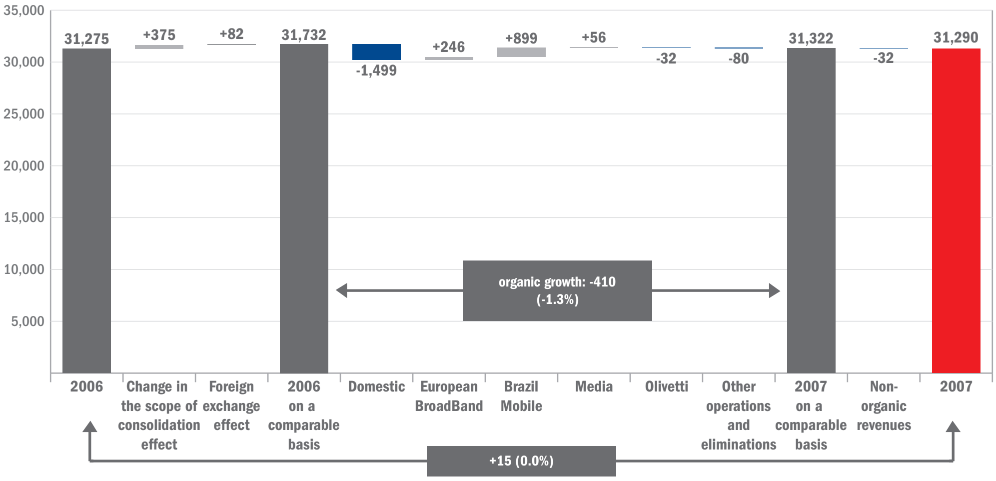
(millions of euro)	Year 2007 (a)	Year 2006 (b)	Change (a-b)	%
Revenues	31,290	31,275	15	0.0
Other income	413	606	(193)	(31.8)
Total operating revenues and other income	**31,703**	**31,881**	**(178)**	**(0.6)**
Acquisition of goods and services	(14,545)	(14,191)	(354)	2.5
Employee benefits expenses	(3,884)	(3,801)	(83)	2.2
Other operating expenses	(2,245)	(1,543)	(702)	45.5
Changes in inventories	11	8	3	37.5
Internally generated assets	577	496	81	16.3
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS (EBITDA)	**11,617**	**12,850**	**(1,233)**	**(9.6)**
Depreciation and amortization	(5,811)	(5,487)	(324)	5.9
Gains (losses) on disposals of non-current assets (1)	5	95	(90)	(94.7)
Impairment reversals (losses) on non-current assets	(47)	(21)	(26)	123.8
OPERATING PROFIT (EBIT)	**5,764**	**7,437**	**(1,673)**	**(22.5)**
Share of profits (losses) of associates and joint ventures accounted for using the equity method	86	51	35	68.6
Finance income	3,345	3,041	304	10.0
Finance expenses	(5,094)	(5,014)	(80)	1.6
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS	**4,101**	**5,515**	**(1,414)**	**(25.6)**
Income tax expense	(1,682)	(2,519)	837	(33.2)
PROFIT FROM CONTINUING OPERATIONS	**2,419**	**2,996**	**(577)**	**(19.3)**
Profit (loss) from Discontinued operations/Non-current assets held for sale	36	7	29	°
PROFIT FOR THE YEAR	**2,455**	**3,003**	**(548)**	**(18.2)**
of which:				
– Profit attributable to equity holders of the Parent	**2,448**	**3,014**	**(566)**	**(18.8)**
– Profit (loss) attributable to Minority Interest	7	(11)	18	°

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

Revenues in 2007 amount to euro 31,290 million, a figure basically unchanged compared to euro 31,275 million in 2006 (+euro 15 million). The organic change in revenues is equal to -1.3% (-euro 410 million) and is calculated by:

- excluding the effect of the change in the scope of consolidation (+euro 375 million mainly in reference to the inclusion of the AOL internet businesses in Germany);
- excluding the effect of exchange differences (+euro 82 million, being the balance between the positive exchange differences of the Brazil Mobile Business Unit of euro 127 million and the negative exchange differences of the Domestic and Olivetti Business Units and Entel Bolivia of euro 45 million);
- excluding the reduction in revenues of euro 32 million recorded to take into account the changes in the termination rates of voice calls on the networks of other fixed and mobile telephone operators.

The following chart summarizes the changes in revenues in the years under comparison:



As for the organic change in revenues, the main trends are analyzed below by Business Unit. The **Domestic** Business Unit shows a reduction in revenues of euro 1,499 million, which was partially influenced by the following effects of "regulatory changes":

- change in the fixed-mobile termination rates which took place in the second half of 2006, with a negative impact of euro 209 million;
- application of the Bersani Decree starting from March 2007, the effect of which is estimated at euro 404 million in lower revenues, which is already net of euro 226 million due to the impact of flexibility (impact of higher traffic volumes as a result of the reduction in average price rate pressure owing to the elimination of top-up charges without increasing the minute rate);
- rate adjustments for international roaming traffic within the EU, in accordance with the decisions of the European Commission (-euro 88 million);
- change, as a result of which, starting on January 1, 2007 pursuant to the Resolution by the Italian Communications Authority ("AGCom") 417/06/CONS relating to calls by customers to non-geographical numbers (NGN) of Other Operators (OLO), Telecom Italia only provides invoicing services, no longer assuming the risk of insolvency on the relative receivables. Therefore, starting from that date, the revenues and related interconnection costs do not take into account the traffic generated by such calls, which in 2006 had been recognized as revenues for a total amount of euro 442 million with the recognition of the same amount of costs.

Overall, compared to 2006, these regulatory changes generated an impact of euro 1,143 million. Beside the effects mentioned above:

- in fixed telecommunications, the increase in Internet revenues as a result of the continual and strong growth of Broadband and national Wholesale services, mainly in reference to regulated services, all the same did not compensate the contraction in Retail Telephone revenues, particularly in access and traffic. This contraction, chiefly recorded on fixed-mobile and national traffic, was generated by the migration of volumes from the fixed to the mobile network, the reduction of termination rates and higher penetration of flat rates. Data Business revenues are also down due to ever-fiercer competition on the Corporate client market and the revision of contract prices with the Public Administration. A contraction is also recorded in international Wholesale services owing to the reduction in transit revenues generated by the termination of some contracts;

- in mobile telecommunications, there is a positive trend in value-added service revenues, particularly interactive services and mobile broadband, countered by the effects of the application of the new termination rates, the Bersani decree and the adjustment of international roaming traffic rates.

The **European Broadband** Business Unit contributed to the change in revenues with a higher amount of euro 246 million, thanks to the positive growth of the customer portfolio in Germany and France.

Growth of the **Brazil Mobile** Business Unit (+euro 899 million) is driven by the expansion of voice and value-added services supported by the continual increase of the client base. In the month of July 2006, regulatory changes occurred (abolition of the “Bill and Keep” rule) which generated a positive impact on revenues in 2007 equal to euro 675 million (euro 262 million being the impact from July to December 2006).

The **Media** Business Unit shows an increase in revenues of euro 56 million, reflecting higher advertising compared to 2006 and an increase in revenues from Digital Terrestrial activities.

The **Olivetti** Business Unit shows a decrease in revenues (-euro 32 million), principally due to a reduction in the sales of traditional ink-jet products and accessories and the Gaming area.

Revenues from telecommunications services are presented gross of the amount of revenues due to other operators, equal to euro 5,274 million (euro 5,721 million in 2006). The reduction of euro 447 million is due, among other things, to the aforementioned change relating to Non-Geographical Numbering and the end of certain international wholesale contracts, countered by the increase connected with the changes in the termination rates of voice calls on the networks of other fixed and mobile operators.

Foreign revenues amount to euro 9,164 million (euro 7,969 million in 2006); 53.0% of foreign revenues is localized in Brazil (49.3% in 2006).

(millions of euro)		2007 (a)	2006 (b)	Change (a - b)
Italy	**(A)**	**22,126**	**23,306**	**(1,180)**
Other European countries		3,083	2,946	137
Latin America		5,223	4,220	1,003
Other countries		858	803	55
Total outside Italy	**(B)**	**9,164**	**7,969**	**1,195**
Total	**(A+B)**	**31,290**	**31.275**	**15**

Other income is euro 413 million (euro 606 million in 2006) and comprises:

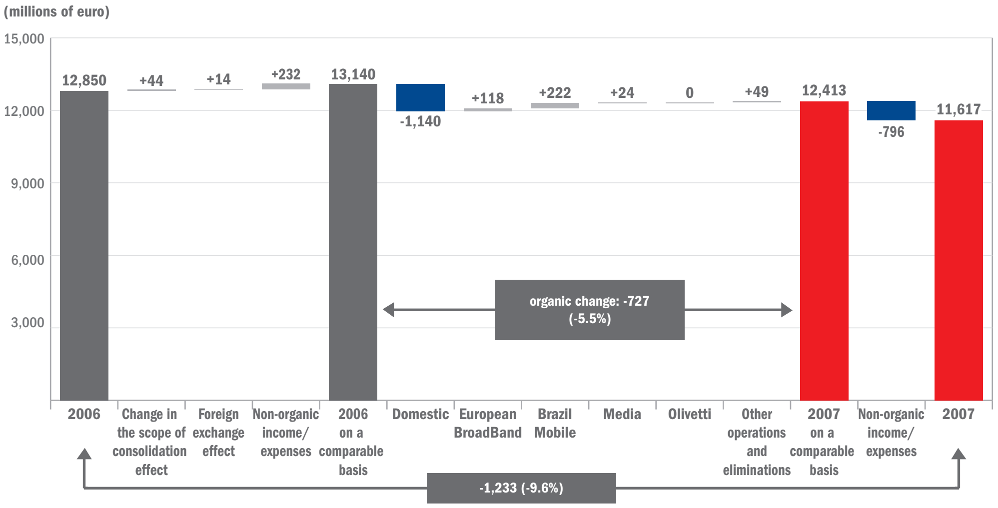
(millions of euro)	2007 (a)	2006 (b)	Change (a - b)
Late payment fees charged for regulated telephone services	90	91	(1)
Release of provision and liability items	74	179	(105)
Recovery of costs of personnel and services rendered	54	60	(6)
Capital and operating grants	34	42	(8)
Damage and penalty compensation	50	52	(2)
Sundry income	111	182	(71)
Total	**413**	**606**	**(193)**

EBITDA is euro 11,617 million and decreased by euro 1,233 million (-9.6%) compared to 2006. The organic change in EBITDA is a negative 5.5% (-euro 727 million) and is calculated as follows:

(millions of euro)	2007 (a)	2006 (b)	Change (a-b)	%
HISTORICAL EBITDA	**11,617**	**12,850**	**(1,233)**	**(9.6)**
Effect of change in scope of consolidation		**44**		
Effect of change in exchange rates		**14**		
Non-organic (income) expenses	**796**	**232**		
Non-recurring expenses:	43	28		
Corporate restructuring costs	*–*	*13*		
Industrial reconversion expenses	*17*	*13*		
Antitrust fine	*20*	*2*		
Other	*6*	*–*		
Other non-organic expenses:	753	204		
Restructuring costs	*177*	*107*		
Disputes and settlements with other operators	*448*	*61*		
Costs to adjust (fixed-fixed) termination rate list	*92*	*24*		
Other expenses, net	*36*	*12*		
COMPARABLE EBITDA	**12,413**	**13,140**	**(727)**	**(5.5)**

The percentage of EBITDA to revenues went from 41.1% in 2006 to 37.1% in 2007.
At the organic level, the percentage of EBITDA to revenues is 39.6% in 2007 (41.4% in 2006).

The following chart summarizes the major changes in **EBITDA**:



In greater detail, in addition to the negative effects, described earlier under Revenues, as a result of the application of the Bersani Decree, the change in termination rates (-euro 54 million) and the rate adjustment for international roaming traffic (-euro 29 million), EBITDA in 2007 is impacted by the following:

- **acquisition of goods and services**, euro 14,545 million, with an increase of euro 354 million (+2.5%) compared to 2006 (euro 14,191 million). The aforementioned net reduction in amounts to be paid to other operators is offset by the increase in interconnection costs, particularly in the European BroadBand Business Unit, property lease installments and circuit rentals, selling and advertising expenses and the cost of the acquisition of equipment for resale. The percentage of the acquisition of goods and services to revenues is 46.5% (45.4% in 2006);
- **employee benefits expenses**, euro 3,884 million, with an increase of euro 83 million (2.2%) compared to 2006 (euro 3,801 million). The increase is attributable to employees in Italy for euro 2 million and to employees outside Italy for euro 81 million due partly to the inclusion of the AOL internet businesses in Germany.

In greater detail, the increase relating to employees in Italy is impacted by higher new minimum contract terms (euro 80 million for the increase starting from October 2006 for the two-year economic period 2005/2006, as established by the December 3, 2005 Agreement for the telecommunications collective national labor contract, and the increase starting from October 2007 for the two-year economic period 2007/2008, as established by the July 31, 2007 Agreement for the telecommunications collective national labor contract), higher expenses for termination benefit incentives (euro 80 million) and the inclusion in the scope of consolidation of the company Shared Service Center. These changes are offset by decreases relating to the profit bonus accrued in the second half of 2006 and no longer due following agreements reached with the unions in June 2007 supporting the alignment of the profit bonus of the Parent, Telecom Italia, and other Group companies with the payment criteria established for ex-Tim Italia (-euro 79 million). Other factors which contributed to the decrease are the positive effects on the actuarial calculation for employee benefits regarding the provision for employee severance indemnities owing to the application of the new law dealing with supplementary pension benefits (-euro 59 million) and a reduction in the average number of the salaried work force (2,262 people) of the Italian companies.

Headcount at December 31, 2007 is 83,429, with a breakdown as follows:

(number)	12/31/2007 (a)	12/31/2006 (b)	Change (a - b)
Italy	66,951	68,823	(1,872)
Outside Italy	16,478	14,386	2,092
Total headcount (1)	**83,429**	**83,209**	**220**

(1) Includes persons with temp work contracts: 1,972 at 12/31/2007 and 2,654 at 12/31/2006.

The increase in headcount of 220 people since December 31, 2006 is due to:
- the addition of 1,875 people following the acquisition of the AOL internet businesses in Germany (1,101), the controlling interest in Shared Service Center (670) and the Tecnosis business segment (+104) and the termination of 8 people subsequent to the disposal of the company Domus Academy;
- the hiring of 7,345 people: 1,709 in Italy and 5,636 outside Italy;
- the termination of 8,310 people: 4,063 in Italy and 4,247 outside Italy;
- the reduction of 682 people with temp work contracts.

- **other operating expenses**, euro 2,245 million (euro 1,543 million in 2006), can be analyzed as follows:

(millions of euro)	2007 (a)	2006 (b)	Change (a - b)
Impairments and expenses connected with non-financial receivables management	960	564	396
Accruals to provisions	323	107	216
Telecommunications fees and charges	283	236	47
Taxes on revenues of South American companies	266	222	44
Indirect duties and taxes	158	159	(1)
Penalties, compensation and administrative sanctions	60	49	11
Association dues and fees, donations, scholarships and traineeships	27	25	2
Other expenses	168	181	(13)
Total	**2,245**	**1,543**	**702**

The increase in other operating expenses in 2007 against 2006 mainly refers to the Domestic Business Unit and, to a lesser degree, to the Brazil Mobile Business Unit.
The following should be mentioned in particular:

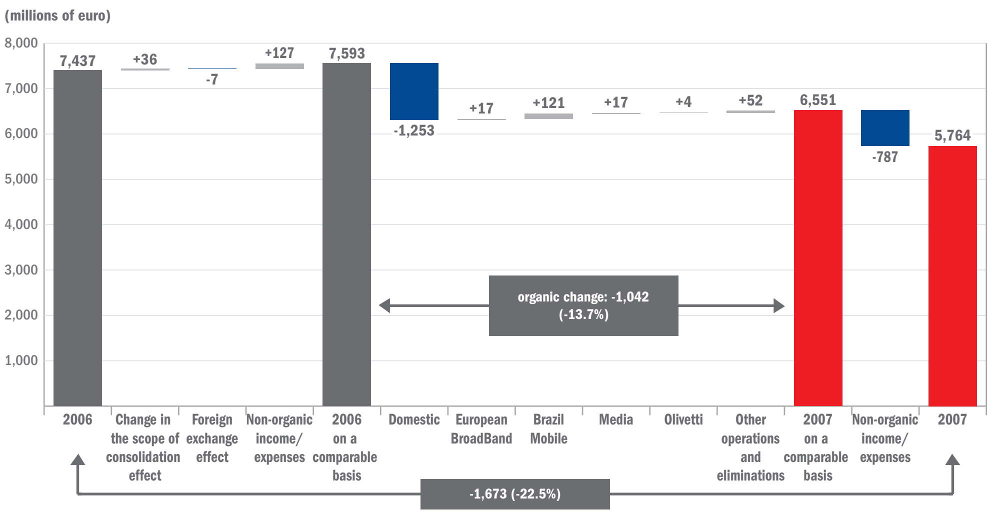
- higher impairment losses relating to the management of overdue receivables from mobile telephone customers with post-paid type contracts and uncollectible receivables due from fixed telephone customers where the contracts have been terminated as well as higher expenses connected with the management of receivables regarding settlements with other operators;
- higher accruals to provisions recorded in respect of the negative development on disputes of a regulatory nature with other fixed and mobile telephone operators occurring during the last few months of the year as well as a fine levied on Telecom Italia by the Antitrust Authority in August 2007 for alleged unfair trade practices.

EBIT amounts to euro 5,764 million, with a reduction of euro 1,673 million compared to 2006 (-22.5%). The organic change in EBIT is a negative euro 1,042 million (-13.7%) and is calculated as follows:

(millions of euro)	2007 (a)	2006 (b)	Change (a-b)	%
HISTORICAL EBIT	**5,764**	**7,437**	**(1,673)**	**(22.5)**
Effect of change in scope of consolidation		**36**		
Effect of change in exchange rates		**(7)**		
Non-organic (income) expenses	**787**	**127**		
Non-organic (income) expenses already described under EBITDA	796	232		
Additional non-recurring (income) expenses:	(4)	(120)		
Gains on sale of properties	*(10)*	*(135)*		
Gain on sale of Ruf Gestion	–	*(27)*		
Loss on sale of Telecom Italia Learning Services	–	*33*		
Loss on the sale of the “Radio-maritime” business	–	*9*		
Impairment losses for industrial reconversion	*6*	–		
Other non-organic (income) expenses:	(5)	15		
Other (gains) losses	–	*(3)*		
Other (income) expenses, net	*(5)*	*18*		
COMPARABLE EBIT	**6,551**	**7,593**	**(1,042)**	**(13.7)**

The percentage of EBIT to revenues went from 23.8% in 2006 to 18.4% in 2007. At the organic level, the percentage of EBIT to revenues is 20.9% (23.9% in 2006).

The following chart summarizes the changes in **EBIT**:



In greater detail, in addition to the comments made under EBITDA, EBIT is impacted by the following:

- **depreciation and amortization** of euro 5,811 million (euro 5,487 million in 2006), with an increase of euro 324 million. Specifically, the amortization of intangible assets shows an increase of euro 201 million mainly in connection with higher amortization charges of euro 176 million on capitalized SAC (Subscriber Acquisition Costs) and the effect of changes in exchange rates. The depreciation of tangible assets records an increase of euro 123 million chiefly in reference to domestic mobile telephone installations and European Broadband development;
- **gains on disposals of non-current assets** of euro 5 million (euro 95 million in 2006) include the release of a portion of the gain deferred at the time of the sale of the properties to Tiglio II (euro 10 million), as well as other net losses (euro 5 million). In 2006, this caption included euro 135 million for the gain, net of transaction costs, on the sale of properties to

the closed-end real estate investment funds Raissa and Spazio Industriale, 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 Radio-maritime business segment and euro 25 million of other net losses;

- **impairment losses on non-current assets** of euro 47 million (euro 21 million in 2006) include euro 23 million of writedowns on intangible assets and euro 24 million of writedowns on tangible assets referring to some software projects and unutilized equipment carried out by the Domestic Business Unit and Olivetti Business Unit.

The **share of profits (losses) of associates and joint ventures accounted for using the equity method** is a profit of euro 86 million (a profit of euro 51 million in 2006). The caption refers to:

(millions of euro)	2007 (a)	2006 (b)	Change (a - b)
ETECSA	49	47	2
Sofora Telecomunicaciones S.A.	25	3	22
Solpart Participações S.A.	-	1	(1)
Tiglio I and Tiglio II	11	(2)	13
Other	1	2	(1)
Total	**86**	**51**	**35**

The equity method of valuation of the investment in Sofora Telecomunicaciones S.A. includes the profit of the company in connection with its operations and the gain realized on sales of investment holdings.
The equity method of valuation of the investments in Tiglio I and Tiglio II includes the profit of the companies as a result of the gain realized on the sale of a building and the shares of the Tecla fund reduced in part by impairment losses taken on some buildings.

Finance income (expenses) show a net expense balance of euro 1,749 million (a net expense balance of euro 1,973 million in 2006). Details are as follows:

(millions of euro)	2007 (a)	2006 (b)	Change (a - b)
Financial management balance	(2,216)	(2,332)	116
Investment management	467	238	229
Avea I.H.A.S provisions released to income	-	121	(121)
Total	**(1,749)**	**(1,973)**	**224**

The balance of financial management is particularly affected by:

- the valuation at fair value of the call options on 50% of the share capital of Sofora Telecomunicaciones, with a positive adjustment of euro 70 million in 2007 (euro 30 million in 2006);
- the positive net effect (euro 55 million) of the closing of cash flow hedge derivatives following the early repayment of euro 1,500 million of underlying debt relating to the total euro 3,000 million Term Loan due 2010.

Investment management in 2007 particularly includes the gains, net of transaction costs, on the sale of the entire stakes held in Oger Telecom (euro 86 million), Capitalia (euro 38 million), Mediobanca (euro 109 million), Solpart Participações (euro 201 million) and Brasil Telecom Participações (euro 27 million).
Investment management in 2006 included the gains on the sale of all the shares held in Neuf Télécom (euro 148 million), the sale of AVEA I.H.A.S. (euro 72 million) and the simultaneous release of the remaining provisions set up for the sureties provided to banks and cancelled in the month of September 2006 (euro 121 million).

Income tax expense, relating to continuing operations, amounts to euro 1,682 million, with a reduction of euro 837 million compared to 2006. The reduction is not only due to a decrease in the taxable income but also to the recovery of withholding taxes on interest earned prior to January 1, 2004 in favor of the subsidiaries residing in the European Union. This was rendered possible by the issue of Decree Law 10 dated February 15, 2007 (converted with Law 46/2007) for a gross amount of euro 143 million on which taxes were calculated for euro 47 million, with a net positive impact of euro 96 million.

Profit (loss) from Discontinued operations/Non-current assets held for sale is a profit of euro 36 million as a result of the partial release of the provision set up in past years with regard to the sale of Tim Hellas (euro 40 million) and accruals and expenses connected with sales transactions carried out in 2006 and in prior years. In 2006, the profit from Discontinued operations/Non-current assets held for sale (euro 7 million) included the result and the gain on the sale of Digitel Venezuela and accruals made to provisions referring to sales transactions carried out in prior years.

CONSOLIDATED BALANCE SHEETS			
(millions of euro)	**31.12.2007** (a)	**31.12.2006** (b)	**Change** (a-b)
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Goodwill	44,420	43,739	681
Intangible assets with a finite useful life	6,985	6,740	245
	51,405	50,479	926
Tangible assets			
Property, plant and equipment owned	15,484	15,690	(206)
Assets held under finance leases	1,450	1,525	(75)
	16,934	17,215	(281)
Other non-current assets			
Investments in associates and joint ventures accounted for using the equity method	484	488	(4)
Other investments	57	776	(719)
Securities, financial receivables and other non-current financial assets	695	691	4
Miscellaneous receivables and other non-current assets	866	871	(5)
Deferred tax assets	247	912	(665)
	2,349	3,738	(1,389)
TOTAL NON-CURRENT ASSETS (A)	**70,688**	**71,432**	**(744)**
CURRENT ASSETS			
Inventories	308	291	17
Trade and miscellaneous receivables and other current assets	9,088	8,748	340
Current income tax receivables	101	287	(186)
Securities	390	812	(422)
Financial receivables and other current financial assets	377	433	(56)
Cash and cash equivalents	6,473	7,219	(746)
Current assets sub-total	**16,737**	**17,790**	**(1,053)**
Discontinued operations/Non-current assets held for sale			
of a financial nature	–	–	–
of a non-financial nature	–	235	(235)
	–	235	(235)
TOTAL CURRENT ASSETS (B)	**16,737**	**18,025**	**(1,288)**
TOTAL ASSETS (A+B)	**87,425**	**89,457**	**(2,032)**
EQUITY AND LIABILITIES			
EQUITY			
Equity attributable to equity holders of the Parent	25,922	26,018	(96)
Equity attributable to Minority Interest	1,063	1,080	(17)
TOTAL EQUITY (C)	**26,985**	**27,098**	**(113)**
NON-CURRENT LIABILITIES			
Non-current financial liabilities	37,051	40,803	(3,752)
Employee benefits	1,151	1,262	(111)
Deferred tax liabilities	586	194	392
Provisions	903	775	128
Miscellaneous payables and other non-current liabilities	1,587	1,857	(270)
TOTAL NON-CURRENT LIABILITIES (D)	**41,278**	**44,891**	**(3,613)**
CURRENT LIABILITIES			
Current financial liabilities	6,585	5,653	932
Trade and miscellaneous payables and other current liabilities	12,380	11,596	784
Current income tax payables	197	219	(22)
Current liabilities sub-total	**19,162**	**17,468**	**1,694**
Liabilities directly associated with Discontinued operations/ Non-current assets held for sale			
of a financial nature	–	–	–
of a non-financial nature	–	–	–
	–	–	–
TOTAL CURRENT LIABILITIES (E)	**19,162**	**17,468**	**1,694**
TOTAL LIABILITIES (F=D+E)	**60,440**	**62,359**	**(1,919)**
TOTAL PATRIMONIO NETTO E PASSIVITÀ (C+F)	**87,425**	**89,457**	**(2,032)**

Assets, equal to euro 87,425 million at December 31, 2007 (euro 89,457 million at December 31, 2006), consist of non-current assets for euro 70,688 million and current assets for euro 16,737 million.

At December 31, 2006, Discontinued operations/Non-current assets held for sale amounted to euro 235 million and comprised the investments in Solpart Participações and Brasil Telecom Participações which were both sold during 2007.

Equity amounts to euro 26,985 million at December 31, 2007 (euro 27,098 million at December 31, 2006), of which euro 25,922 million is attributable to the equity holders of the Parent (euro 26,018 million at December 31, 2006) and euro 1,063 million attributable to Minority Interest (euro 1,080 million at December 31, 2006).

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

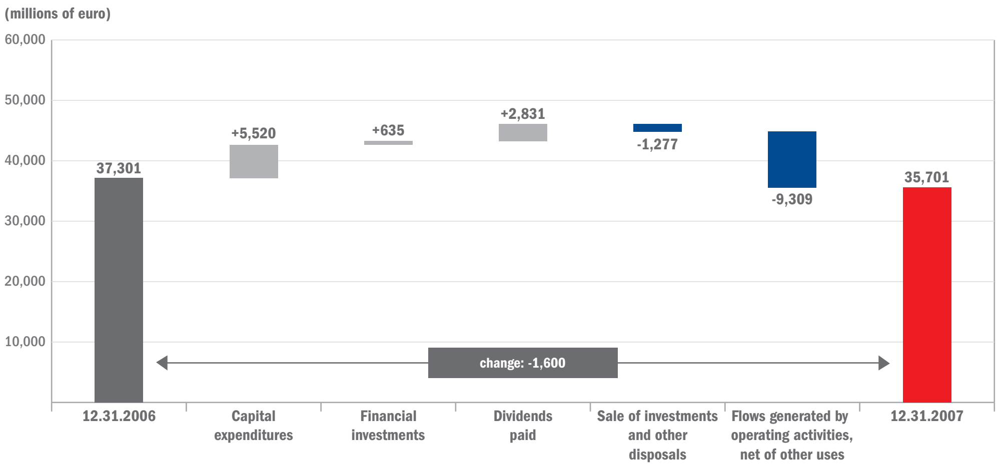
(millions of euro)	**2007**	**2006**
At the beginning of the year	**27,098**	**26,985**
Contribution by shareholders, bond conversions and stock options	2	24
Profit attributable to the equity holders of the Parent and Minority interest	2,455	3,003
Dividends declared by:	(2,840)	(3,002)
– *Telecom Italia S.p.A.*	*(2,766)*	*(2,766)*
– *Other Group companies*	*(74)*	*(236)*
Translation differences, changes in the scope of consolidation and other changes	270	88
At the end of the year	**26,985**	**27,098**

Specifically, "Translation differences, changes in the scope of consolidation and other changes", in 2007, include the positive effect of translation differences for euro 202 million, the positive impact of "Other gains (losses) taken directly to equity" for euro 74 million and other negative changes (euro 6 million).

Net financial debt amounts to euro 35,701 million at December 31, 2007, with a decrease of euro 1,600 million compared to euro 37,301 million at the end of 2006.

In the last quarter of 2007, net financial debt decreased by euro 1,742 million, from euro 37,443 million at September 30, 2007 to euro 35,701 million at December 31, 2007.

The following chart summarizes the main transactions which had an impact on the change in net financial debt during 2007:



In particular:
- **capital expenditures** amount to euro 5,520 million in 2007 and increased by euro 406 million (+7.9%) compared to 2006. Details are as follows:

(millions of euro)	2007 (a)	peso % sul total	2006 (b)	peso % sul total	Change (a - b)
Domestic	4,064	*73.6*	3,894	*76.1*	170
European BroadBand	508	*9.2*	467	*9.1*	41
Brazil Mobile	865	*15.7*	699	*13.7*	166
Media, Olivetti and Other Operations	93	*1.7*	116	*2.3*	(23)
Adjustments and eliminations	*(10)*	*(0.2)*	*(62)*	*(1.2)*	*52*
Total	**5,520**	***100***	**5,114**	***100***	**406**

More than 70% of capital expenditures is earmarked for the domestic business, particularly for the development of new services, the extension of the coverage of new technologies and the revamping of platforms and systems to support the business. About 16% is assigned to the expansion of the mobile business in Brazil while 10% of capital expenditures is used to sponsor the growth of the Broadband offering in France and Germany. The remaining percentage goes to support the operations of Olivetti, Telecom Italia Media and the Central Functions of Telecom Italia.

In greater detail, capital expenditures on **domestic fixed telephone** communications total euro 2,720 million. A significant part (about 36%) was set aside for the expansion of Broadband (ADSL expenditures for consumer and business offerings as well as closing the Digital Divide) and the development of New Services (IP-TV, new releases for new services/offerings, etc.). The remaining amount goes toward the support of network development (particularly the access network and the expansion of services, the latter also including international bandwidth offerings), support systems (Business Support Systems such as Billing, Revenue Assurance, Customer Care, Operational Support Systems) and for compliance.

Capital expenditures spent on **domestic mobile telephone** communications amount to euro 1,139 million, 45% of this amount is earmarked for UMTS development and Systems Development (particularly the development of the software necessary to launch new offerings and services). The remaining amount is for modernizing the network, supporting commercial policies as well as Subscriber Acquisition Costs.

Total capital expenditures for **European Broadband** are euro 508 million with about euro 340 million set aside for developing the offering in Germany and the remaining amount focusing on the French market (30%) and, to a limited degree, the investment in the Netherlands.

Regarding mobile telephone communications in Brazil, capital expenditures amount to euro 865 million. About 50% of this amount is earmarked for the expansion and maintenance of the network infrastructures and the development of information systems (compared to 2006 these include the launch of UMTS service and the support of new services/offerings). Approximately 25% of total expenditures is destined for the acquisition of handsets on loan and to support the offering.

- **financial investments** amount to euro 635 million in 2007 and refer to the acquisition of the AOL internet businesses in Germany;
- **sale of investments and other disposals** led to a reduction in debt of euro 1,277 million and relate to the following transactions:
  - investment in Oger Telecom, euro 462 million;
  - sale of the investment in Capitalia, euro 74 million;
  - sale of the investment in Mediobanca, euro 236 million;
  - sale of the investment in Solpart Participações, euro 360 million;
  - sale of the investment in Brasil Telecom Participações, euro 48 million;
  - disposal of other non-current assets, reimbursements of share capital and the distribution of dividends by associates for a total of euro 97 million.

Transactions for the sale of receivables to factoring companies concluded during 2007 had a positive effect on net financial debt at December 31, 2007 of euro 755 million (euro 1,499 million at December 31, 2006).

As required by Consob Communication DEM/6064293 dated July 28, 2006, the following table presents the net financial debt at December 31, 2007 and December 31, 2006 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 Commission regulation on disclosures” and also introduced by Consob itself. This table also includes the reconciliation of the 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 here in the Report on operations.

(millions of euro)		31.12.2007 (a)	31.12.2006 (b)	Change (a-b)
Non-current financial liabilities (*):				
Financial payables		33,299	37,391	(4,092)
Finance lease liabilities		1,809	1,847	(38)
Non-current liabilities for hedging derivatives		1,942	1,451	491
Other financial liabilities		1	114	(113)
	(1)	37,051	40,803	(3,752)
Less:				
Non-current financial receivables for lessors' net investments		*(279)*	*(229)*	*(50)*
Non-current assets for hedging derivatives		*(286)*	*(243)*	*(43)*
		(565)	*(472)*	*(93)*
TOTAL NON-CURRENT FINANCIAL LIABILITIES (*)	**(A)**	**36,486**	**40,331**	**(3,845)**
Current financial liabilities (*):				
Financial payables		5,943	5,143	800
Finance lease liabilities		262	269	(7)
Current liabilities for hedging and non-hedging derivatives		372	231	141
Other financial liabilities		8	10	(2)
	(2)	6,585	5,653	932
Less:				
Current financial receivables for lessors' net investments		*(149)*	*(148)*	*(1)*
Current assets for hedging derivatives		*(186)*	*(207)*	*21*
		(335)	*(355)*	*20*
TOTAL CURRENT FINANCIAL LIABILITIES (*)	**(B)**	**6,250**	**5,298**	**952**
Financial liabilities relating to Discontinued operations/ Non-current assets held for sale	**(C) (3)**	**–**	**–**	**–**
TOTAL GROSS FINANCIAL DEBT (*)	**(D=A+B+C)**	**42,736**	**45,629**	**(2,893)**
Current financial assets (*)				
Securities		(390)	(812)	422
Financial receivables and other current financial assets		(377)	(433)	56
Cash and cash equivalents		(6,473)	(7,219)	746
	(4)	(7,240)	(8,464)	1,224
Less:				
Current financial receivables for lessors' net investments		*149*	*148*	*1*
Current assets for hedging derivatives		*186*	*207*	*(21)*
		335	*355*	*(20)*
	(E)	**(6,905)**	**(8,109)**	**1,204**
Financial assets relating to Discontinued operations/ Non-current assets held for sale	**(F) (5)**	**–**	**–**	**–**
TOTAL CURRENT FINANCIAL ASSETS (*)	**(G=E+F)**	**(6,905)**	**(8,109)**	**1,204**
NET FINANCIAL DEBT AS OF CONSOB COMMUNICATION DEM/6064293/2006	**(H=D+G)**	**35,831**	**37,520**	**(1,689)**
Non-current financial assets (*)				
Securities other than investments		(9)	(12)	3
Financial receivables and other non-current financial assets		(686)	(679)	(7)
	(6)	(695)	(691)	(4)
Less:				
Non-current financial receivables for lessors' net investments		*279*	*229*	*50*
Non-current assets for hedging derivatives		*286*	*243*	*43*
		565	*472*	*93*
TOTAL NON-CURRENT FINANCIAL ASSETS (*) (°)	**(I)**	**(130)**	**(219)**	**89**
NET FINANCIAL DEBT	**(L=H+I)**	**35,701**	**37,301**	**(1,600)**
COMPOSITION OF NET FINANCIAL DEBT:				
Total gross financial debt:				
Non-current financial liabilities	(1)	37,051	40,803	(3,752)
Current financial liabilities	(2) + (3)	6,585	5,653	932
		43,636	**46,456**	**(2,820)**
Total gross financial assets:				
Non-current financial assets	(6)	(695)	(691)	(4)
Current financial assets	(4) + (5)	(7,240)	(8,464)	1,224
		(7,935)	**(9,155)**	**1,220**
		35,701	**37,301**	**(1,600)**

(*) Net of assets for hedging derivatives and financial receivables for lessors' net investments.
(°) In 2007 the item includes: low-rate loans made to employees (euro 67 million); loans made to Aree Urbane S.r.l. (euro 25 million) and securities other than investments (euro 9 million).

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

Bonds

Bonds at December 31, 2007 are carried for an amount of euro 31,562 million (euro 33,906 million at December 31, 2006). Instead, in terms of the nominal repayment amount, bonds total euro 30,712 million, with a decrease of euro 2,407 million compared to December 31, 2006 (euro 33,119 million) with the following breakdown: Telecom Italia S.p.A. euro 11,263 million, Telecom Italia Finance S.A. euro 10,890 million and Telecom Italia Capital S.A. euro 8,559 million.

Convertible bonds at December 31, 2007 are carried for an amount of euro 518 million (euro 489 million at December 31, 2006) 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 reference to **bonds**, the transactions described below took place during 2007:

1) New issues

- on June 7, 2007, Telecom Italia S.p.A. issued the following bonds under the euro 15 billion Euro Medium Term Note Programme:
  - bonds for euro 850 million with a quarterly coupon indexed to the 3-month Euribor plus a spread of 0.20%, maturing June 7, 2010, issued at 99.915%;
  - bonds for euro 400 million with a quarterly coupon indexed to the 3-month Euribor plus a spread of 0.79%, maturing June 7, 2016, issued at 100%;
- on July 19, 2007, Telecom Italia S.p.A. issued bonds under the Euro Medium Term Note Programme for euro 500 million at a floating rate indexed to the 3-month Euribor plus a spread of 0.63%, maturing July 19, 2013, issued at face value;
- Telecom Italia S.p.A. 2002-2022 bonds reserved for subscription by employees of the Group are equal to a nominal amount of euro 297 million at December 31, 2007 and increased during 2007 by euro 47 million (euro 250 million at December 31, 2006).

2) Repayments and conversions

The following bonds reached maturity and were duly repaid:

- **Telecom Italia S.p.A. 5.625% due 2007**: on February 1, 2007, Telecom Italia repaid the 5.625% coupon bonds of euro 1,250 million that had reached maturity;
- **Telecom Italia Finance S.A. 6.50% due 2007**: on April 24, 2007, Telecom Italia Finance S.A. repaid the 6.50% annual coupon bonds for euro 1,720 million (the originally issued amount of euro 1,750 million was reduced as a result of bonds repurchased on the market and later cancelled for euro 30 million).

Additional information is provided in the Note “Financial liabilities”.

Revolving Credit Facility

On January 15, 2007, euro 2 billion of the remaining syndicated Revolving Credit Facility (RCF) expiring in March 2007 was cancelled and at the same time the Revolving Credit Facility expiring in August 2012 was increased by the same amount. Subsequently, in August, the expiration date was extended by two years to the end of August 2014. The new amount of the credit line is therefore equal to euro 8 billion, of which euro 1.5 billion is drawn down.

The composition and the draw down of the syndicated committed credit line available at December 31, 2007 and represented by the Revolving Credit Facility for a total of euro 8 billion expiring August 2014 are presented as follows:

	Revolving Credit Facility expiring 2007		Revolving Credit Facility expiring 2014		TOTAL	
(billions of euro)	Agreed	Drawn down	Agreed	Drawn down	Agreed	Drawn down
Situation at 12/31/2006	2.0	–	6.0	1.5	8.0	1.5
Increase in the 2012 RCF facility and cancellation of the 2007 RCF commitment (January 2007) and extension of the RCF expiration date to 2014 (August 2007)	(2.0)	–	2.0	–	–	–
Situation 12/31/2007	–	–	8.0	1.5	8.0	1.5

In August 2007, besides the extension of the expiration date, a revision was made to the acquisition of control clause which guarantees that Telecom Italia will retain the credit line even subsequent to the change in its shareholders of reference.
The revisions were introduced without changing the advantageous economic conditions of the credit line (Euribor +0.225%) and allowed the average term of the availability of the revolving credit facility of euro 8 billion in committed bank lines to be extended, guaranteeing the maximum flexibility in terms of access to capital markets.
The change in the acquisition of control clause was also adopted in the documentation of the syndicated bank line (Term Loan) with a January 2010 expiration date.

With reference to the syndicated bank line expiring in January 2010 (euro 3,000 million at the end of 2006), it should be noted that in 2007 early repayments were made for a total of euro 1,500 million: the bank line is therefore still drawn down for a nominal amount of euro 1,500 million.

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

The average maturity of non-current financial liabilities is equal to 7.73 years.

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

(millions of euro)	maturing 12/31/: 2008 (3)	2009	2010	2011	2012	Beyond 2012	Total
Bonds	4,521	3,846	2,685	4,133	3,244	13,651	32,080
Loans and other financial liabilities	1,074	279	1,930	401	143	4,930	8,757
Finance lease liabilities	262	211	177	149	112	1,160	2,071
Total	**5,857**	**4,336**	**4,792**	**4,683**	**3,499**	**19,741**	**42,908**
Current financial liabilities	728						728
Total	**6,585**	**4,336**	**4,792**	**4,683**	**3,499**	**19,741**	**43,636**

(1) Carrying amounts take into account fair value adjustments and amortized cost.
(2) Financial commitments include accrued expenses and deferred income, of which euro 1 million is in non-current financial liabilities, euro 1,232 million in non-current financial liabilities maturing within 1 year and euro 17 million in other current financial liabilities.
(3) Of which euro 501.1 million matures on September 14, 2008 and refers to Telecom Italia Finance S.A. bonds with the right of the bondholders to extend the maturity date by 21 months; last maturity date is March 2012.

Maturities of financial liabilities – nominal repayment amount:

(millions of euro)	maturing 12/31/: 2008 (1)	2009	2010	2011	2012	Beyond 2012	Total
Bonds	3,588	3,820	2,748	4,109	3,250	13,771	31,286
Loans and other financial liabilities	802	279	1,931	392	142	4,960	8,506
Finance lease liabilities	244	211	177	149	112	1,160	2,053
Total	**4,634**	**4,310**	**4,856**	**4,650**	**3,504**	**19,891**	**41,845**
Current financial liabilities	707						707
Total	**5,341**	**4,310**	**4,856**	**4,650**	**3,504**	**19,891**	**42,552**

(1) Of which euro 499.7 million matures on September 14, 2008 and refers to Telecom Italia Finance S.A. bonds with the right of the bondholders to extend the maturity date by 21 months; last maturity date is March 2012.

Financial assets amount to euro 7,935 million, of which euro 7,240 million is classified as **current**. Such level of current assets, together with the total unused committed credit lines of euro 6.5 billion, permit an ample coverage of the estimated maturities.
Current financial assets decreased by euro 1,224 million compared to the end of 2006. This reduction is mainly due to the repayment of financial liabilities that became due and were not entirely covered by the new bond issues and the fact that the financial resources generated by the positive dynamics of operations were absorbed by the payment of dividends and financial investments.

Comments on operating and financial performance - Telecom Italia S.p.A.

INCOME STATEMENTS

(millions of euro)	2007	2006	Change (a - b)	%
Revenues	22,847	22,721	126	0.6
Other income	298	405	(107)	(26.4)
Total operating revenues and other income	**23,145**	**23,126**	**19**	**0.1**
Acquisition of goods and services	(9,471)	(9,180)	(291)	3.2
Employee benefits expenses	(3,112)	(3,004)	(108)	3.6
Other operating expenses	(1,260)	(751)	(509)	67.8
Changes in inventories	(27)	5	(32)	
Internally generated assets	455	414	41	9.9
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS (EBITDA)	**9,730**	**10,610**	**(880)**	**(8.3)**
Depreciation and amortization	(4,259)	(3,934)	(325)	8.3
Gains (losses) on disposals of non-current assets	1	110	(109)	(99.1)
Impairment reversals (losses) on non-current assets	(37)	(4)	(33)	°
OPERATING PROFIT (EBIT)	**5,435**	**6,782**	**(1,347)**	**(19.9)**
Finance income	1,360	2,883	(1,523)	(52.8)
Finance expenses	(3,269)	(3,415)	146	(4.3)
PROFIT BEFORE TAX	**3,526**	**6,250**	**(2,724)**	**(43.6)**
Income tax expense	(1,644)	(2,106)	462	(21.9)
PROFIT FOR THE YEAR	**1,882**	**4,144**	**(2,262)**	**(54.6)**

The Parent, **Telecom Italia S.p.A.**, reports a profit of euro 1,882 million in 2007, with a contraction of euro 2,262 million compared to 2006. It should be noted that the year 2006 benefited from both dividends from ex-Tim Italia relating to the year 2005 and paid in February 2006 (euro 1,923 million) and the direct conferral of ex-Tim Italia merged in Telecom Italia on February 28, 2006.

In greater detail, the decrease is basically due to the following factors:

- reduction in *operating profit* (-euro 1,347 million) attributable mainly to higher costs for the acquisition of goods and services (+euro 291 million), higher operating expenses (+euro 509 million) and higher depreciation and amortization (+euro 325 million);
- reduction in *net finance income* (-euro 1,377 million) principally on account of the above-mentioned distribution of dividends in 2006 by ex-Tim Italia;
- reduction in *income tax expense* (-euro 462 million) largely on account of a lower taxable base.

For purposes of a more meaningful comparison, the following table shows the results for the year 2007 compared to the 2006 restated figures, which assume the date of the merger of Tim Italia S.p.A. and Nuova Tin.it S.r.l. in Telecom Italia S.p.A. as from January 1, 2006. These companies had been merged in Telecom Italia S.p.A., respectively, on February 28, 2006 and October 1, 2006.

(millions of euro)	2007	2006 on a comparable basis	Change (a - b)	%
Revenues	22,847	23,977	(1,130)	(4.7)
Other income	298	435	(137)	(31.5)
Total operating revenues and other income	**23,145**	**24,412**	**(1,267)**	**(5.2)**
Acquisition of goods and services	(9,471)	(9,533)	62	(0.7)
Employee benefits expenses	(3,112)	(3,108)	(4)	0.1
Other operating expenses	(1,260)	(770)	(490)	63.6
Changes in inventories	(27)	33	(60)	
Internally generated assets	455	428	27	6.3
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS (EBITDA)	**9,730**	**11,462**	**(1,732)**	**(15.1)**
Depreciation and amortization	(4,259)	(4,167)	(92)	2.2
Gains (losses) on disposals of non-current assets	1	110	(109)	(99.1)
Impairment reversals (losses) on non-current assets	(37)	(5)	(32)	°
OPERATING PROFIT (EBIT)	**5,435**	**7,400**	**(1,965)**	**(26.6)**

Revenues, gross of the amounts due to other telecommunications operators, amount to euro 22,847 million and increased by euro 126 million (+0.6%) compared to 2006.

On a comparable basis, revenues in 2007 decreased by euro 1,130 million (-4.7%) compared to the 2006 restated figures (euro 23,977 million).

Revenues in 2007 are influenced by the effects of the following “regulatory changes”:

- change in the fixed-mobile termination rates which took place in the second half of 2006, with a negative impact of euro 209 million;
- application of the Bersani Decree starting from March 2007, the effect of which is estimated at euro 404 million in lower revenues, which is already net of approximately euro 226 million due to the positive impact of flexibility (impact of higher traffic volumes as a result of the reduction in average price rate pressure owing to the elimination of top-up charges without increasing the minute rate);
- rate adjustments for international roaming traffic within the EU, in accordance with the decisions of the European Commission (-euro 88 million).

Moreover, starting on January 1, 2007, pursuant to the Resolution by the Italian communications Authority (“AGCom”) 417/06/CONS, relating to calls by customers to the NGN (non-geographical numbers) of Other Operators (OLO), Telecom Italia only provides invoicing services, no longer assuming the risk of insolvency on the relative receivables. Therefore, starting from that date, the revenues and related interconnection costs do not take into account the traffic generated by such calls, which in 2006 had been recognized as revenues for a total amount of euro 442 million with the recognition of the same amount of costs.

The organic change in revenues is a negative 4.6% (-euro 1,098 million) and is calculated without considering the reduction in revenues of euro 32 million consequent to the changes in the termination rates of voice calls on the fixed and mobile networks of other operators.

EBITDA is euro 9,730 million and decreased by euro 880 million (-8.3%) compared to 2006. The percentage of EBITDA to revenues is 42.6% (46.7% in 2006).

On a comparable basis, EBITDA in 2007 decreased by euro 1,732 million (-15.1%) compared to 2006 (euro 11,462 million). The percentage of EBITDA to revenues is 42.6% (47.8% in 2006).

The organic change in EBITDA is a negative 10.0% (-euro 1,165 million) and is calculated as follows:

(millions of euro)	2007	2006 on a comparable basis	Change (a - b)	%
HISTORICAL EBITDA	**9,730**	**11,462**	**(1,732)**	**(15.1)**
Non-organic (income) expenses:	**762**	**195**		
Non-recurring expenses:	26	2		
Antitrust fine	*20*	*2*		
Other	*6*	*–*		
Other non-organic expenses:	736	193		
Restructuring costs	*162*	*96*		
Disputes and settlements with other operators	*448*	*61*		
Costs for termination rates (fixed-fixed) list adjustments	*92*	*24*		
Other (income) expenses net	*34*	*12*		
COMPARABLE EBITDA	**10,492**	**11,657**	**(1,165)**	**(10.0)**

At the organic level, the percentage of EBITDA to revenues is equal to 45.9% in 2007 (48.6% in 2006).

In greater detail, in addition to the negative effects of a regulatory nature, described earlier under revenues, as a result of the application of the Bersani Decree, the change in termination rates (-euro 54 million) and the rate adjustments for international roaming traffic (-euro 29 million), the following should be noted:

- **acquisition of goods and services**, euro 9,471 million, decreased by euro 62 million, compared to the 2006 restated figures. The decrease is mainly due to the reduction in amounts to be paid to other operators (as a result of the effect of the previously mentioned items relating to NGN, offset by lower revenues), absorbed in part by the increase of costs for the acquisition of raw materials and merchandise for resale, for advertising expenses and expenses for fees, commissions and other selling expenses. With regard to the amounts to be paid to other operators, the reduction in connection with the positions relating to NGN was only absorbed in part by the increase in the same amounts following the changes in the termination rates of voice calls on the fixed and mobile networks of other operators;
- **employee benefits expenses**, euro 3,112 million, increased by euro 4 million compared to the 2006 restated figures. The main reasons for the increase are the following: positive effect owing to the profit bonus (-euro 78 million) accrued in the second half of 2006 and no longer due following agreements reached with the unions in June 2007 supporting the alignment of the profit bonus of Telecom Italia with the payment criteria established for ex-Tim Italia; positive effect on the actuarial calculation for employee benefits regarding the provision for employee severance indemnities owing to the application of the new law dealing with supplementary pension benefits (-euro 51 million); higher expenses for termination benefit incentives (+euro 82 million); higher costs (+euro 77 million) connected with the increase in the new minimum contract terms, from October 2006 for the two-year economic period 2005/2006 and from October 2007 for the economic period 2007/2008;
- **other operating expenses**, euro 1,260 million, increased by euro 490 million compared to the 2006 restated figures. The increase is mainly due to higher accruals to the provision for bad debts (+euro 216 million) to cover risk positions resulting both from the increase in overdue mobile telephone receivables relating to post-paid contracts and the increase in receivables from fixed telephone customers where the contracts have been terminated (uncollectible receivables); higher losses due to settlements (+euro 75 million), mainly settlement agreements, reached with the operators Eutelia and Tele2; higher accruals to provisions (+euro 201 million) caused largely by negative developments in disputes of a regulatory nature with other fixed and mobile telephone operators occurring during the last few months of the year as well as the fine levied on Telecom Italia by the Antitrust Authority in August 2007 for alleged unfair trade practices;
- negative **changes in inventories** (-euro 60 million) are principally due to higher usage of materials in inventories in connection with promotional campaigns launched for fixed and mobile telephone equipment.

EBIT amounts to euro 5,435 million and decreased by euro 1,347 million (-19.9%) compared to 2006. The percentage of EBIT to revenues is 23.8% (29.8% in 2006).

On a comparable basis, EBIT in 2007 decreased by euro 1,965 million (-26.6%) compared to the 2006 restated figures. The percentage of EBIT to revenues is 23.8% (30.9% in 2006 restated figures).

The organic change in EBIT is a negative 17.0% (-euro 1,266 million) and is calculated as follows:

(millions of euro)	2007	2006 on a comparable basis	Change (a - b)	%
HISTORICAL EBIT	**5,435**	**7,400**	**(1,965)**	**(26.6)**
Non-organic (income) expenses:	**762**	**63**		
Non-organic (income) expenses already described under EBITDA	762	195		
Additional non-organic (income) expenses:	–	(132)		
Gains on sales of properties	–	*(141)*		
Loss on sale of Radio-maritime business	–	9		
COMPARABLE EBIT	**6,197**	**7,463**	**(1,266)**	**(17.0)**

At the organic level, the percentage of EBIT to revenues is 27.1% in 2007 (31.1% in 2006).

With regard to the components of EBIT, besides the comments made in respect of EBITDA, the following should be mentioned:

- **depreciation and amortization** increased by euro 92 million compared to the 2006 restated figures mainly due to higher depreciation charges on tangible assets (+euro 76 million) largely in reference to mobile telephone installations. The amortization of intangible assets increased by euro 15 million principally attributable to higher amortization charges on SAC (Subscriber Acquisition Costs) +euro 83 million, absorbed in part by the reduction in the amortization charge on software (-euro 63 million);
- **gains (losses) on disposals of non-current assets** decreased by euro 109 million compared to the 2006 restated figures since gains net of transaction costs had been recorded in 2006 on the transactions for the sale of properties to Olivetti Multiservices (euro 141 million);
- **impairment reversals (losses) on non-current assets** refer to impairment losses on non-current assets. These increased by euro 32 million principally due to the writedown of software projects and unutilized equipment (euro 25 million) as well as higher impairment losses on telephonic equipment in the process of being replaced with new high-tech apparatus (euro 7 million).

Finance income (expenses) record a net expense balance of euro 1,909 million which is a deterioration of euro 1,377 million compared to 2006. The balance is composed of finance income (euro 1,360 million) and finance expenses (euro 3,269 million).
The increase in net finance expenses is mainly due to:

- decrease in **investment income** (-euro 1,736 million) due mainly to the receipt of lower dividends (-euro 1,885 million) – the year 2006 had benefited from dividends from ex-Tim Italia relating to the year 2005 and paid in February 2006 (euro 1,923 million) – and compensated in part by the gains on the sale of non-current investments (euro 149 million) – mainly relating to Mediobanca shares (euro 109 million) and Capitalia shares (euro 38 million);
- lower **impairment losses on investments** (-euro 256 million) – in the year 2006 impairment losses had been recorded on the investments in Liberty Surf Group (euro 185 million) and Telecom Italia Finance (euro 89 million);
- higher **financial management balance** (+euro 149 million) owing primarily to the following factors:
  - net positive effect (euro 55 million) of the closing of cash flow hedge derivatives following the early repayment of euro 1,500 million of underlying debt relating to the total euro 3,000 million Term Loan due in 2010;
  - recovery of withholding taxes on interest earned prior to January 1, 2004 on loan contracts with Group companies residing in Europe (euro 143 million), rendered possible by the issue of Decree Law 10 dated February 15, 2007.

Income tax expense amounts to euro 1,644 million and decreased by euro 462 million compared to the year 2006 principally due to the reduction in the taxable base.

BALANCE SHEETS			
(millions of euro)	**31.12.2007**	**31.12.2006**	**Change**
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Goodwill	40,013	40,013	–
Intangible assets with a finite useful life	4,867	4,897	(30)
	44,880	44,910	(30)
Tangible assets			
Property, plant and equipment owned	12,208	12,476	(268)
Assets held under finance leases	1,442	1,512	(70)
	13,650	13,988	(338)
Other non-current assets			
Investments	11,199	10,913	286
Securities, financial receivables and other non-current financial assets	582	670	(88)
Miscellaneous receivables and other non-current assets	489	542	(53)
Deferred tax assets	122	714	(592)
	12,392	12,839	(447)
TOTAL NON-CURRENT ASSETS (A)	**70,922**	**71,737**	**(815)**
CURRENT ASSETS			
Inventories	98	125	(27)
Trade and miscellaneous receivables and other current assets	6,872	6,853	19
Current income tax receivables	37	258	(221)
Financial receivables and other current financial assets	244	266	(22)
Cash and cash equivalents	4,383	5,208	(825)
TOTAL CURRENT ASSETS (B)	**11,634**	**12,710**	**(1,076)**
TOTAL ASSETS (A+B)	**82,556**	**84,447**	**(1,891)**
EQUITY AND LIABILITIES			
EQUITY			
– Share capital issued	10,674	10,674	–
• less: treasury shares	(1)	(1)	–
– Share capital	10,673	10,673	–
– Reserves	7,928	7,935	(7)
– Retained earnings, including net income for the year	5,014	5,916	(902)
TOTAL EQUITY (C)	**23,615**	**24,524**	**(909)**
NON-CURRENT LIABILITIES			
Non-current financial liabilities	39,332	40,069	(737)
Employee benefits	1,040	1,143	(103)
Deferred tax liabilities	479	134	345
Provisions	738	646	92
Miscellaneous payables and other non-current liabilities	1,397	1,680	(283)
TOTAL NON-CURRENT LIABILITIES (D)	**42,986**	**43,672**	**(686)**
CURRENT LIABILITIES			
Current financial liabilities	6,019	6,690	(671)
Trade and miscellaneous payables and other current liabilities	9,833	9,436	397
Current income tax payables	103	125	(22)
TOTAL CURRENT LIABILITIES (E)	**15,955**	**16,251**	**(296)**
TOTAL LIABILITIES (F=D+E)	**58,941**	**59,923**	**(982)**
TOTAL EQUITY AND LIABILITIES (C+F)	**82,556**	**84,447**	**(1,891)**

Assets, equal to euro 82,556 million, decreased from December 31, 2006 by euro 1,891 million and consist of non-current assets for euro 70,922 million and current assets for euro 11,634 million.

Equity, equal to euro 23,615 million, decreased by euro 909 million compared to December 31, 2006 (euro 24,524 million). The changes in equity during 2007 and 2006 are reported as follows:

(millions of euro)	2007	2006
At the beginning of the year	**24,524**	**22,528**
Distribution of dividends	(2,783)	(2,783)
Share capital increase following conversion of “Telecom Italia 1.5% 2001 – 2010 convertible bonds with a repayment premium”	–	6
Share premium reserve increase following conversion of “Telecom Italia 1.5% 2001 – 2010 convertible bonds with a repayment premium” and exercise of stock options	–	20
Telecom Italia/Tim Italia merger surplus reserve	–	379
Appropriation of profit to legal reserve	–	181
Appropriation of profit to reserve ex lege 488/1992	–	100
Increase (decrease) in reserve for fair value adjustments of hedging instruments	162	172
Increase (decrease) in reserve for fair value adjustments of available-for-sale financial assets	(174)	63
Other changes	4	(286)
Profit for the year	1,882	4,144
At the end of the year	**23,615**	**24,524**

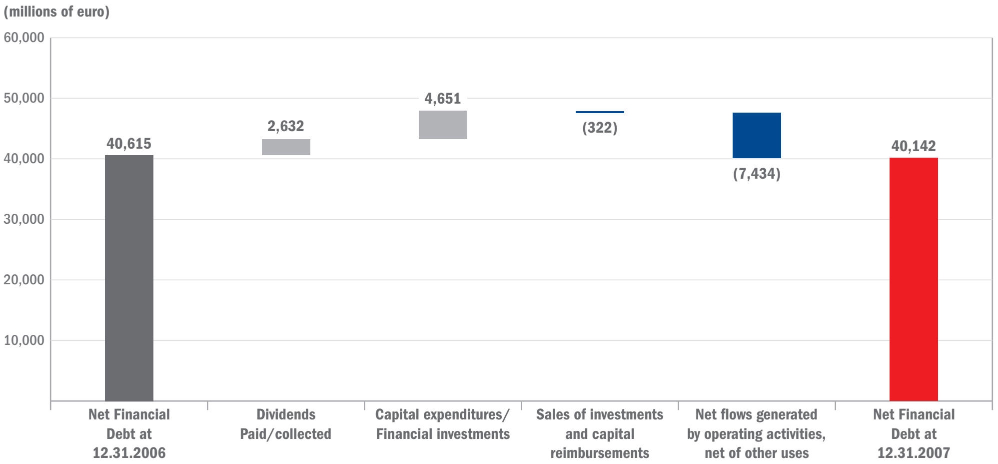
Net financial debt (euro 40,142 million) decreased by euro 473 million compared to December 31, 2006 (euro 40,615 million).

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

(millions of euro)		31.12.2007 (a)	31.12.2006 (b)	Change (a-b)
Non-current financial liabilities (*):				
Financial payables		36,791	37,466	(675)
Finance lease liabilities		1,778	1,823	(45)
Non-current liabilities for hedging derivatives		763	780	(17)
	(1)	39,332	40,069	(737)
Less:				
Non-current financial receivables for lessors' net investments		*(264)*	*(222)*	*(42)*
Non-current assets for hedging derivatives		*(95)*	*(156)*	*61*
		(359)	*(378)*	*19*
TOTAL NON-CURRENT FINANCIAL LIABILITIES (*)	**(A)**	**38,973**	**39,691**	**(718)**
Current financial liabilities (*):				
Financial payables		5,531	6,305	(774)
Finance lease liabilities		251	258	(7)
Current liabilities for hedging and non-hedging derivatives		229	118	111
Other financial liabilities		8	9	(1)
	(2)	6,019	6,690	(671)
Less:				
Current financial receivables for lessors' net investments		*(139)*	*(141)*	*2*
Current assets for hedging derivatives		*(80)*	*(91)*	*11*
		(219)	*(232)*	*13*
TOTAL CURRENT FINANCIAL LIABILITIES (*)	**(B)**	**5,800**	**6,458**	**(658)**
TOTAL GROSS FINANCIAL DEBT (*)	**(C=A+B)**	**44,773**	**46,149**	**(1,376)**
Current financial assets (*)				
Financial receivables and other current financial assets		(244)	(266)	22
Cash and cash equivalents		(4,383)	(5,208)	825
	(3)	(4,627)	(5,474)	847
Less:				
Current financial receivables for lessors' net investments		*139*	*141*	*(2)*
Current assets for hedging derivatives		*80*	*91*	*(11)*
		219	*232*	*(13)*
TOTAL CURRENT FINANCIAL ASSETS (*)	**(D)**	**(4,408)**	**(5,242)**	**834**
NET FINANCIAL DEBT AS OF CONSOB COMMUNICATION N. DEM/6064293/2006	**(E=C+D)**	**40,365**	**40,907**	**(542)**
Non-Current financial assets (*)				
Financial receivables and other non-current financial assets	(4)	(582)	(670)	88
Less:				
Non-current financial receivables for lessors' net investments		*264*	*222*	*42*
Non-current assets for hedging derivatives		*95*	*156*	*(61)*
		359	*378*	*(19)*
TOTAL NON-CURRENT FINANCIAL ASSETS (*) (°)	**(F)**	**(223)**	**(292)**	**69**
NET FINANCIAL DEBT	**(G=E+F)**	**40,142**	**40,615**	**(473)**
COMPOSITION OF NET FINANCIAL DEBT:				
Total gross financial debt:				
Non-current financial liabilities	(1)	39,332	40,069	(737)
Current financial liabilities	(2)	6,019	6,690	(671)
		45,351	**46,759**	**(1,408)**
Total gross financial assets:				
Non-current financial assets	(4)	(582)	(670)	88
Current financial assets	(3)	(4,627)	(5,474)	847
		(5,209)	**(6,144)**	**935**
		40,142	**40,615**	**(473)**

(*) Net of assets for hedging derivatives and financial receivables for lessors' net investments.
(°) In 2007 the item includes: low-rate loans made to employees (euro 62 million); loans made to Aree Urbane S.r.l. (euro 25 million) and loans made to Telecom Italia Group companies (euro 111 million).

The following chart summarizes the main items which had an impact on the change in net financial debt during 2007.



In particular:

- dividends paid amount to euro 2,783 million. Dividends collected from Group companies total euro 151 million and include dividends received from Telecom Italia Sparkle for euro 99 million;
- Capital expenditures and financial investments mainly refer to intangible assets (euro 1,551 million), tangible assets (euro 2,396 million), the payment made against the investment account to Telecom Italia Deutschland Holding for the acquisition of the AOL internet businesses in Germany (euro 665 million) and the subscription to Olivetti's capital increase (euro 30 million);
- sales of investments and capital reimbursements principally refer to the sale of the investments in Mediobanca (euro 236 million) and Capitalia (euro 74 million) and capital reimbursements by Tiglio I and Telegono (for a total of euro 6 million).

It should be noted that transactions for the sale of receivables to factoring companies carried out during the course of 2007 had a positive effect on net financial debt at December 31, 2007 of euro 724 million (euro 1,471 million at December 31, 2006).

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At December 31, 2007, current financial liabilities of euro 6,019 million (euro 6,690 million at December 31, 2006) include the current portion of non-current financial debt due within the next year equal to euro 4,740 million (euro 5,713 million at December 31, 2006), of which euro 2,715 million relates to the portion of loans payable by Group companies.
The debt position with Group companies amounts to euro 24,194 million (euro 20,807 million due beyond one year); the debt position with others is euro 21,157 million (euro 18,525 million due beyond one year).

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

- bonds include those subscribed to by third parties (carried in the financial statements for euro 12,014 million and nominal amounts for euro 11,837 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 24,270 million (euro 23,912 million at nominal amounts) and solely include intercompany loans to Telecom Italia Capital S.A. and Telecom Italia Finance S.A.;
- finance lease liabilities to third parties are carried in the financial statements for euro 2,029 million (euro 2,011 million at nominal amounts).

The average maturity of non-current financial liabilities is equal to 7.19 years.

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

(millions of euro)	maturing 12/31/: 2008	2009	2010	2011	2012	Beyond 2012	Total
Bonds	1,272	110	1,360	2,396	6,137	6,498	17,773
Loans and other financial liabilities	3,216	911	1,827	459	3,385	14,472	24,270
Finance lease liabilities	252	201	169	137	111	1,159	2,029
Total	**4,740**	**1,222**	**3,356**	**2,992**	**9,633**	**22,129**	**44,072**
Current financial liabilities	1,279						1,279
Total	**6,019**	**1,222**	**3,356**	**2,992**	**9,633**	**22,129**	**45,351**

(1) Carrying amounts take into account fair value adjustments and amortized cost.
(2) Financial commitments include accrued expenses and deferred income, of which euro 998 million is in non-current financial liabilities maturing within one year and euro 9 million in other current financial liabilities.

Maturities of financial liabilities – nominal repayment amount

(millions of euro)	maturing 12/31/: 2008	2009	2010	2011	2012	Beyond 2012	Total
Bonds	750	110	1,424	2,400	6,150	6,553	17,387
Loans and other financial liabilities	2,763	911	1,831	459	3,385	14,563	23,912
Finance lease liabilities	233	202	169	137	111	1,159	2,011
Total	**3,746**	**1,223**	**3,424**	**2,996**	**9,646**	**22,275**	**43,310**
Current financial liabilities	1,269						1,269
Total	**5,015**	**1,223**	**3,424**	**2,996**	**9,646**	**22,275**	**44,579**

With reference to **bonds**, the transactions described below took place during 2007:

1) New issues

- on June 7, 2007, Telecom Italia S.p.A. issued the following bonds under the euro 15 billion Euro Medium Term Note Programme:
  – bonds for euro 850 million with a quarterly coupon indexed to the 3-month Euribor plus a spread of 0.20%, maturing June 7, 2010, issued at 99.915%;
  – bonds for euro 400 million with a quarterly coupon indexed to the 3-month Euribor plus a spread of 0.79%, maturing June 7, 2016, issued at 100%;
- on July 19, 2007, Telecom Italia S.p.A. issued bonds under the Euro Medium Term Note Programme for euro 500 million at a floating rate indexed to the 3-month Euribor plus a spread of 0.63%, maturing July 19, 2013, issued at face value;
- Telecom Italia S.p.A. 2002-2022 bonds reserved for subscription by employees of the Group are equal to a nominal amount of euro 297 million at December 31, 2007 and increased during 2007 by euro 47 million (euro 250 million at December 31, 2006).

2) Repayments and conversions

On February 1, 2007, Telecom Italia S.p.A. repaid the 5.625% coupon bonds of euro 1,250 million that had reached maturity.

Additional information is provided in the Note “Financial liabilities”.

Revolving Credit Facility

On January 15, 2007, euro 2 billion of the remaining syndicated Revolving Credit Facility (RCF) expiring in March 2007 was cancelled and at the same time the Revolving Credit Facility expiring in August 2012 was increased by the same amount. Subsequently, in August, the expiration date was extended by two years to the end of August 2014. The new amount of the credit line is therefore equal to euro 8 billion, of which euro 1.5 billion is drawn down.

The composition and the draw down of the syndicated committed credit line available at December 31, 2007 and represented by the Revolving Credit Facility for a total of euro 8 billion expiring August 2014 are presented as follows:

	Revolving Credit Facility expiring 2007		**Revolving Credit Facility expiring 2014**		**TOTAL**	
(billions of euro)	Agreed	Drawn down	Agreed	Drawn down	Agreed	Drawn down
Situation at 12/31/2006	2.0	–	6.0	1.5	8.0	1.5
Increase in the 2012 RCF facility and cancellation of the 2007 RCF commitment (January 2007) and extension of the RCF expiration date to 2014 (August 2007)	(2.0)	–	2.0	–	–	–
Situation 12/31/2007	–	–	8.0	1.5	8.0	1.5

In August 2007, besides the extension of the expiration date, a revision was made to the acquisition of control clause which guarantees that Telecom Italia will retain the credit line even subsequent to the change in its shareholders of reference.
The revisions were introduced without changing the advantageous economic conditions of the credit line (Euribor +0.225%) and allowed the average term of the availability of the revolving credit facility of euro 8 billion in committed bank lines to be extended, guaranteeing the maximum flexibility in terms of access to capital markets.
The change in the acquisition of control clause was also adopted in the documentation of the syndicated bank line (Term Loan) with a January 2010 expiration date.

With reference to the syndicated bank line expiring in January 2010 (euro 3,000 million at the end of 2006), it should be noted that in 2007 early repayments were made for a total of euro 1,500 million: the line is therefore still drawn down for a nominal amount of euro 1,500 million.

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Financial assets amount to euro 5,209 million (euro 6,144 million at December 31, 2006), of which euro 4,627 million (euro 5,474 million at December 31, 2006) is classified as current. Such level of current assets, together with the total unused committed credit lines of euro 6.5 billion, permit an ample coverage of the estimated maturities.

Current financial assets decreased by euro 847 million compared to the end of 2006. This reduction is mainly due to the repayment of financial liabilities that became due and the fact that the financial resources generated by the positive dynamics of operations were absorbed by the payment of dividends and financial investments.

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 S.p.A.

	Profit for the year		Equity at 31.12.	
(millions of euro)	2007	2006	2007	2006
Equity and Profit for the year of Telecom Italia S.p.A.	**1,882**	**4,144**	**23,615**	**24,524**
Equity and profit for the year of consolidated companies net of the share attributable of Minority Interest	500	825	19,522	18,113
Carrying amounts of consolidated investments			(31,563)	(29,911)
Consolidation adjustments:				
– elimination of goodwill recognized in Parent financial statements	–	–	(40,013)	(40,013)
– recognition of positive differences arising from purchase of investments	–	–	44,341	43,662
– effect of elimination of carrying amount of shares of Parent held by Telecom Italia Finance	–	–	(468)	(468)
– valuation of investments using the equity method	49	39	85	95
– infragroup dividends	(318)	(2,134)	–	–
– losses and impairment losses of consolidated companies included in the results of parent companies	184	405	10,527	10,390
– gains on sales of investments	148	(230)	(11)	(142)
– elimination of internal profits included in tangible and intangible assets	31	38	(28)	(59)
– elimination of infragroup transactions on investments	–	–	(239)	(236)
– change in the percentage ownership, during the year, of consolidated companies	–	(52)	(3)	9
– other adjustments	(28)	(21)	157	54
Equity and Profit for the year attributable to the equity holders of the Parent	**2,448**	**3,014**	**25,922**	**26,018**
Equity and Profit (loss) attributable to Minority Interest	7	(11)	1,063	1,080
Equity and Profit for the year in the consolidated financial statements	**2,455**	**3,003**	**26,985**	**27,098**

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 in the statements and in the Notes under "Related Party Transactions" in the consolidated financial statements of the Telecom Italia Group and the separate financial statements of Telecom Italia S.p.A..

Events subsequent to December 31, 2007

With regard to events subsequent to December 31, 2007, reference should be made to the specific Note "Events subsequent to December 31, 2007" in the consolidated financial statements and the separate financial statements of Telecom Italia S.p.A.

Business outlook: for the current year in progress

As for the current year 2008 operating performance, considering the same exchange rates, nonrecurring income (expenses) and scope of consolidation and, except for the operations in France which are excluded, the forecast is for:

- revenues of approximately euro 31 billion (against euro 30.9 billion in 2007, on a comparable consolidation basis);
- EBITDA margin of 38.5% (net of nonrecurring income stemming from the reimbursement of the 1998 operating fee of approximately euro 0.5 billion).

Capital expenditures in 2008 will be approximately euro 5.4 billion, basically the same as last year, including euro 0.5 billion for the purchase of the 3G license in Brazil.

The Net financial debt / EBITDA ratio is forecast at below 3 at the end of 2008.

The Business Units of the Telecom Italia Group

Starting from the first quarter of 2007, the disclosure of segment information has changed to reflect the new organizational structure in effect from January 22, 2007. The new structure aims to ensure greater operational flexibility and facilitate convergence among the various areas of business (fixed communications, mobile telecommunications, broadband internet and media contents). The accounting representation is the following:

- Domestic
- European Broadband
- Brazil Mobile
- Media
- Olivetti
- Other Operations

In particular:

- the "**Domestic**" Business Unit includes the domestic operations of Fixed Telecommunications (Retail telephone, Internet, Data business and Wholesale) and Mobile Telecommunications as well as the relative support activities;
- the "**European Broadband**" Business Unit comprises Broadband services in France, Germany and The Netherlands;
- the "**Brazil Mobile**", "**Media**" and "**Olivetti**" Business Units have remained substantially unchanged compared to the prior periods under comparison;
- "**Other Operations**" include the financial companies, the foreign operations that are not included in the other Business Units and other minor companies not strictly related to the core business of the Telecom Italia Group.

In order to ensure the comparability of the data, the segment information of prior period has been restated.

(millions of euro)		Domestic	European BroadBand	Brazil Mobile	Media	Olivetti	Other Operations	*Adjustments and eliminations*	Total conso-lidated
Revenues	**2007**	**24,220**	**1,545**	**4,990**	**263**	**408**	**251**	**(387)**	**31,290**
	2006	25,785	915	3,964	207	440	234	(270)	31,275
EBITDA	**2007**	**10,174**	**246**	**1,207**	**(55)**	**(44)**	**94**	**(5)**	**11,617**
	2006	11,893	81	950	(83)	(33)	49	(7)	12,850
EBIT	**2007**	**5,751**	**(69)**	**150**	**(117)**	**(66)**	**63**	**52**	**5,764**
	2006	7,676	(125)	21	(137)	(50)	37	15	7,437
Capital expenditures	**2007**	**4,064**	**508**	**865**	**69**	**8**	**16**	**(10)**	**5,520**
	2006	3,894	467	699	85	10	21	(62)	5,114
Headcount at year-end (number)	**12/31/2007**	**64,362**	**4,551**	**10,030**	**1,016**	**1,279**	**2,191**	**–**	**83,429**
	12/31/2006	66,835	3,066	9,531	919	1,428	1,430	–	83,209

The main economic and financial data relating to the company Digitel Venezuela, sold in May 2006 and classified in discontinued operations, is reported below:

(millions of euro)	Digitel Venezuela	*Adjustments and eliminations*	Total
Revenues	121	(1)	120
EBITDA	31	–	31
EBIT	15	31	46
Profit (loss) from Discontinued operations/ Non-current assets held for sale	15	31	46
Capital expenditures	10	–	10

The adjustments and eliminations in EBIT and Profit (loss) from Discontinued operations/Non-current assets held for sale include the gain, net of related transaction costs, on the sale of Digitel Venezuela.

The following table presents the operating highlights of the Business Units of the Telecom Italia Group.

	2007	2006	2005
DOMESTIC FIXED			
Fixed network connections in Italy (thousands)	22,124	23,698	25,049
Physical accesses (Consumer +Business) (thousands)	19,221	20,540	21,725
Voice pricing plans (thousands)	6,375	6,468	6,321
Broadband accesses in Italy (thousands)	7,590	6,770	5,707
Virgilio page views powered by Alice - (millions)	14,737	13,283	9,842
Virgilio average monthly single visitors powered by Alice - (millions)	21.7	19.1	15.7
Network infrastructure in Italy::			
– access network in copper (millions of km - pair)	106.8	105.7	105.2
– access and carrier network in optical fiber (millions of km of fiber)	3.8	3.7	3.7
Network infrastructure abroad:			
– European backbone (km of fiber)	55,000	51,000	51,000
– Mediterranean (km of submarine cable)	7,000	7,000	7,000
– South America (km of fiber)	30,000	30,000	30,000
DOMESTIC MOBILE			
Lines (number at year-end, thousands)	36,331	32,450	28,576
Prepaid lines (thousands)	30,834	28,080	25,365
EUROPEAN BROADBAND			
Broadband accesses in Europe (number at year-end, thousands)	3,470	1,890	1,313
BRAZIL MOBILE			
Lines (number at year-end, thousands)	31,254	25,410	20,171
MEDIA			
La7 audience share Free to Air (analog mode) (yearly average, in %)	3.0	3.0	2.7
La7 audience share Free to Air (analog mode) (December average, in %)	3.1	3.1	3.1

Domestic

The Business Unit

The Domestic Business Unit operates as the consolidated market leader in the sphere of telephone and data services on fixed and mobile networks for final retail customers and other wholesale operators. In the international field, the Business Unit develops fiber optic networks for wholesale customers (in Europe, in the Mediterranean and in South America).

The structure of the Business Unit

The Domestic Business Unit is organized as follows:

DOMESTIC		
FIXED	**MOBILE**	**SUPPORT ACTIVITIES**
Telecom Italia S.p.A. - Fixed telecommunications services	**Telecom Italia S.p.A.** - Mobile telecommunications services	**Telecom Italia S.p.A.** - Group Functions
Loquendo S.p.A.		Olivetti Multiservices S.p.A.
Matrix S.p.A.		Tecnoservizi Mobili S.r.l.
Path.Net S.p.A.		Telecom Italia Audit and Compliance Services Scarl
Telecontact Center S.p.A.		Telenergia S.r.l.
Telsy Elettronica e Telecomunicazioni S.p.A.		
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 Group Telecom Italia Sparkle of North America Inc. Elettra TLC S.p.A. TIS France S.A.S.		

Major corporate events and scope of consolidation

Note should be taken of the following:

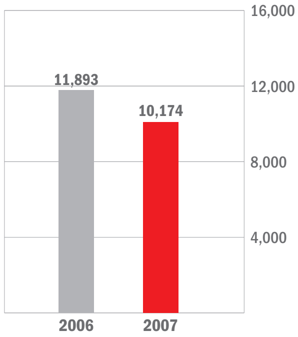
- on February 27, 2007, the process for the reorganization of the Mediterranean Nautilus and Latin American Nautilus groups was concluded through the merger of the two Luxembourg group holding companies;
- effective October 1, 2007, the company Progetto Italia S.p.A. was merged in and with Telecom Italia S.p.A..

Main operating and financial data

The following table shows the key results in 2007, compared to 2006, restated for purposes of comparison.

(millions of euro)	2007	2006 restated	Change amount	%
Revenues	24,220	25,785	(1,565)	(6.1)
EBITDA	10,174	11,893	(1,719)	(14.5)
% of Revenues	*42.0*	*46.1*		
EBIT	5,751	7,676	(1,925)	(25.1)
% of Revenues	*23.7*	*29.8*		
Capital expenditures	4,064	3,894	170	4.4)
Headcount at year-end (number)	64,362	66,835	(2,473)	(3.7)

EBITDA (euro/mln)



Revenues totaling euro 24,220 million record a contraction of 6.1% (-euro 1,565 million) compared to 2006. In organic terms, on a comparable consolidation basis and excluding the foreign exchange effect and other non-organic elements, the reduction is equal to 5.8% (-euro 1,499 million). Excluding the impact of the changes relating to NGN (Non-Geographical Numbers) described afterward, the reduction is equal to 4.2%.

Revenues are also affected by the cut in fixed-mobile termination rates (euro 209 million), the effects of the application of the Bersani Decree beginning from March 2007 (estimated at euro 404 million net of about euro 226 million due to the positive impact of flexibility - higher traffic volumes as a result of the reduction in average rate price pressure owing to the elimination of top-up charges without increasing the minute rate) and rate adjustments for international roaming traffic within the EU, in accordance with the decisions of the European Commission (estimated at euro 88 million). In total, compared to the prior year, these changes (including the NGN effect) amount to euro 1,143 million.

In particular, with regard to calls made by customers towards NGN (Non-Geographical Numbers) of Other Operators (OLOs), with effect from January 1, 2007, Telecom Italia no longer assumes the risk of insolvency on the relative receivables. Therefore, with effect from the same date, revenues and related interconnection costs do not take into account traffic generated by such calls which, in 2006, had led to the recognition of revenues and costs totaling euro 442 million.

A breakdown of the various components of the Business Unit's revenues is as follows:

(millions of euro)	2007	2006	Change amount	%
Revenues	24,220	25,785	(1,565)	(6.1)
of which				
Fixed telecommunications	*15,727*	*16,988*	*(1,261)*	*(7.4)*
Mobile telecommunications	*9,922*	*10,210*	*(288)*	*(2.8)*
Elminations and central functions contribution	*(1,429)*	*(1,413)*	*(16)*	*(1.1)*

Fixed Telecommunications

Revenues from Fixed Telecommunications amount to euro 15,727 million and show a reduction of euro 1,261 million (-7.4%) compared to 2006. At the organic level, excluding the effect of exchange differences, the change in the scope of consolidation and the impact of the above-mentioned NGN, the change in revenues is a decrease of euro 819 million (-4.9%). The performance of the major business areas is reported below.

Retail telephone

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 from the Retail Telephone area are equal to euro 8,358 million and show a reduction of euro 950 million (-10.2%) compared to 2006. Excluding the effect of the above-mentioned changes relating to NGN, the reduction is 7.5% and is particularly noted on traffic (-euro 329 million, -8.5%) and access (-euro 178 million, -4.3%). As regards traffic, the contraction is generated by volumes and prices, especially on fixed-mobile traffic and national traffic. The first is affected by the migration of volumes from fixed to mobile traffic and the cut in fixed-mobile termination rates while the second is hurt by the decline in the prices associated with a higher penetration of flat rate plans principally with the consumer clientele and the reduction in volumes is produced by a smaller client base. This latter effect also led to a strong contraction in traditional access revenues compared to 2006.

Internet

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 area, equal to euro 1,468 million, decreased by euro 43 million (-2.8%) compared to 2006. Excluding the effect deriving from the above-mentioned changes relating to NGN, the variation is a growth in revenues of euro 128 million (+9.6%) compared to 2006. The increase is due to the continuing strong growth of Broadband and Content revenues which record a gain of 11.1% and 44.4%, respectively, compared to 2006 (+euro 154 million in total).
The overall portfolio of Broadband accesses on the domestic market reached 7.6 million customers, of which 6.4 million refers to Retail. The strategy encouraging the migration of customers to innovative Broadband access solutions continues; these solutions allow the use of new-generation IP services and applications: in particular, Flat and Semiflat rate plans reached 64% of the entire Alice Consumer customer portfolio and the VOIP customer portfolio grew to 1.3 million accesses representing about 20% of total Retail Broadband accesses. Expansion is also moving forward in IPTV services on the Consumer market and in the development of web content and services.

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 area, equal to euro 1,673 million, show a contraction of euro 70 million (-4.0%) compared to 2006; the reduction was recorded almost entirely in the first quarter of 2007. This decline, due to ever-fiercer competition on the Corporate client market and the revision of contract prices with the Public Administration, is particularly evident in traditional Data Transmission services. Instead, dynamic growth is again registered by ICT services and products, increasing by euro 43 million (+7.2%) compared to 2006, and innovative Data Transmission (+euro 28 million compared to 2006, +5.8%).

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.
Revenues from Wholesale services totaling euro 3,786 million show an overall decrease of euro 203 million (-5.1%) compared to 2006.
Revenues from national wholesale services amount to euro 2,374 million and record a gain of euro 243 million (+11.4%) compared to 2006. This is mainly attributable to regulated services (+euro 127 million for the growth of unbundled lines) and wholesale data (+euro 84 million for the increase in the customer base of other operators). International wholesale services posted revenues of euro 1,412 million, with a contraction of euro 446 million (-24.0%) compared to 2006 due to the decline in revenues from transit traffic generated by the termination of some contracts starting from the second quarter of 2007.

Mobile Telecommunications

Revenues amount to euro 9,922 million in 2007 and decreased by 2.8% (-2.7% in revenues from services alone). It should be stressed that these revenues reflect a downward adjustment of euro 56 million as a result of the award set by the arbitration board in the case with H3G regarding termination rates on traffic originated and received between two operators. The arbitration board, in fact, sided with H3G on the invalidity of the contractual agreements signed by the parties, which, for the period September 1, 2005 to December 31, 2007, had called for the payment of termination rates on the Telecom Italia network that were higher than the maximum prices set by the National Regulatory Authority in its resolutions 285/05/CONS and 03/06/CONS, and confirmed the mandatory retroactive effectiveness of such resolutions.

If this event is not considered, revenues would be equal to euro 9,978 million, with a contraction of 2.3% (-2.1% for revenues from services alone).

This performance was also notably affected by the negative impact of the Bersani Decree, the change in fixed-mobile termination rates and the rate adjustment for international Roaming traffic within the EU in accordance with the decisions of the European Commission. Excluding these regulatory changes, the total revenues of Domestic Mobile would have increased by 4.1% (4.9% for revenues from services alone).

Revenues from Value-Added Services (VAS) continue to grow, totaling euro 1,928 million in the retail segment. This is an increase of 16.8% compared to 2006 and stems from continual innovations in the offering concept and portfolio and greater penetration of interactive and mobile Broadband services (revenues from national browsing +60%). The percentage of VAS to total service revenues is now 21% (18% in 2006) with a peak of 23% in the last quarter. "Telephone" revenues (excluding the impact of the arbitration award in the case with H3G) amount to euro 6,811 million and show (despite the significant growth in traffic volumes, +8.6% compared to the prior year, +15.9% in the last quarter) a contraction both in outgoing traffic (-5.5%) and incoming traffic (-9.9%) that was entirely attributable to the aforementioned negative impact of the regulatory changes.

Revenues from the sale of handsets total euro 773 million. This is a reduction of euro 38 million (-4.7%) compared to 2006 and is attributable to continually decreasing average prices despite higher volumes.

At December 31, 2007, the number of Telecom Italia mobile lines is 36.3 million (of which 6.1 million are UMTS, accounting for 16.8% of total lines), with a growth of 3.9 million compared to December 2006, and a steady market share at 40.3%.

EBITDA of the Domestic Business Unit, equal to euro 10,174 million, records a decrease of euro 1,719 million compared to 2006, with the percentage of EBITDA to revenues at 42.0% (46.1% in 2006). EBITDA was considerably influenced by the above-mentioned impact of the regulatory changes for a total of euro 487 million: euro 404 million is due to the elimination of top-up charges, net of the previously mentioned positive effect of flexibility for euro 226 million, euro 54 million to the change in fixed-mobile termination rates and euro 29 million to the rate adjustment for international Roaming traffic within the EU in accordance with the decisions of the European Commission. In addition, there are higher accruals to the provision for bad debts to cover risk provisions resulting both from the increase in overdue mobile telephone receivables relating to post-paid contracts and the increase in receivables from fixed telephone customers where the contracts have been terminated (uncollectible receivables); higher losses due to settlements, mainly settlement agreements, reached with other operators; higher accruals to provisions caused largely by unfavorable developments occurring at the last months of the year relating to disputes of a regulatory nature with other operators as well as the fine levied on Telecom Italia by the Antitrust Authority in August 2007 for alleged unfair trade practices.

The organic change in EBITDA is a negative 1,140 million (-9.4%) compared to 2006, with the percentage of EBITDA to revenues at 45.1% (46.9% in 2006). Details are as follows:

	2007	2006	Change	
(millions of euro)			(amount)	%
HISTORICAL EBITDA	**10,174**	**11,893**	**(1,719)**	**(14.5)**
Effect of change in scope of consolidation	–	(5)		
Effect of change in exchange rates	–	(4)		
Non-organic (income) expenses:	765	195		
Disputes and settlements with other operators	*448*	*61*		
Restructuring costs	*163*	*96*		
Antitrust fine	*20*	*2*		
Termination rates (fixed-fixed) list adjustments	*92*	*24*		
Corporate reorganization costs	*–*	*3*		
Other expenses net	*42*	*9*		
COMPARABLE EBITDA	**10,939**	**12,079**	**(1,140)**	**(9.4)**

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

- acquisition of goods and services totals euro 10,215 million and decreased by euro 534 million (-5.0%) compared to 2006. The contraction is mainly due to the reduction in the amount to be paid to other operators following the previously mentioned contractual changes relating to NGN and lower international Wholesale transit traffic. This effect is

partially offset by the increase in the amount generated by changes in the termination rates of voice calls on the fixed and mobile networks of other operators. Added to that are the increases in the costs for the acquisition of equipment for resale, selling and advertising expenses, lease installments (property, circuits, use of satellite systems, etc.) as well as costs relating to the lease of radio base stations for mobile telephony and costs for the utilization of television rights;
- employee benefits expenses total euro 3,282 million, an amount basically in line with 2006 (+euro 6 million). The positive effects from the profit bonus (-euro 79 million) accrued in the second half of 2006 and no longer due following agreements reached with the unions in June 2007 supporting the alignment of the profit bonus of Telecom Italia with the payment criteria established for ex-Tim Italia, and the actuarial calculation for employee benefits regarding the provision for employee severance indemnities owing to the application of the new law dealing with supplementary pension benefits (-euro 51 million) are offset by higher costs for employee termination incentives (+euro 82 million) and higher costs connected with the increase in the new minimum contract terms, from October 2006 for the two-year economic period 2005-2006 and from October 2007 for the two-year economic period 2007-2008;
- other operating expenses amount to euro 1,338 million (+euro 516 million compared to 2006). The change is principally attributable to higher impairment losses and expenses connected with credit management (+euro 287 million), higher accruals to provisions due to unfavorable developments occurring at the last months of the year regarding disputes of a regulatory nature with other operators and the fine levied on Telecom Italia by the Antitrust Authority in August 2007 for alleged unfair trade practices (+euro 201 million);

EBIT of the Domestic Business Unit, totaling euro 5,751 million, decreased by euro 1,925 million (-25.1%) compared to 2006. The percentage of EBIT to revenues is 23.7% (29.8% in 2006).

In organic terms, the reduction in EBIT is euro 1,253 million (-16.2%) compared to 2006, with the percentage of EBIT to revenues at 26.8% (30.1% in 2006). Details are as follows:

(millions of euro)	2007	2006	Change (amount)	Change %
HISTORICAL EBIT	**5,751**	**7,676**	**(1,925)**	**(25.1)**
Effect of change in scope of consolidation	–	(5)		
Effect of change in exchange rates	–	(1)		
Non-organic (income) expenses:	751	85		
Non-organic (income) expenses already described under EBITDA	765	195		
Additional non-organic (income) expenses:	(14)	(110)		
Gains on sales of non-current assets	*(10)*	*(135)*		
Loss on sale of Radio-maritime activities	*–*	*9*		
Other (income) expenses, net	*(4)*	*16*		
COMPARABLE EBIT	**6,502**	**7,755**	**(1,253)**	**(16.2)**

- EBIT performance was hurt by the reduction in net gains (losses) realized on non-current assets for euro 96 million (2006 had benefited from gains on transactions for the sale of properties) and higher impairment losses for euro 17 million mainly in reference to software projects and unutilized equipment and telephonic material in the process of being replaced with more technologically advanced equipment. Depreciation and amortization increased compared to 2006 by euro 93 million principally as a result of depreciation taken on mobile telephony installations and amortization recorded on costs capitalized for subscriber acquisition costs referring to some specific sales plans for mobile telephony introduced in 2006, compensated in part by the reduction in the amortization charge on software.
- *Capital expenditures* total euro 4,064 million (+euro 170 million more than in 2006). The percentage of capital expenditures to revenues is equal to 16.8% (15.1% in 2006). The increase in investments indicates the constant attention paid by the Group to the modernization and innovation of the network, technologies and services.
- *Headcount* is 64,362 and includes 1,278 people with temp contracts (1,599 at December 31, 2006). The reduction of 2,252 people since December 31, 2006 is primarily due to the termination of employment in conjunction with employee termination benefit incentives and mobility agreements under Law 223/1991.

Key factors

Fixed telecommunications

The Domestic Fixed Services Department has continued with the strategy to encourage its customers to migrate towards innovative broadband access solutions which provide access to a new generation of IP services and applications. At December 2007, this strategy enabled Telecom Italia to have a Broadband Retail + Wholesale portfolio of 7.6 million accesses, of which about 6.4 million are Retail Broadband (of which 64% with flat and semiflat plans) and a VOIP portfolio equal to 1.3 million accesses (about 20% of Broadband Retail accesses). In the Consumer market, expansion of IPTV service is continuing and work is also going forward on the development of web content and services.
In the traditional Telephone business, management is committed to the strategy of customer retention and the use of flat-rate pricing packages for traffic (at December 2007, the pricing portfolio numbered 6.4 million, more than one-third of the number of accesses); moreover, action continues with the aim of recapturing customers that switched to rival operators (more than 1 million returns at December 31, 2007).
In the Data market, there was a rationalization of the available offerings with migration to Traditional Data Transmission and Innovative Data Transmission and Broadband and offerings of integrated solutions with services.

Mobile Telecommunications

In 2007, the Domestic Mobile Services Department concentrated on maintaining its market share and using both traditional services (voice) and innovative services (VAS and Mobile Internet), all this thanks to an effective policy regarding the acquisition of subscriber customers, a greater diffusion of Flat or Bundled packages (both voice and VAS) and the greater penetration of UMTS handsets and users.
The offering portfolio has therefore been improved through the use of various solutions aimed at the greatest possible transparency with regard to rates and increased flexibility for the customer (i.e. dedicated offerings by level and type of consumption).

Commercial agreements

The following took place:

- on March 30, 2007, Telecom Italia and COOP signed an agreement under which COOP will market telephone services with the “COOPVoce” trademark, thanks to the technological infrastructures and services provided by Telecom Italia;
- on June 8, 2007, Telecom Italia and the Assicurazioni Generali Group signed an agreement for the design and creation of the new telecommunications network of the insurance company in four European countries, and the supply of electronic communication services in those same countries and also Italy.
- Initially, the international part of the agreement will involve the supply and operation of electronic communication services to the Generali Group in Austria, France, Germany and Spain, and, later on, in Belgium and Portugal, through the creation of a new network infrastructure which will also take advantage of Telecom Italia Sparkle’s existing network infrastructures. In particular, the data transmission services will make it possible to guarantee the security of the transactions made through the connections of the various offices. Furthermore, according to the agreement, in each individual country, Telecom Italia will supply hi-tech support services which will have the capacity to meet all local technical requirements and ensure that the service operates correctly;
- on July 3, 2007 Telecom Italia was awarded the contract – over a three-year period and worth more than euro 45 million - for the development of an integrated telephone and data network for all the offices of the Monte dei Paschi di Siena group. This contract will enable the MPS group to achieve a significant reduction in costs and was awarded not only with the aim of gaining economic advantage, but because of the innovative nature and versatility of the Telecom Italia offering;
- on July 18, 2007 the governing body of the Vatican City State and Telecom Italia announced the creation of the institutional portal www.vaticanstate.va. The portal illustrates the services, activities and organization of the Vatican City State;
- on July 27, 2007 Telecom Italia and Tiscali signed an agreement which allows Tiscali to become a virtual mobile operator. For the first time in Italy, an “alternative” fixed network operator will also be able to offer mobile and integrated services throughout the national territory to the residential clientele;

- on October 1, 2007, Telecom Italia was the first to launch the new offer Quadruple Play "Unica" based on broadband and IP technology. This offer allows calls to be made through both a landline and a mobile connection, from the same phone, the mobile "Unico" handset, thanks to the dual-mode technology (Alice Wi-Fi for the landline and UMTS for the mobile connection), in addition to surfing the Internet and accessing the Alice Home TV contents. The mobile phone "Unico", which is presently available in the Nokia E65 version (included in the package) works as both a cordless home-phone and a mobile phone. Thanks to the "dual-mode" technology and a software package developed by Telecom Italia, "Unico", at home, allows the user to distinguish the calls going to a fixed network and those going to a mobile network, respectively directing the calls using Alice Wi-Fi and the UMTS network. When the phone is used outside of the home, therefore without the Alice Wi-Fi coverage, it works exclusively as a mobile phone;
- in October 2007, Telecom Italia and Sky reached an agreement to transmit all Sky channels on Alice Home TV, Telecom Italia's television via ADSL. With this long-term agreement, in addition to accessing Premium Sky channels – Sport, Cinema and Soccer – which are already available on Telecom Italia's IPTV platform, the theme channels of the Mondo package have now been added which include entertainment, music, documentaries, news and children's programs, along with the pay-per-view channels and interactive services offered by SKY. The distribution of High Definition content is also included;
- in February 2008, the auction was concluded for Wi-Max frequencies (technology which delivers broadband on radio frequencies). This is the technology on which the Ministry of Communications is counting to deliver high-speed Internet throughout the country. The bidding for Wi-Max began last February 13 with a starting bid of euro 45 million and after nine rounds of bidding was concluded for euro 140 million. The amount raised is higher than that in Germany (euro 60 million) and France (euro 100 million). Telecom Italia S.p.A. secured licenses for the regions of Umbria, Lazio, Abruzzo and Molise, Campania, Puglia, Basilicata and Calabria.

Operating highlights

The table below shows the most significant operating data as at December 31, 2007, as well as data at December 31, 2006 and December 31, 2005 for comparison purposes.

	2007	2006	2005
Fixed telecommunications			
Fixed network connections in Italy (thousands)	22,124	23,698	25,049
Physical accesses (*Consumer* + *Business*) (thousands)	19,221	20,540	21,725
Voice Pricing packages (thousands)	6,375	6,468	6,321
BroadBand accesses in Italy (thousands)	7,590	6,770	5,707
Virgilio powered by Alice page views (millions)	14,737	13,283	9,842
Virgilio powered by Alice average monthly single visitors – (millions)	21.7	19.1	15.7
Network infrastructure in Italy:			
– access network in copper (millions of km - pair)	106.8	105.7	105.2
– access network and transport in optical fibers (millions of km of fiber optics)	3.8	3.7	3.7
Network infrastructure abroad:			
– European backbone (km of optical fibers)	55,000	51,000	51,000
– Mediterranean (km of submarine cable)	7,000	7,000	7,000
– South America (km of fiber optics)	30,000	30,000	30,000
Total traffic:			
Minutes of traffic on the fixed network (billions)	156.8	173.8	185.1
– National traffic	140.1	160.1	171.3
– International traffic	16.7	13.7	13.8
Mobile telecommunications			
Mobile lines at year end (thousands)	36,331	32,450	28,576
Prepaid lines (thousands) (1)	30,834	28,080	25,365
Customer growth (%)	12.0	13.6	8.8
Churn rate (2)	16.4	18.9	16.9
Total outgoing and incoming traffic per month (millions of minutes)	2,766	2,443	2,314
Total outgoing traffic per month (millions of minutes)	4,052	3,730	3,550
Average monthly revenues per line (3)	22.2	25.6	29.3

(1) Excluding "not human" SIMS.
(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 number 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 12.31.2007 the fixed connections of the Domestic Business Unit are approximately 22.1 millions. The decrease with respect to December 31, 2006 is offset by the BroadBand growth which has achieved in December 2007 a portfolio of 7.6 million accesses (approximately 6.8 million as at December 2006), of which approximately 6.4 million accesses for BroadBand Retail, confirming the continuing expansion of the ADSL penetration.
At 12.31.2007 the number of GSM and UMTS mobile lines operated by Telecom Italia amounted to approximately 36.3 million (of which 6.1 million was UMTS lines) with a growth of 12.0% as compared to December 31, 2006. This figure includes 30.8 million prepaid lines, which thus constitute 84.8% of total lines.
At December 31, 2007 Telecom Italia's market share settled at 40.3%, practically stable as compared to December 31, 2006 (40.4%).

Rate plans for fixed telecommunications

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 Italian Communications Authority ("AGCom") 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 ceiling established for prices (cap).

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 AGCom 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.

On January 19, 2006 and November 9, 2006 the AGCom has amended the Price Cap mechanism approving two resolutions, separately regulating Access and Traffic. As far as Access, including the retail markets for access to the public telephone network from fixed accesses (i.e. contributions and rental charges for the PSTN and ISDN lines of residential and business customers), regulatory restraints are defined up to December 31, 2007. As far as Traffic, including the markets of local, national and fixed-mobile markets (for retention only), concerning residential and business customers, regulatory constraints are defined up to December 31, 2009.
In 2007 the following rate plan changes were introduced:

- Access: A revenue decrease equal to euro 21.4 million on a regulatory basis for residential customers, representing a decrease of 0.83% for this customer segment and a revenue increase of euro 38.1 million on a regulatory basis for business customers, representing an increase of 1.99% for this customer segment; when viewed from the standpoint of the access segment as a whole (residential and business), these changes bring in a revenue increase equal to euro 16.7 million on a regulatory basis (equal to +0.37%);
- Traffic: With respect to fixed-mobile a revenue increase due to retention equal to euro 9.1 million is recorded on a regulatory basis (equal to +1.91%).

Interconnection with other operators – fixed telecommunications

In compliance with the European Commission Recommendation no. 2003/497 and the Electronic Communications Code (Legislative Decree no. 259 dated 1st August 2003), the public consultations with regard to the 18 significant markets identified in the Recommendation were concluded in 2006 and Telecom Italia has implemented in 2007 all the regulatory remedies included in the executive provisions issued by AGCom. The Authority has also started and concluded in 2007 market analyses on two new markets: the market of wholesale termination for international routing (market 19), with respect to which the Authority has proposed to remove the existing restraints as no operator with significant market power has been identified, and the market of retail dial-up internet traffic (market 20), which has been considered as involving competition. The Authority has also started a new cycle of market analyses concerning the wholesale market of access and call origination in mobile telephone networks (Resolution 168/07/CONS), the market of termination on individual mobile networks

(Resolution 342/07/CONS) and the markets of retail and wholesale fixed access (Resolution 626/07/CONS).
On November 13, 2007 The European Commission issued a new Recommendation for the identification of significant markets and a proposal to review the regulatory Framework. The new Recommendation, confirming the regulatory approach for the wholesale markets and tendentially reducing obligations on retail markets, will be executive since 2008. On the contrary, the new Directives will not be adopted before 2010.

With Resolution 417/06/CONS the Authority has renewed the Network Cap mechanism until 2009. This mechanism, approved by AGCom in 2003, regulates interconnection charges, i.e. the amounts which operators must pay Telecom Italia if they use the TI network to offer their telecommunication services. Beginning with the 2003 RO (Basic offering), the market has 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.

The 2007 RO for interconnection services, approved by AGCom with resolution 107/07/CONS, includes the economic terms for the FRIACO service (Flat-Rate Internet Access Call Origination) – operating since 2001 – for the invoicing service and for the risk of insolvency.

Telecom Italia is required to offer an invoicing service to the OLOs deciding not to invoice their customers who access non-geographic numbers (for instance customers who are connected to the network through the indirect access service). With Resolution 417/06/CONS, on the basis of the network cap mechanism, the Authority has fixed the price level of the invoicing service at a value per call equal to euro 0.81.

With regard to Local Loop Unbundling and with reference to Resolutions 4/06/CONS and 83/06/CONS, once concluded the market analysis related to market 11 of the Recommendation, Telecom Italia has published in 2007 the new RO on local loop unbundling (including the shared access), which has been approved by the Authority with Resolution 107/07/CONS. In particular, the price of LLU defined though the network cap mechanism is equal to euro 7.81/month and is the lowest in Europe and is significantly lower than the retail price of access. With reference to implementation, the Italian Unbundling Local Loop (LLU) market reported the fastest growth in Europe, with about 2,903,000 unbundled lines activated at December 31, 2007 (Italy is second place after
Germany where the LLU was started about two years earlier) and with an increase of approximately 1,198,000 LLU lines as compared to December 31, 2006. Furthermore Telecom Italia has the most detailed and complete LLU offering in Europe (i.e. physical LLU, sub loop unbundling, shared access and different ways of collocation) and has complied with all the AGCom's requirements in terms of making available sites requested by other OLOs. During 2007 the OLOs increased their use of the shared access service with 417,000 lines activated by the end of the year.

With Resolution 249/07/CONS of 29 May 2007 the AGCom has defined its regulatory measures on wholesale broadband access services ("bitstream" services). In 2007 Telecom Italia has published its 2007 RO for broadband access services which has been approved by AGCom with Resolutions 115/07/CIR and 133/07/CIR.

Concerning broadcasting services with dedicated capacity and in compliance with Resolution 45/06/CONS Telecom Italia has entirely redefined the structure of its wholesale offering, transforming its previous wholesale line rental from end-to-end services to interconnection services (markets 13 and 14 of the Recommendation, i.e. terminating and trunk segments). On October 31, 2006 the 2007 RO has been published and is yet to be approved by AGCom. The transition from the old offering scenario to the new one is quite complex and, until market stability can be achieved, operators will continue to use the previously available services.

In May 2007 the Authority has started, with Resolution 208/07/CONS, a public consultation on the regulatory aspects related to the structure of the access network and the prospects for the broadband NGANs. The purpose is an evaluation of regulatory options related to the development dynamics of the fixed public telecommunication network. The main topics are:
- regulation of the access network;
- functional separation;
- evolution towards the next generation NGAN networks.

The consultation was closed in July 2007.

On November 29, 2006, with Resolution 694/06/CONS, AGCom has defined the procedure for setting up the WLR (Wholesale Line Rental) offering, that is all interconnection and access to the Telecom Italia system required by operators in order to provide to end users fixed access services to the public network, to make and/or receive telephone calls and the related services. The service is marketed at local urban exchanges not open to unbundled access and at local urban exchanges open to unbundled access through which, due to technical problems, the unbundled access services can not be provided. In 2007 Telecom Italia has published its RO concerning the WLR service for 2007, which has been approved by the Authority with Resolution 114/07/CIR. The WLR service has been marketed since 15 December 2007.

In 2007 the following contracts with operators were signed or renewed:

- 3 direct interconnection agreements (of which 2 at BBN level);
- 2 supplementary “reverse” agreements, termination on the network of another operator;
- 53 agreements to supply high speed access through the xDSL technology (of which 7 CVP and 46 ADSL);
- 2 carrier preselection contracts and 4 number portability contracts;
- 4 contracts for the shared access service on the local network and 5 LLU contracts;
- 13 contracts to supply Digital Data Circuits or partial circuits
- 2 agreements for fiber optic infrastructures.

In 2007 Telecom Italia has presented its separate accounts and regulatory accounts for fiscal year 2005.

General information on mobile services

At December 31, 2007 there were 236 GPRS agreements in 102 countries, 59 3G agreements in 35 countries and 196 Camel agreements in 92 countries

The year 2007 has been characterized by the regulation of the international roaming market. Following the "Regulation (EC) No. 717/2007", since August 30, 2007, a standard wholesale charge equal to euro 0.30 for calls made within the EU has been introduced; the same “Regulation (EC) No. 717/2007” has scheduled further interventions on 1st September 2008 and 1st September 2009.

To compensate the negative effects of the regulation and support international wholesale revenues we proceeded to:

- an MTC (Mobile Terminated Call) mutual charge increase;
- an increase of charges for Visitor SMS starting in July;
- sign 83 IOT discount agreements (valid in 68 countries) to reduce the costs of TIM Roamers abroad.

Marketing and distribution

Fixed telecommunications

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 approximately 450 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 2,600 Commercial Staff and about 7,000 telephone operators, who handle about 3,000,000 contracts a year. Selling techniques range from sale through physical consultancy to sales by phone through the outbound network.

The main channels are:

- The "One Team" channel: a territorial network of about 35 Partners and 850 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 – Expert Team channel: a territorial network of 9 Partners with about 400 agents and 1,400 Outbound resources, which focuses on the development of the SoHo segment through pricing offers, ADSL and products, geared mainly to commercial businesses, small professional firms and micro-businesses;
- The BP – Business Partner channel: a territorial network of about 85 partners and 1,200 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 of about 65 partners and 250 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;
- The "Telesales" channel: "Outbound" Partner network (approximately 40) with over 5,000 operators supported by about 200 internal resources, focusing on acquisition volumes (i.e. pricing offer, ADSL).

In addition to these partners, there is the "pul" 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.

Mobile telecommunications

At December 31, 2007 the Telecom Italia physical distribution network consisted of 4,463 Points of Sale belonging to 2,325 partners and 32 shops owned by Telecom Italia.
The wide variety and spread of POS has safeguarded the sales market share 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.

National fixed network

General comments. The domestic fixed network of Telecom Italia consists of 33 gateway areas (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 gateway areas. The long-distance network (Arianna SDH and Phoenix) includes 2,400 non structured VC4 (the operating capacity reaches approximately 4,200 equivalent VC4, also including the structured VC4, the sixteen (16) 2.5 Gbps lambdas and the thirty-nine (39) 622 Mbps on Phoenix network). Also included are seventy-five (75) 2.5-Gbps point-to-point lambdas and the hundred-eighty-nine (189) 10-Gbps point-to-point lambdas. The fixed distribution network includes 106.8 million km of copper pairs.

The data related to the national network at the end of December 2007 is shown below:

Exchange areas	About 10.400
Switching areas	628 SGU (Urban Group Stages)
Gateway areas	33
Copper access network	106,8 million kilometers-pair
Fiber optic access network	440,000 kilometers-line
Fiber optic carrier network	3.34 million kilometers-line
Long Distance VC4 eq (total)	4,200
Long Distance VC4	2,400
Long Distance Lambda	75 2.5 Gbps, 189 10-Gbps
Network for direct digital circuits (PARD)	305,000 access points with speed up to 2 Mbit/s
Network for direct analog circuits (PARD)	84,000 access points
Frame Relay Accesses	85,179 2Mbit/s gates
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 for the transport of connections up to 10 Gbps. Work on the long-distance network continued in 2007 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.
Since 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. In 2007 no further ODXC nodes have been implemented. The 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. The 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 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 to supply the ADSL, HDSL and SDSL services. The ATM/Frame Relay networks enable customers to access IP and MPLS (Multi Protocol Label Switching) services at speeds ranging between 64kbps and 155 Mbps.

OPB (Optical Packet Backbone). In 2007 we continued to implement the introduction in the network of the Terarouter equipment, scheduled in some of the most important PoPs of the network. At the end of 2007 Terarouter nodes have been introduced in the four OPB PoPs Centro Stella of Rome and Milan (Inner Core PoP) and in the two OPB PoPs of Naples and Turin (Outer Core PoP).
The OPB network is used to transport:
– the Internet traffic of residential, business and Wholesale customers;
– the VPN traffic (Virtual Private Network) of business customers;
– the voice traffic;
– the video traffic related to IPTV services.

OPM (Optical Packet Metro). In 2007 we have consolidated in the 30 main metropolitan areas the OPM network for the collection of 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) connection, an ante litteram ROF (Radio Over Fiber).

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). 349 new GBE accesses were installed, bringing the overall number to approximately 2,416 accesses. In 2007 coverage of services with GBE optical access was extended to 7 towns: Bolzano, Cagliari, Catanzaro, La Spezia, Livorno, Salerno, Varese; As a result, overall coverage increased from 26 to 33 towns in Italy.

Network quality and productivity. Following the completion of the porting of all the OSS systems on OPEN platforms in 2006, we completed in 2007 the integration of the supervision systems of the fixed and mobile networks and of the platforms for service creation. This allowed to save 15% on activities previously performed by the separate systems.

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 2007 the commercial services offering access to ADSL for residential customers, business customers and Internet Service Providers were extended to 6,074 towns (compared to 4,650 at the end of 2006). 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 2007, 7,586 local switching areas were covered by the ADSL technology, (compared to 5,630 at the end of 2006). The coverage for the business broadband service at the end of 2007 is 6,887 exchange areas.

Fiber optic cables. At December 31, 2007 approximately 3.8 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, involving 836 exchange areas and 258 towns. In 2007 the commercial service with access to IP TV technology has been expanded, covering 464 towns (1,019 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 2007 there were about 305,000 PARD CDN (Data Network Access Points with Direct Digital Circuits) and approximately 84,000 PARD CDA (Direct Analog Circuits).

International network

Telecom Italia Sparkle manages international wholesale services (Voice, Data and IP) and retail services to multinational customers by means of an international network including:
- a fully integrated proprietary cross border backbone (inalienable right of use for 20 years), whose implementation started in 1997 and operating mainly in Europe and in United States;
- bilateral connections.

The coverage of the Mediterranean and of Central and South America is provided by the interconnection with MedNautilus and LANautilus backbones.
The international network connects over 400 operators all over the world and extends over approximately 434,500 Km on submarine systems which from the Mediterranean spread out along longitudinal traffic lines (towards the United States and the Middle and Far East) and transversal traffic lines (towards Central and Northern Europe).
The cross-border backbone integrates 3 regional networks
- Europe (PEB);
- Latin America (LAN);
- Mediterranean basin (MED):

- **PEB (Pan European Backbone)**. Proprietary fiber optic network extending over the main European countries: Italy, France, the UK, The Netherlands, Belgium, Germany, Switzerland, Austria, Spain, the Czech Republic, Poland and Slovakia. The overall length of the entire backbone is 55,000 km.
  The backbone is a multiservice integrated network (Voice, Data, IP) based on DWDM (Dense Wavelength Division Multiplexing) and SDH (Synchronous Digital Hierarchy) transport techniques and on the Softswitch and IP/MPLS (Internet Protocol/Multi Protocol Label

Switching) switching techniques . With respect to switching technologies the network is equipped with softswitch class 4 and IP router. The DWDM and SDH transmission technologies are based on 10 Gbit/s lambdas with traffic protection mechanisms of the MS SPRING (Multiplex Section Shared Protection Ring), SNCP (Sub Network Connection Protection), MSP (Multi Section Protection) type as well as of the “meshed” type.
- **LAN (Latin American Nautilus)**. A high-capacity backbone based on fiber optic ring networks, both land-based and submarine, 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, a total length of 7,000 km and capacity up to 3,8 Tbit/s 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 end-to end 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 crossborder network.

In 2007 we continued our efforts to develop international Internet traffic through the expansion of the European backbone, of transatlantic links and of the USA network. In particular new PoPs were opened on the TIS North America backbone in Atlanta, Dallas and Los Angeles. The TIS Singapore subsidiary implemented a new PoP IP in Singapore, linked to the Palermo PoP and to Los Angeles through a new transpacific link and a fiber optics backhaul infrastructure connecting the PoP located at the landing points of the SEA-ME-WE3 and SEA-ME-WE4 submarine cables providing IP and Data protected services.

Worth mentioning are the activities supporting the development of the European broadband HanseNet and Telecom Italia SAS companies, that is the expansion of:
- Interconnection PoPs in Frankfurt and Paris, respectively;
- The capacity towards the local Internet eXchange Points;
- peering with the main operators.

A new IP PoP has also been implemented in Hamburg to expand the HanseNet interconnection infrastructure.

In order to increase the connection capacity towards the Mediterranean basin countries and the Middle and Far East countries we implemented an upgrade of the Trapani – Kelibia cable towards Tunisia, of the Mestre – Umag cable connecting Italy to Croatia and of the SEA-ME-WE3 cable. We also remarkably expanded the connection capacity of the PoP located at the Sicilian landing points of the Pan-European cross-border backbone submarine cables (in particular SEA-ME-WE4, Med Nautilus, SEA-ME-WE3).

Action to complete the services portfolio for mobile operators includes the introduction of functions for transport of signaling over IP (SIGTRAN access for Global Signaling), the SMS hub and Virtual Home Environment services, allowing mobile operators (TIS customers) to provide their customers with international roaming advanced services available on the domestic network and SMS anti-fraud platform which provides mobile customers with functions for filtering fraudulent texts (spamming, spoofing, etc.), in keeping with the standards of the GSM Association.

In 2007 we also further developed the NGN (Next Generation Network) platform in view of the full implementation of the IMS (IP Multimedia Subsystem) architecture, through the introduction on the network of:
- a new softswitch for VoIP (Voice over IP) traffic handling;
- the SBC (Session Border Controller).

The latter platform allows among else a better protection of the TI Sparkle network from attacks or frauds, better performances in terms of interaction among the VoIP protocols used by the various interconnected operators and an effective end-to-end quality monitoring.

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.

HLR (Home Location Register): a database recording all information concerning individual users.

GGSN (Gateway GPRS Support Node): a node accessible from an external packet network or from the GPRS system of another packet mobile network.

SGSN (Serving GPRS Support Node): the reference node for mobile terminals, i.e. the interface between the GPRS backbone network and the radio access network.

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

BSC (Base Station Controller): Interface with the MSC switching exchange. Its task is supervising and controlling radio resources, both during the phase when a call is being set up and during the maintenance phase. In particular, it configures each cell by assigning traffic channels, control, set up and release of the connection between PCM channels (between MSC and BSC) and phonic control channels (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.

Cell: 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.

MSC-Server: junction supervising and controlling the MGW equipment.

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; It also performs functions which are strictly associated with managing.

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

The Telecom Italia GSM/EDGE network comprises about 14,018 radio base stations (as compared to 13,865 in December 2006, +1,1%) and 737,208 radio channels (as compared to 720,720 in December 2006, +2,3%). Over 456 BSC are also operating on the network (-4 units as compared to 2006). We continued the planning and implementation of the UMTS network whose expansion in priority areas quite exceeds the 3G license obligations. The Telecom Italia UMTS network comprises 9,787 radio base stations (as compared to 8,027 at the end of 2006, +21,9%) and 1,188,544 radio channels (showing a 52.6% growth as compared to 778,976 at the end of 2006).

We continued the implementation of the network plan to distribute the **HSDPA** (High Speed Downlink Packet Access) phase 1 (3,6 Mbps in downlink) and at the same time to introduce the HSDPA phase 2 (7.2 Mbps in downlink) and the **HSUPA** (High Speed Uplink Packet Access) phase 1 (1.46 Mbps in uplink); these performances aim on the overall to increase the speed of the data transmission package offered by UMTS.
About 8,910 radio stations of the UMTS access network (the so-called node B), were updated. In order to distribute the HSDPA phase 1; about 750 of these radio stations have been updated to distribute HSDPA phase 2 and about 750 for **HSUPA**.
Also operating on the network are 73 RNC (+6 units as compared to the end of 2006).

The process of modernizing the GSM exchanges with older technologies has begun, so that new, about the core network 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 controlling and supervising the MGW (Media GateWay) equipment;
– the MGW for traffic switching and media adjustment.

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.

We are also upgrading the packet data network to traffic requirements.

At 12.31.2007 the GSM network includes: 70 MSC exchanges, 10 transit exchanges and 9 Gateways.
At 12.31.2007 the GSM/UMTS network includes: 33 MSC servers, 48 MGWs, 48 HLRs, 10 GGSNs and 34 SGSNs.

Effects of the Bersani Decree on domestic service rates

With effect from March 5, 2007 and in compliance with the Bersani Decree, Telecom Italia has eliminated the top-up charges from all the rate plans and for all top-up channels. Furthermore, the traffic purchased by Telecom Italia customers does not expire and can be transferred free to another Telecom Italia number in that customer’s name or to another number belonging to another Telecom Italia customer.

Telecom Italia undertakes to transfer all the benefits of its simplified rate plans to its customers by:

- **offering tailor-made and flexible refill cards with new amounts**: with effect from April 2, 2007, in addition to the traditional amounts, Telecom Italia has introduced “Choose your refill” (Ricariche su misura), which allow customers to refill their phone for the amount they choose, using the amount left over or available coins;
- **eliminating the connection charge in new rate plans**: for the new “TIM Club” and “Tutto Compreso” rate plans there is no connection charge and, in the version for subscribers, there is a bonus which also reimburses the government license tax;
- **promising not to raise rates**: neither for old or new rate plans;
- **providing constant comparisons on the effective costs of traffic**: information has been made available on the TIM website which enables customers to make correct comparisons between rate plans based on indications supplied by the National Regulatory Agency).

Furthermore, with the aim of keeping its customers informed, a Press campaign has been conducted entitled “TIM: transparency you can see” published in the main national and local newspapers. The aim of the Press campaign is to define the position of the company following the Bersani Decree and to emphasize the leadership of the operator by interpreting and re-launching the pact with its customers with regard to transparency, fair business and simplified rates.

European BroadBand

The Business Unit

The Business Unit offers Broadband access and services in European metropolitan areas in France, Germany and the Netherlands through the subsidiaries Telecom Italia S.A.S., HanseNet GmbH and BBNed N.V..

The structure of the Business Unit

EUROPEAN BROADBAND		
GERMANY	**FRANCE**	**THE NETHERLANDS**
Telecom Italia Deutschland Holding HanseNet Telekommunikation GmbH	Liberty Surf Group S.A.S. Intercall S.A. Telecom Italia S.A.S.	BBNed N.V. BBeyond B.V. InterNLnet B.V.

Major corporate events/scope of consolidation

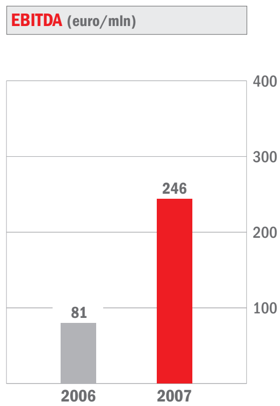
Note should be taken of the following:

- on February 28, 2007, Telecom Italia Deutschland Holding finalized the purchase of the AOL access business in Germany (Broadband and Narrowband) from the Time Warner Group. The consideration paid amounts to euro 666 million and includes euro 663 million for the cost of the investment, euro 6 million of transaction costs and euro 3 million of cash acquired. On June 22, 2007, the companies purchased by the Time Warner Group were merged in and with HanseNet Telekommunikation GmbH;
- on July 18, 2007, the purchase of the 100% stake in the company InterNLnet B.V. by BBNed was finalized. The total cost was euro 5.5 million, including euro 1.7 million of cash. The aim of this transaction is to facilitate the repositioning of BBNED at the retail level by acquiring greater expertise in the segment of optic fiber services.

Main operating and financial data

The following table shows the key results in 2007, compared to 2006.

	2007	2006	Change	
(millions of euro)			amount	%
Revenues	1,545	915	630	68.9
EBITDA	246	81	165	°
% of Revenues	*15,9*	*8,9*		
EBIT	(69)	(125)	56	44.8
% of Revenues	*(4,5)*	*(13,7)*		
Capital expenditures	508	467	41	8.8
Headcount at year-end (number)	4,551	3,066	1,485	48.4



The key results by business area reported in 2007, compared to 2006, are presented below:

Germany (Hansenet + AOL) (millions of euro)	**2007**	**2006**	**Change** amount	%
Revenues	1,074	528	546	103.4
EBITDA	281	145	136	93.8
% of Revenues	*26.2*	*27.5*		
EBIT	126	63	63	100.0
% of Revenues	*11.7*	*11.9*		
Capital expenditures	344	196	148	75.5

France (Telecom Italia S.A.S.) (millions of euro)	**2007**	**2006**	**Change** amount	%
Revenues	394	310	84	27.1
EBITDA	(51)	(94)	43	45.7
% of Revenues	*(12.9)*	*(30.3)*		
EBIT	(191)	(198)	7	3.5
% of Revenues	*(48.5)*	*(63.9)*		
Capital expenditures	150	254	(104)	(40.9)

The Netherlands (BBNed) (millions of euro)	**2007**	**2006**	**Change** amount	%
Revenues	77	77	–	0.0
EBITDA	16	30	(14)	(46.7)
% of Revenues	*20.8*	*39.0*		
EBIT	(4)	10	(14)	
% of Revenues	*(5.2)*	*13.0*		
Capital expenditures	14	17	(3)	(17.6)

Revenues amount to euro 1,545 million in 2007 and record an increase of euro 630 million (+68.9%) compared to 2006. Organic growth for the year, that is, on a comparable consolidation basis, is euro 246 million, +18.9%. This result is supported by the increase in the Broadband customer portfolio, due as a result of both the growth of sales activities and owing to the acquisition of the AOL Internet businesses which, at December 31, 2007, reached 3.4 million accesses (1.1 million of which stem from the acquisition of AOL Germany). Similarly, at the end of 2007, the Narrowband customer portfolio reached 0.8 million accesses compared to 0.2 million at the end of the prior year.

Specifically, revenues from business conducted in Germany, equal to euro 1,074 million, show an increase of 103.4% compared to 2006 (+euro 546 million); organic growth is 17.8%. The Broadband customer portfolio in Germany at December 31, 2007 exceeds 2.3 million users and grew by about 1.4 million compared to December 31, 2006; the growth would be +0.3 million excluding the users reached with the new acquisitions.
With regard to the French area, in 2007, revenues amount to euro 394 million, up 27.1% compared to the prior year (+euro 84 million).
Compared to December 31, 2006, the Broadband customer portfolio has more than 901 thousand users, increasing by 16.3% (+126 thousand new customers).
The Netherlands contributed euro 77 million to total revenues which is in line with performance in 2006. The loss of ADSL Wholesale lines in the country (-54 thousand lines) was compensated by the increase in the number of customers in the Retail, Voice and Fiber (Wholesale and Retail) area (+56 thousand lines).

EBITDA is euro 246 million and records an increase of euro 165 million compared to 2006. The percentage of EBITDA to revenues is 15.9% against 8.9% in 2006.

At the organic level, EBITDA grew by euro 118 million (+89.4%) over 2006. Details are as follows:

(millions of euro)	2007	2006	Change (amount)	Change %
HISTORICAL EBITDA	**246**	**81**	**165**	**203.7**
Effect of change in scope of consolidation	–	51		
Non-organic (income) expenses:	4	–		
Restructuring costs	*4*	–		
COMPARABLE EBITDA	**250**	**132**	**118**	**89.4**

With regard to changes in costs, the following should be noted:

- acquisition of goods and services totals euro 1,146 million, increasing 54.7% over 2006 (+euro 405 million), on a par with the growth of business;
- employee benefits expenses amount to euro 191 million and increased by euro 67 million compared to 2006 (+54.0%) partly due to the increase in headcount as a result of the acquisition of AOL Germany.

EBIT is a negative euro 69 million, an improvement of euro 56 million (+44.8%) compared to 2006.

At the organic level, EBIT grew by euro 17 million (+20.7%) from 2006. Details are as follows:

(millions of euro)	2007	2006	Change (amount)	Change %
HISTORICAL EBIT	**(69)**	**(125)**	**56**	**44.8**
Effect of change in scope of consolidation	–	43		
Non-organic (income) expenses already described under EBITDA	4	–		
COMPARABLE EBIT	**(65)**	**(82)**	**17**	**20.7**

The improvement in EBIT was achieved despite a considerable increase in depreciation and amortization charges (+euro 115 million). Such charges were due to both significant investments in network infrastructures and information systems and to commercial development where subscriber acquisition and activation costs, under contracts for a minimum period of 12 months with a penalty for early cancellation, are capitalized and amortized.

Capital expenditures amount to euro 508 million, an increase of euro 41 million compared to 2006. This increase is mainly due to technical projects (network and IT) and higher Customer Activations largely due to LLU access at the exchanges of the incumbent operators.

Headcount at December 31, 2007 is 4,551, an increase of 1,485 compared to December 31, 2006 including 612 people with temp work contracts (626 at December 31, 2006). The increase is principally due to the AOL Germany acquisition (1,101 people), with the remaining number attributable to the growth of the operating departments (call centers and networks) of HanseNet, Telecom Italia S.A.S. and the BBNed Group.

Key factors and general information on services

France

France is one of the most important Broadband markets in Europe.
During 2007, the French market was again highly competitive with the majority of bundled offerings rich in content and at some of the lowest prices on the European market (about euro 30 per month for dual and triple play rate plans (Video, Voice and Data).
The technological evolution of the offering continued with the launch of the first packages for Ultra-broadband services on fiber by the Iliad group and the development of similar projects by France Telecom and Neuf Cegetel.

Considering this environment, the Telecom Italia Group's French subsidiary has continued to focus its strategy on achieving excellence both in terms of operations and profitability by:

- **extending network coverage** which, at the end of 2007, reached a total of 687 Unbundling sites;
- **focusing commercial activities on LLU offerings**, also through a repositioning of prices;
- **developing the product range**, with particular reference to triple play content. The main achievements during 2007 refer to:
  - extension of international destinations included in Voice Bundle packages and Premium options for calls to new international destinations and mobile numbers;
  - upgrading of IPTV offerings (both for the base component and premium options, with a total of more than 180 channels to choose from) and VOD (with a catalog of over 1500 titles);
  - launch of the AliceMusic service in partnership with EMI Music, giving legal unlimited download capabilities to the approximately 320,000 titles found in the catalog;
  - partnership with TF1 in the management of the www.aliceadsl.fr portal (content and marketing of advertising space);
  - the launch of the "Naked ADSL" offering in areas not covered by Unbundling.
- **focus on the quality of service**, strengthened by the launch of the "Alice pour Vous" campaign which contractually formalizes the commitment to excellence in the quality of service offered, with mechanisms for monetary reimbursement to the customer in case the commitment undertaken is not met;
- **development of Group synergies** for the wholesale offering and with Multinational Corporate clientele.

Germany

The German market is Europe's largest in terms of the number of Broadband lines and continues to have interesting growth potential. Technological evolution is also generating new elements for development as a result of the moves made by the incumbent Deutsche Telekom with regard to the VDSL offering.
The Broadband market is now concentrated in the hands of four or five major players and HanseNet is seen as one of the main broadband operators in terms of the number of customers. During this last year there was a certain amount of activity as the holdings of various players changed hands following initiatives undertaken by some competitors to purchase interests in other listed players.

In this context, HanseNet directed its efforts to consolidating the positive results achieved and reinforcing its position on the market, and basing its strategy on the following guidelines:

- **extending network coverage**, both with its own network (891 Unbundled sites at the end of 2007) and through its partners Telefonica and QSC (1,616 Unbundled sites at the end of 2007);
- **maximizing synergies with AOL**: during the year, organizational integration was achieved for commercial channels (an important factor in Alice's multichannel strategy) and the new joint Alice-AOL portal. Furthermore, up-selling activities of Alice offerings to the existing AOL customer base (Broadband and Narrowband) had a successful start while the technical migration of AOL customers to Telecom Italia's IT systems was concluded within the established time frame.
- **innovating the offering**: HanseNet was the first alternative operator on the German market to offer a complete Quadruple Play plan integrating ADSL2+, Voice, IPTV Mobile offerings (as a Mobile Virtual Network Operator (MVNO).
  The following principal achievements during 2007 are worthy of note:
  - launch of the mobile component, with special focus on the promotions for "On-Net" traffic and unified invoicing;
  - improvement of the IPTV service (more than a total of 100 channels available between base and premium packages, VOD with over 1200 titles in the catalog and extended coverage to about 150 cities (with more than 10 million dwellings covered);
  - upgrade and simplification of the ADSL offering by increasing the connection speed for all to 16 Mega;

  - launch of a revised national offering for the areas not covered by Unbundled services based on Wholesale DT;
  - adoption of a pricing strategy aimed at maintaining Alice's competitive positioning;
- **focus on the quality of service**, particularly with regard to VOIP services;
- **consolidation of the Alice Brand** and intensification of Brand Awareness, channeled through important communication campaigns;
- **development of Group synergies** for the wholesale offering and with Multinational Corporate clientele.

Netherlands

The Dutch market has undergone an important consolidation process within the sphere of the wholesale offering due to the fact that KPN has acquired numerous ISPs; there is also a particularly significant offering of broadband cable services. The incumbent KPN's announcement of a plan to develop the VDSL offering fits into this context. It led to moves by the Dutch regulator (OPTA) to reach agreements with operators about how the technological change of the offering and the consequent period of transition should be managed. This negotiation process led to the signing of a Memorandum of Understanding between BBNed and KPN in July 2007, followed by additional steps forward in arriving at the final agreement.

The response of the Dutch subsidiary in this context is moving in the direction of rationalizing its offering on the market and developing new technological platforms. Efforts are concentrated in this sense also on action to reposition the company vis à vis the competition and the goal-oriented development of the Consumer and Business retail offering. Consequently, in July 2007, the acquisition was finalized for the InterNLnet operator which is active in residential retail, both with ADSL and Fiber offerings. Integration of the technology platforms was therefore set in motion in addition to aligning them to the Group standards, together with the integration of personnel and acquisition of clientele, with the aim of maximizing the resulting synergies.

On August 2007, the Retail ADSL Dual Play offering was launched under the Alice Brand also in the Netherlands bringing Dutch customers' connections to speeds of up to 20 Mega. Alice customers at the end of 2007 equal 12,000 lines. The operational priorities were the affirmation of the Alice Brand and the consolidation of the Provisioning and Customer Care processes.

Marketing and distribution

In France, Germany and the Netherlands, Broadband plans under the Alice brand are marketed using a multichannel strategy. The push and pull distribution mix enables the Group to reach different segments of potential customers, along with sales initiatives in the "generalized" national channels that are better geared geographically to boost acquisitions in areas directly covered by unbundling services.

The main sales channels are:

- Call Center
- Web
- Retail
- Sales partners.

Brazil Mobile

Photo: Rodrigo Fanti.

The structure of the Business Unit

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:

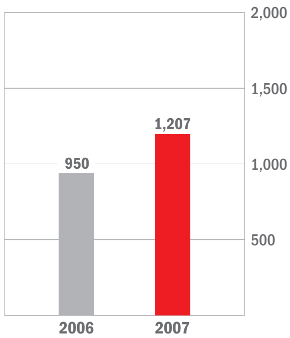
BRAZIL MOBILE
Tim Brasil S.A.
Tim Participaçoes S.A.
Tim Celular S.A.
Tim Nordeste S.A.

Main operating and financial data

The following table shows the key results in 2007, compared to 2006.

	(millions of euro)		(millions of BRL)			
	2007	2006	2007	2006	Change	
					amount	%
			(a)	(b)	(a-b)	(a-b)/b
Revenues	4,990	3,964	13,293	10,836	2,457	22.7
EBITDA	1,207	950	3,214	2,596	618	23.8
% of Revenues	*24.2*	*24.0*	*24.2*	*24.0*		
EBIT	150	21	399	58	341	°
% of Revenues	*3.0*	*0.5*	*3.0*	*0.5*		
Capital expenditures	865	699	2,305	1,910	395	20.7
Headcount at year-end (number)	10,030	9,531	10,030	9,531	499	5.2

EBITDA (euro/mln)



Consolidated revenues of the Tim Brasil group in 2007 total BRL 13,293 million and grew by BRL 2,457 million compared to 2006, with an increase of 22.7% (+26.5% for revenues from services alone). The improvement is due to the growth of voice services and value-added services supported by the continual expansion of the customer base (+23.0% compared to 2006) and the success of commercial offerings.

It should be noted that in July 2006, Anatel (the Brazilian regulatory agency) eliminated the “Bill and Keep” regulation under which 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 an Operator fell within a 45-55 range. “Under the current regulatory regime on a comparable basis, the growth of consolidated revenues in 2007 compared to 2006 would have been 14.8% for total revenues and 17.3% for revenues from services.

Consolidated EBITDA in 2007, totaling BRL 3,214 million, increased by BRL 618 million compared to 2006 (+23.8%). As a percentage of revenues, EBITDA is 24.2% and is 0.2% higher than in 2006.

The organic growth of EBITDA compared to 2006 is BRL 607 million (+23.3%). Details are as follows:

(millions of BRL)	2007	2006	Change (amount)	%
HISTORICAL EBITDA	**3,214**	**2,596**	**618**	**23.8**
Non-organic (income) expenses:	–	11		
Corporate reorganzation costs	–	*11*		
COMPARABLE EBITDA	**3,214**	**2,607**	**607**	**23.3**

The good sales performance mirrored in the growth of revenues was partially absorbed by higher sales costs for the promotion of new customer acquisitions, new converging product launches and customer retention initiatives.
Moreover, as a result of implementing the new system for credit and collection management in the third quarter of 2007, the company conducted an in-depth analysis of the trade receivables for installment sales of cell phone equipment and consequently recorded lower receivables for a total of BRL 173.3 million. This adjustment resulted in a reduction in revenues of BRL 54.7 million for installment sales for which, as part of the above customer retention initiatives, it was decided not to take action to recover the receivables from these customers. As a result, a loss on receivables of BRL 118.6 million was recognized for installments sales made to parties which at this date are not active customers of the company.

Excluding such adjustments, revenues grew by BRL 2,512 million (+23.2%) in 2007 compared to 2006 and EBIDTA rose to BRL 3,387 million, showing an improvement of BRL 791.3 million (+30.5%). As a result, the percentage of EBITDA to revenues is 25.4% or 1.4 percentage points higher than in 2006.

With regard to costs, the following should be noted:

- acquisition of goods and services, equal to BRL 7,487 million, increased by 23.9% compared to 2006 (BRL 6,042 million), mainly following higher interconnection costs and the relative change in the accounting criterion (“Bill and Keep”);
- employee benefits expenses, equal to BRL 595 million, increased by BRL 25 million compared to 2006 (+4.4%) due to a higher headcount. The percentage of employee benefits expenses to revenues is 4.5% (5.3% in 2006);
- other operating expenses total BRL 2,185 million (BRL 1,754 million in 2006) and include miscellaneous expenses (BRL 1,422 million in 2007 compared to BRL 1,274 million in 2006) mainly relating to indirect duties and taxes, TLC operating fees, impairments, bad debts expense and losses on receivables (BRL 715 million in 2007 compared to BRL 449 million in 2006) and other items (BRL 48 million in 2007 compared to BRL 31 million in 2006).

Consolidated *EBIT* in 2007 is a positive BRL 399 million (BRL 58 million in 2006). The improvement in the result compared to 2006 was achieved despite higher depreciation and amortization charges (BRL 2,791 million in 2007 compared to BRL 2,540 million in 2006) mainly as a result of capital expenditures for network infrastructures, IT systems and subscriber acquisition costs. Effective January 1, 2006, subscriber acquisition costs (subsidies for the purchase of handsets under contracts for a minimum period of 12 months with a penalty for early cancellation), are capitalized and amortized in relation to the contract period. The capitalization of these costs increased the depreciation and amortization charge in 2006 by BRL 158 million and BRL 361 million in 2007.

At the organic level, EBIT in 2007 is BRL 330 million higher than in the prior year. Organic growth can be analyzed as follows:

(millions of BRL)	2007	2006	Change (amount)	%
HISTORICAL EBIT	**399**	**58**	**341**	**°**
Non organic (income) expenses	–	11		
Non-organic (income) expenses already described under EBITDA	–	*11*		
COMPARABLE EBIT	**399**	**69**	**330**	**°**

Capital expenditures in 2007 amount to BRL 2,305 million (BRL 1,910 million in 2006), with an increase of BRL 395 million, directed toward expenditures to augment the customer base, for which an amount of BRL 377 million was capitalized during the year.

Headcount at December 31, 2007 is 10,030, up 5.2% compared to December 31, 2006 (9,531).

Key factors and general information on services

In 2007 the Brazilian market of mobile lines grew by 21.1%, reaching a total of 121.0 million lines at December 31, 2007 (63.5% penetration of the population), compared to 99.9 million at the end of 2006 (53.2% penetration). The Tim Brasil group consolidated its position as the second-largest operator on the Brazilian market with 31.3 million lines and growth of 23% compared to the end of 2006, increasing its market share of lines to 25.8%, compared to 25.4% at the end of 2006. At December 2007, the gap between the group and the largest operator narrowed even more (1.9 percentage points compared to 3.7 percentage points at the end of 2006. 96.9% of the Tim Brasil customer base is served by GSM technology.

In 2007, the strategy of the Tim Brasil group focused on:
- launching and developing convergent rate plans in the sphere of voice/data/Internet services using bundled packages;
- acquiring, in the first half of 2007, a license to render switched fixed telephone services (SFTS). As a result, a sales plan was launched (in October 2007) for the convergent offering “TIM Casa Flex” which marks the entrance of TIM Brasil into the fixed-line services market;
- developing the “TIM Web” offering portfolio of Advanced Services and data transmission (GPRS and EDGE) services for mobile internet access;
- launching and developing the “Plano 1” package; the package is a pioneer in the domestic market offering top-up charges at a low cost, promoting greater access to Mobile telephone services in Brazil;
- offering promotions intended to boost on net traffic and the community concept (“7 centavos” and “zero rate” plans);
- continuing to improve the level of customer service and reinforcing loyalty and retention policies in the high-consumption segments;
- renewing, in September 2007, certain authorizations for the right to use 800 MHz, 900 MHz and 1800 MHz band frequencies for 15 years. The renewal will require a two-year payment of a tax equal to 2% of revenues from services in the prior year;
- awarding, in September 2007, of 14 lots in the 900/1800 MHz range of band frequencies. These additional frequencies go towards consolidating the coverage capacity and the quality of GSM service at a national level;
- awarding, in December 2007, of the license for 3G services throughout the national territory worth BRL 1.3 billion (about euro 520 million) with an average premium of 95% compared to the starting price at auction. The contract is expected to be signed in the first few months of 2008.

Marketing and distribution

In 2007, TIM Group’s services in Brazil were marketed through the biggest large-scale distribution network consisting of approximately 8,800 points of sale targeting the consumer clientele. In terms of composition, 9% of these points of sale are made up of owned or franchised stores and 27% by exclusive resellers. The remaining 64% is composed of multibrand points of sale of the organized large-scale distribution channel, this being a channel focused on guaranteeing adequate coverage over the entire national territory. Again in the consumer channel, the company also has more than 254 thousand points of sale for top-up services, of which 41% are virtual channels.
With regard to the business segment, in 2007 the company has more than 150 direct and exclusive Key Account Managers for large companies and a network of more than 586 partner agencies (TIM Business Promoters) dedicated to small/medium-size companies.

Media

The Business Unit

The Media Business Unit is organized into the **Television** and **News** Business Areas:

– the “Television” Business Area produces and broadcasts editorial content through the use of analog and digital broadcasting networks. This Business Area manages satellite channels and pay-per-view services using Digital Terrestrial technology. In particular, in 2007, in response to the evolution of the reference context the Group modified its Business Model according to the following activities:
  - *Free to Air*, with the activities of the two analog broadcasting network operators La7 and MTV;
  - *Multimedia*, with the role of “Competence Center” of the Telecom Italia Group in the conceptualization and creation of content offering for the IPTV, DVBH and Rosso Alice platforms and the development of content and channels on the satellite and interactive platforms (Web and Mobile);
  - *Digital Terrestrial TV*, through the consolidation of the Soccer PPV business model, the offering of new content and the leasing of digital bandwidth to third parties.

– 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 and special reports from its offices in Rome and Milan and from abroad (Brussels, New York and Moscow).

The structure of the Business Unit

The Business Unit is organized as follows:

MEDIA	
Television	**News**
Telecom Italia Media S.p.A.	Telecom Media News S.p.A.
Telecom Italia Media Broadcasting S.r.l.	
MTV Italia S.r.l.	
MTV Pubblicità S.r.l.	

Major corporate events/scope of consolidation

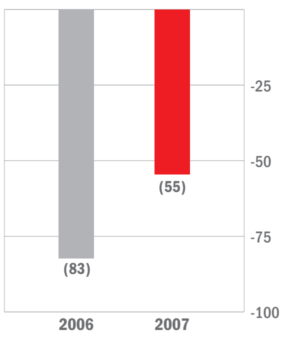
As part of the process to complete the merger of HMC S.p.A. and HMC Pubblicità S.r.l. in a wind-up in Telecom Italia Media S.p.A., on July 13, 2007, the merger deed was signed with effect on July 17, 2007.
The transaction did not involve any changes to the bylaws or any increase in share capital to service the merger, since Telecom Italia Media held, directly and indirectly, 100% of the share capital of the two merged companies.

Main operating and financial data

The following table shows the key results in 2007, compared to 2006.

(millions of euro)	2007	2006	Change amount	Change %
Revenues	263	207	56	27.1
EBITDA	(55)	(83)	28	33.7
% of Revenues	*(20.9)*	*(40.1)*		
EBIT	(117)	(137)	20	14.6
% of Revenues	*(44.5)*	*(66.2)*		
Capital expenditures	69	85	(16)	(18.8)
Headcount at year-end (number)	1,016	919	97	10.6

EBITDA (euro/mln)



Revenues total euro 263 million in 2007, with an increase of 27.1% compared to euro 207 million in 2006. The positive trend of revenues can be attributed to the growth of the gross domestic advertising business (+11.6%) which grew at a considerably higher pace than that of the Italian television market which recorded an increase of 1.2% in 2007 (source Nielsen). This confirms the editorial affirmation of the broadcasting of the two channels and the considerable rise in the revenues of the Digital Terrestrial platform as a result of broadcasting Serie A soccer games.

In greater detail:

- revenues of the Free to Air business area, for analog in 2007, total euro 160 million, with an increase of 10.9% compared to the prior year. The revenues of the two broadcasters La7 and MTV from analog transmission grew, respectively, by 15.8% and 7.8% and advertising on La7 rose by 15.8%;
- revenues from the Multimedia sector amount to euro 32 million, an increase of 33.5% compared to the prior year, and benefit from the considerable advertising contribution, especially on Internet platforms;
- revenues from Digital Terrestrial activities stand at euro 63 million, with an increase of 99.0% compared to 2006. The growth of revenues benefited from development of the commercial "La7 Cartapiù" offering partly as a result of the good start of the new 2007-2008 soccer season and was achieved partly as a result of the positive contribution deriving from the agreements reached with Mediaset and Telecom Italia for broadcasting the audio-visual content of Serie A soccer games on the DTT and DVBH platforms;
- revenues from the News Business Area amount to euro 10 million, with an increase of 8.6% compared to 2006.

EBITDA in 2007 is a negative euro 55 million, with an improvement of euro 28 million (+33.7%) compared to a negative EBITDA in 2006 of euro 83 million.

Organic growth is euro 24 million (+31.2%). Details are as follows:

(millions of euro)	2007	2006	Change amount	Change %
HISTORICAL EBITDA	**(55)**	**(83)**	**28**	**33.7**
Non-organic (income) expenses:	2	6		
Restructuring costs	*2*	*3*		
Other expenses	*–*	*3*		
COMPARABLE EBITDA	**(53)**	**(77)**	**24**	**31.2**

In particular, operating profitability during 2007 shows an improvement of euro 27 million in Digital Terrestrial activities compared to 2006, and besides the above growth in revenues (+euro 31 million), a more efficient management of the platform and the effect of steps taken to rationalize costs on the digital Free to Air channels (La7 Sport and QOOB).

Profitability of the Multimedia sector also recorded an improvement over the prior year, increasing from euro 8 million to euro 11 million thanks to the positive contribution of advertising which grew by 25.9%.

While revenues for Free to Air activities increased as described above, operating profit was affected by the impact of actions that had begun in the prior year aimed at concentrating resources for focusing the broadcasting schedule on programs with a higher audience/advertising return. As a result, during the last part of the year, higher costs were incurred in comparison with 2006 and EBITDA consequently went from - euro 31 million in 2006 to –euro 32 million in 2007.

EBIT in 2007 is a negative euro 117 million, improving by euro 20 million compared to 2006. The improvement in operating income, previously described, was reduced in part by higher depreciation and amortization charges during the year (+euro 7 million) as a consequence of capital expenditures made for the digital network infrastructures, the economic return of which has been delayed due to the known issues surrounding the postponement of the switch off.

The organic change is a positive euro 17 million (+12.9%), calculated as follows:

	2007	2006	Change	
(millions of euro)			amount	%
HISTORICAL EBIT	**(117)**	**(137)**	**20**	**14.6**
Non-organic (income) expenses:	2	5		
Non-organic (income) expenses already described under EBITDA	2	6		
Additional non-organic (income) expenses:	–	(1)		
Other (income) expenses, net	–	*(1)*		
COMPARABLE EBIT	**(115)**	**(132)**	**17**	**12.9**

Capital expenditures total euro 69 million (euro 85 million in 2006) and mainly refer to investments in the Television area in connection with Digital Terrestrial activities (euro 29 million) and the acquisition of television rights (euro 26 million).

Headcount at December 31, 2007 is 1,016 (919 at December 31, 2006) and includes 72 people with temp work contracts (47 at December 31, 2006). The increase is principally attributable to the new “IPTV and Broadband Content” areas and the expansion of the “Regulatory Affairs” structure and is closely related to Telecom Italia Media’s mission as the “Content Competence Center” of the Telecom Italia Group.

Key factors

Within the framework of its strategies to develop innovative services, the Telecom Italia Group has decided to maximize on its expertise in the development of traditional and multimedia content, by concentrating it in Telecom Italia Media. In this context, on March 8, 2007, the boards of directors of Telecom Italia S.p.A. and Telecom Italia Media S.p.A. approved an agreement to entrust Telecom Italia Media with the exclusive responsibility of creating and producing the television content offering on the IPTV and DVB-H technological platforms (as well as on the portal “Rosso Alice”, but only for “television” content), with an exclusive mandate to acquire the rights for doing so in the name of and on behalf of Telecom Italia.

As a result of this agreement, Telecom Italia Media has become the “Competence Center” on television content for the Telecom Italia Group, exploiting its expertise and know-how and further confirming its status as a key multimedia operator in the Italian television scenario.

Olivetti

The Business Unit

The Olivetti Group operates in the digital printing systems and ink-jet office products sectors. In addition it also develops and manufactures products using silicon technology (ink-jet printheads and MEMS) and also specialized applications for the banking field and commerce and information systems for managing forecast games and lotteries, electronic voting and e-government. 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)

Major corporate events/scope of consolidation

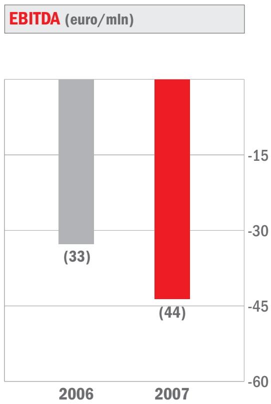
Note should be taken of the following:

- in February 2007, the company Olivetti Tecnost Nederland B.V. was put into a wind-up and cancelled from the register of companies;
- in July 2007, the company Olivetti Chile S.A. was put into a wind-up and cancelled from the register of companies;
- Consorzio Mael S.r.l. was merged in Olivetti S.p.A on August 13, 2007;
- in December 2007, Olivetti Do Brasil (and its subsidiaries Multidata Eletronica Industria e Comercio – in a wind-up and Diaspron do Brasil – in a wind-up) was sold to Telecom Italia America Latina;
- in giving execution to the resolution passed by the extraordinary session of the shareholders' meeting held on December 14, 2006, the board of directors of Olivetti S.p.A. resolved, on December 12, 2007, to raise share capital from euro 154,000,000 to euro 184,000,000 through the issue of 30,000,000 ordinary shares of euro 1.00 each. The capital increase was entirely subscribed to and paid in by the sole shareholder. The resolution was recorded in the register of companies on January 2, 2008.

Main operating and financial data

The following table shows the key results in 2007, compared to 2006.

(millions of euro)	2007	2006	Change amount	%
Revenues	408	440	(32)	(7.3)
EBITDA	(44)	(33)	(11)	33.3
% of Revenues	*(10.8)*	*(7.5)*		
EBIT	(66)	(50)	(16)	(32.0)
% of Revenues	*(16.2)*	*(11.4)*		
Capital expenditures	8	10	(2)	(20.0)
Headcount at year-end (number)	1,279	1,428	(149)	(10.4)



Revenues amount to euro 408 million in 2007, decreasing by euro 32 million (-7.3%) compared to 2006. This reduction remains unchanged net of changes in the scope of consolidation, the foreign exchange effect and the consideration received on the sale of the research activities. From the standpoint of business lines, the decrease in revenues in 2007 can be ascribed mainly to lower sales of ink-jet products and accessories, especially during the last few months of the year, as well as gaming products. The reduction was compensated in part by revenues from the new activities at Carsoli and new activations of rent contracts. Printers used for banking applications, although reporting lower sales because of the weak U.S. dollar against the euro, grew during the period in terms of sales volumes by 13% compared to 2006.

EBITDA in 2007 is a negative euro 44 million, a deterioration of euro 11 million compared to the prior year (negative per euro 33 million). The negative EBITDA can mainly be ascribed to multifunctional products and ink-jet technology.

In view of the persisting negative situation recorded by Olivetti, which is forecast also for the years to come with regard to the prospects of the multifunctional products segment, a series of actions have been decided with the aim a bringing about a rapid economic turnaround of the Business Unit.
These actions have resulted in the recognition of restructuring and reconversion expenses during the year which, at the level of EBITDA, amount to euro 25 million. Of this amount, euro 7 million is composed of costs connected with a reduction in employees, euro 7 million to inventory writedowns and euro 10 million to expenses and other accruals.
Such expenses are mainly due to the decision to halt the development, manufacture and marketing of multifunctional products and also refer to other phenomena (the above writedowns and accruals include euro 4 million concerning non-multifunctional product lines).

The organic change in EBITDA is unchanged compared to the prior year.
Details are as follows:

(millions of euro)	2007	2006	Change (amount)	%
HISTORICAL EBITDA	**(44)**	**(33)**	**(11)**	**(33.3)**
Effect of change in scope of consolidation	–	(2)		
Effect of change in exchange rates	–	(5)		
Non-organic (income) expenses:	25	21		
Restructuring costs	*7*	*8*		
Industrial reconversion costs	*17*	*13*		
Other (income) expenses, net	*1*	*–*		
COMPARABLE EBITDA	**(19)**	**(19)**	**–**	**–**

EBIT is a negative euro 66 million in 2007, which is a deterioration of euro 16 million compared to 2006. Restructuring and reconversion costs at the level of EBIT amount to euro 32 million, euro 25 million of which is described under EBITDA and euro 6 million is for the impairment loss on industrial assets relating to multifunctional products.

The organic change in EBIT is a positive euro 4 million (+10.5%). Details are as follows:

(millions of euro)	2007	2006	Change (amount)	%
HISTORICAL EBIT	**(66)**	**(50)**	**(16)**	**(32.0)**
Effect of change in scope of consolidation	–	(2)		
Effect of change in exchange rates	–	(5)		
Non-organic (income) expenses:	32	19		
Non-organic (income) expenses already described under EBITDA	25	21		
Additional non-organic (income) expenses:	7	(2)		
Other (income) expenses, net	1	(2)		
Asset impairment losses due to industrial reconversion	6	–		
COMPARABLE EBIT	**(34)**	**(38)**	**4**	**10.5**

Capital expenditures amount to euro 8 million in 2007, with a decrease of euro 2 million compared to the prior year.

Headcount at December 31, 2007 is 1,279, of whom 1,143 are in Italy and 136 outside Italy. The reduction of 149 people, compared to December 31, 2006, is mainly attributable to the termination of employment and to a lesser degree to infragroup transfers to Telecom Italia.

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In December 2007, Eastman Kodak Company indicated its interest in the long-term supply of multifunctional printers and related ink-jet heads which would be marketed by that company under its own brand.

Talks are currently underway to assess whether there is the eventual possibility of maintaining in Olivetti the manufacturing capacity currently dedicated to those products and achieving, in other ways, the objectives set by the company for its prospective economic turnaround.

Other operations

“Other Operations” of the Telecom Italia Group are formed by the financial companies, the foreign operations not included in the Business Units already described and other minor companies not associated with the core business of the Telecom Italia Group.

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

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

With effect from March 1, 2007, the rate structure of both fixed and mobile telephony was revised as a result of a Supreme Decree which imposed, among other things, the rounding of the call-time to the next second rather than the next minute and also eliminated the preferential On-Net mobile rate.

Fixed telephone lines at December 31, 2007 total 79,229, increasing 6.5% over December 31, 2006. More than 50% of this increase is in reference to Aquì Entel public telephone points.

During 2007, Internet and Data activities were supported by special promotions on both rates and terms for activating new Broadband ADSL lines. At December 31, 2007, Broadband customers total 14,098, an increase of almost 68% compared to December 31, 2006 (about 8,400).

Mobile business customers at December 31, 2007 are about 1,756,000, increasing from the end of 2006 (1,443,000) by more than 21%.

The increase was achieved, even though the market is highly competitive, as a result of repetitive sales offers which enabled the user, in absolute fact, to double traffic capacity for the same top-up charge. During the month of December, instead, another initiative was successfully launched to encourage new activations of prepaid GSM cards.

* * *

On March 29, 2007, the Bolivian government, in pursuing its policy of nationalizing numerous privately-owned companies, issued a legislative measure to set up a ministerial commission to start, conduct and conclude negotiations, within 30 days of the publication of the measure, with the aim of “bringing back” Entel S.A. (acquired in 1995, with a payment of USD 610 million, by the Telecom Italia Group through the Dutch vehicle company ETI, owned entirely by Telecom Italia International) into the hands of the Bolivian government. The above-mentioned measure accuses Entel Bolivia and ETI with having committed a series of grave administrative and fiscal irregularities. Telecom Italia participated in the meetings with the commission with the sole aim of hearing the government’s position with regard to the “repossession” of Entel Bolivia but has rejected all the accusations of having committed the irregularities with which it has been charged.
Subsequently, on April 23, 2007, the Bolivian government adopted two more measures with which it abrogated all the laws on the basis of which the previous government had acknowledged that Entel Bolivia had fulfilled the obligations it had assumed when the company was privatized, declaring that all initiatives put into place in executing the abrogated laws (particularly the capital reduction by Entel Bolivia approved at the end of 2005) would be punishable by law, and also annulled a series of further administrative measures, especially

one passed in 1995, which had launched the Entel Bolivia privatization process.
On October 12, 2007, after an unsuccessful attempt at conciliation, an arbitration request was filed by ETI with ICSID (International Centre for Settlement of Investment Disputes, a body of the World Bank with headquarters in Washington, USA). The arbitration request covers the violation of the international treaty for the protection of foreign investments in Bolivia and the payment of compensation for the damages suffered as a result of the measures put into place by the Bolivian government.
On October 31, 2007, ICSID announced that the ETI arbitration request summoning the Bolivian government had been filed. The arbitration board will be appointed during 2008.

* * *

Two tax disputes are pending against Entel Bolivia: the first for the alleged failure to apply withholding taxes on the portion of share capital reimbursed in 2005 to a non-resident shareholder. The alleged taxes evaded, together with additional charges and interest, are estimated at about euro 42 million. The rulings of the courts of the first instance before the Superintendencia Tributaria has upheld the position taken by the Tax Authorities. Entel Bolivia has thus filed an appeal before the Corte Suprema de Justicia.

The second, instead, refers to the alleged failure to apply indirect taxes to a significant portion of 2002 revenues. The alleged taxes evaded, together with additional charges and interest are estimated at about euro 22 million. In this case, too, the verdict is pending before the Corte Suprema de Justicia after three judgments against the company by the Superintendencia Tributaria.

On the basis of opinions by its internal and external experts, the company deems that it has sufficient technical and legal arguments to obtain a ruling in its favor and has therefore not set aside any accruals in the provisions for liabilities.

Other international investments accounted for using the equity method

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

The Group operates in the sectors of fixed and mobile telecommunications, internet and data transmission in Argentina and also offers mobile telephone services in Paraguay.

At December 31, 2007, land lines in service (also including installed public telephones) are about 4,208,000, with an increase of 3% compared to December 31, 2006 (4,095,000).

There are about 768,000 broadband accesses, with an increase of 71% compared to the end of 2006 (448,000).

In the mobile business, the customer base of the Group reached approximately 12,285,000 users at December 31, 2007 (13% of which is in Paraguay), with an increase of about 28% compared to December 31, 2006 (9,589,000). The number of postpaid customers increased by 24% from the end of December 2006 and represents 31% of the total customer base and is essentially in line with the percentage at the end of 2006. The customers using GSM services now stand at 96% of the total customer base.

ETECSA
Held by: Telecom Italia International 27%

The company operates a monopoly in the sectors of fixed and mobile communications, internet and data transmission in Cuba. At December 31, 2007, the number of land lines in service (also including installed public telephones) is about 1,052,800, increasing 8% compared to December 31, 2006. Of the lines in service, 50,400 are invoiced in U.S. dollars and the others, associated with the social development of Cuban telecommunications, in Cuban pesos. Although the market is small, the number of internet and data customers grew significantly to 23,500 accesses at December 31, 2007 (20,000 at the end of 2006).

In the mobile telephony business, the customer base exceeds 198,200 users at the end of 2007, an increase of 30% compared to December 31, 2006 (152,700). The increase is mainly concentrated in the prepaid segment, which represents 90% of the total. During 2007, the migration of customers from TDMA towards GSM technology continued and is now used by 91% of the total customer base (compared to 81% at the end of 2006).

* * *

Since 2002 Banco Nacional de Comercio Exterior ("BancoMext") has been in a dispute with ETECSA and TELAN (majority shareholder of ETECSA, controlled by the Cuban government) over alleged guarantee obligations in respect of a $300 million BancoMext loan to Cuba. A series of contracts between ETECSA, TELAN, Central Bank of Cuba, Intesa BCI and BancoMext were established to guarantee this loan.
The dispute determined (i) an action brought by BancoMext in Italy to obtain an order of precautionary sequestration, and (ii) an international arbitration.
On February 14, 2008 Bank of Cuba, Central Bank of Cuba and BancoMext signed a "Memorandum de Entendimiento" in which the elements to settle the dispute and to define the agreements for debt restructuration established.

Regulatory framework and competition

Regulatory framework in Italy

The legal basis for the electronic communications sector is as follows:

– Law 36 of February 22, 2001 regarding protection from exposure to electric, magnetic and electromagnetic fields and Prime Ministerial Decree of July 8, 2003, which established "Exposure limits, attention values and quality goals to protect the population against electric, magnetic and electromagnetic fields generated at frequencies between 100 kHz and 300 GHz";
– 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;
– Decree Law 7 of January 31, 2007, (converted into law, with modifications, by Article 1 of Law 40, dated April 2, 2007) containing "Urgent measures for the protection of consumers, promotion of competition, development of economic activities, creation of new companies, exploitation of technical and professional training and the demolition of vehicles" which, for the electronic communications sector, abolished top-up charges and prohibited the expiry of phone traffic on prepaid phone cards.

Furthermore, the ECC confirmed the responsibilities attributed under previous legislation to the Ministry of Communications and the Communications Regulatory Authority ("AGCom"):

- the Ministry is responsible for State functions and services in respect of postal services, telecommunications, multimedia networks, informatics, telematics, radio and television broadcasts and innovative technologies applied to the communications sector;
- AGCom, established by Law 249 of July 31, 1997, is an independent regulatory authority and guarantor.

  It must report on its operations to Parliament, which established its powers, defined its bylaws and elected its members. AGCom has the dual responsibility of ensuring that there is fair competition among the operators on the market and protecting consumers.

Operators with significant market power

On November 13, 2007, the European Commission published its new Recommendation on Relevant Markets, reducing from 18 to 7 the number of markets that according to the Commission, should be subject to ex-ante regulation.

In 2008, therefore, it is expected that AGCom will review its regulatory framework in accordance with the European Commission's indications.

The major developments in 2007 regarding markets in the electronic communications sector are described below.

Retail fixed markets

In 2007 the general regulatory framework was maintained for all the fixed retail markets through the Price Cap mechanism and price controls on rate plans; as defined by Resolutions 33/06/CONS (which until December 31, 2007 regulated the retail markets for access to the public telephone network provided at a fixed location – fees and subscriptions of RTG and ISDN lines – for residential customers and businesses), 642/06/CONS (which until December 31, 2009 regulates the local, domestic and fixed-mobile services markets – retention component only – for residential customers and businesses) and 380/06/CONS (which regulates the markets for publicly available international telephone services, for residential and non-residential customers, provided at a fixed location).

Moreover, on the access markets AGCom made it obligatory for Telecom Italia to provide the Wholesale Line Rental (“WLR”) service only in the areas that do not provide unbundled access services, with a price which is calculated by means of the retail minus pricing method (equal to the retail subscription charges less 12%). Since the end of 2007, when marketing of the WLR service began, Telecom Italia has been authorized to offer bundled traffic-access rate plans.

In 2007 Telecom Italia launched two price cap initiatives for the retail supply of Direct Circuits (CDA and CDN with speeds of up to 2 Mbit/s).

Last year AGCom also concluded its market analysis of dial-up retail Internet traffic (Market 20): this market was deemed competitive (Resolution 606/07/CONS).

Wholesale fixed markets

Network Cap

AGCom has confirmed (in Resolutions 4/06/CONS and 417/06/CONS) the continuation of the Network Cap mechanism for calculating the prices of wholesale collection, termination and transit services and of unbundled network-access services (e.g. Local Loop Unbundling and Shared Access). This mechanism also applies to dedicated circuits (Resolution 45/06/CONS), with the aim of ensuring that cost orientation is used to calculate the prices of the Terminating segments, the interurban Trunk circuits and the Interconnection Flows.

Telecom Italia lodged appeals with the Lazio Regional Administrative Court against these resolutions because of issues that principally concerned the infringement by AGCom of the principles of non-retroactivity of the administrative measures and the use of cost orientation to calculate the prices of several services.

Markets 13 and 14 (Dedicated transmission services - Terminating and Trunk Circuits, Interconnection Flows and Internal Exchange Connections)

The 2008 Reference Offer for Terminating and Trunk Circuits, Interconnection Flows and Internal Exchange Connections was published by Telecom Italia on October 30, 2007 in accordance with Article 5.2 of Resolution 45/06/CONS. AGCom is currently assessing the Offer.

Market 12 (Bitstream services)

On May 29, 2007, in Resolution 249/07/CONS, AGCom published a definitive Ruling on wholesale broadband access services (bitstream services).
The Resolution, in addition to what was communicated to Telecom Italia in February 2006 in Resolution 34/06/CONS, contains further regulatory measures which significantly alter the Italian regulatory landscape in respect of wholesale offers of bitstream access.
The main changes introduced by Resolution 249/07/CONS include:

- the communication of retail offers to AGCom with 30 days’ prior notice;
- the determination of offer prices that take into account costs and other drivers (efficient costs, benchmarks, etc.);
- a minus ratio for the “naked bitstream” equal to 20% to be applied to the consumer access price.

On June 13, 2007, in accordance with the provisions of Resolution 249/07/CONS, Telecom Italia published its 2007 Reference Offer for bitstream services, proposing a technical solution to make its own Multicast solution available to Operators.

The Offer was approved by AGCom after it issued Resolutions 115/07/CIR and 133/07/CIR approving the technical and economic conditions respectively, valid in 2007.

On January 11, 2008, in accordance with the provisions of Resolution 133/07/CIR, Telecom Italia republished its definitive Reference Offer for 2007.

Market 11 (Wholesale unbundled access services to metallic loops and sub-loops)

On March 21, 2007 Telecom Italia republished its 2006 Reference Offer relating to Market 11 in accordance with Resolution 83/06/CIR, in which, amongst other things, AGCom revised the economic terms relating to the 2006 Reference Offer published on March 3, 2006 (within the meaning of Resolution 4/06/CONS).

On September 5, 2007 Telecom Italia published its revised Reference Offer for the years 2006 and 2007 in accordance with the provisions of Resolution 107/07/CIR, communicated to Telecom Italia on August 6, 2007.

On October 31, 2007, Telecom Italia published its 2008 Reference Offer in accordance with the provisions of Resolution 4/06/CONS. It should be noted that the period of application of the Network Cap mechanism for the calculation of prices, set out in the same Resolution, ended in 2007.

Regarding access services (unbundled access services, Bitstream and WLR), the Technical Panel, which comprises representatives of market operators and of Telecom Italia, is now working to define the technical procedures necessary for the activation of new accounts and the migration of customers between the Operators defined by AGCom in Resolution 274/07/CONS published in the *Gazzetta Ufficiale* dated June 26, 2007.

Following a public consultation on the regulatory aspects of how the access network is structured (initiated under Resolution 208/07/CONS), in December 2007 in Resolution 626/07/CONS, AGCom opened the procedure for the review and eventual adoption of regulatory measures aimed at promoting conditions of effective competition in the access markets to the fixed network.

The purpose of the procedure is to identify and analyze the following markets: i) the wholesale unbundled access market (including shared access) to networks and sub-networks, for the provision of broadband and voice services; ii) the wholesale broadband access market; and iii) the retail access markets to the public telephone network provided from a fixed location for residential and non-residential customers.

Markets 8, 9 and 10 (Collection, Termination and Transit services for calls on the fixed public telephony market)
On October 30, 2006 Telecom Italia published its 2007 Reference Offer regarding Markets 8, 9 and 10 in accordance with the provisions of Resolution 417/06/CONS.

As mentioned earlier in respect of Market 11, on September 5, 2007, Telecom Italia published its revised 2007 Reference Offer, after it was approved in Resolution 107/07/CIR, and published the 2008 Reference Offer on October 30, 2007.

Telecom Italia lodged an appeal against Resolution 107/07/CIR, highlighting in particular the gravity of the fact that AGCom had maintained the rate of euro 0.81 per call for the billing service (equal to less than 1/3 of its cost), envisaging additional expense for Telecom Italia for the management of credit related to the Non-Geographical Numbers of other licensed operators (OLOs).

In respect of the price of termination on the networks of other operators, in Resolution 417/06/CONS AGCom set a maximum price equal to 1.54 euro/min., valid until June 30, 2007 and a price equal to 1.32 euro/min, valid from 1 July 2007 to 30 June 2008, with an annual reduction that will bring the price to 0.55 euro/min by 2011.

At the same time, in light of Resolution 417/06/CONS, several notified operators requested AGCom to authorize a termination price over the maximum level, whenever the requested termination price was justified by costs.

In Resolution 692/07/Cons, AGCom ruled on a request for a derogation from fixed termination costs for alternative operators. Up to 30/06/2007 Fastweb was given a rate of euro 2.60, while BT Italia and Tiscali were given rates of euro 2.28 and euro 2.24 respectively.

AGCom also ruled that beginning on July 1, 2007 the accounting model for efficient alternative operators should be applied, which envisages a reduction in termination rates for all operators with a view to achieving symmetry by the year 2010.
The measures relative to the accounting model and reduction of the tariffs were notified in January to the European Commission and were submitted to public consultation.

In particular, AGCom established: a) the achievement by the year 2010 of symmetry between all the termination tariffs of fixed network operators, therefore including Telecom Italia, at a rate of 0.57 euro/min.; b) a gradual drop from 2007 to 2010 of the termination tariffs of alternative operators, based on procedures that take account of infrastructure levels; and c) that operators who have not requested a derogation from the general regime (Wind) also be allowed to apply different and higher tariffs with respect to those originally fixed in Resolution 417/06.

A public consultation on this matter, initiated in Resolution 26/08/Cons, is currently under way.

Mobile markets

AGCom did not introduce any new obligations in the mobile market or for international roaming services with respect to the existing ones; moreover, in Resolution 3/06/CONS it defined the maximum termination prices on the networks of the mobile operators TIM, Vodafone and Wind with a target price in 2008 of 0.89 euro /min for TIM and Vodafone and of 0.95 euro /min for Wind.

As regards H3G, in confirming the operator's obligations under Resolution 628/07/CONS, at the end of 2007, AGCom imposed for the first time the maximum termination price for H3G (originally 18.76 euro cents/min), in the amount of 16.26 euro cents/min beginning on March 1, 2008 and ordered the same operator, again for the first time, to prepare a system of regulatory accounting in line with the accounting obligations of the other mobile operators.
The revision of the obligations set out in the above-mentioned Resolution and in Resolution 3/06/CONS will be based on the outcome of the proceeding launched in Resolution 342/07/CONS, which concerns the termination of all four notified mobile operators in Market 16.
AGCom also launched a market analysis, which is still under way, of access and call collection in public mobile telephone networks (Market 15).

In Resolution 504/06/CONS of September 2006, AGCom had identified on a provisional basis and as an emergency measure, the following mobile network operators as having significant market power in the same market: Telecom Italia, Vodafone, Wind and H3G.

The Resolution was not, however, confirmed by the Authority within the specified time limit (February 28, 2007) by the Market 15 bis analysis (concerning the origination of mobile calls towards all non-geographical numbers); AGCom withdrew the draft resolution after the European Commission expressed a series of strong misgivings regarding the proposal.

The Market 15 bis analysis can now be considered part of the Market 15 analysis.

International roaming

Regulation (EC) 717/2007 on international roaming approved by the European Parliament and the Council on June 7, 2007, introduced the "Euro-tariff", a maximum charge for calls made and received abroad, establishing in particular:
- an average wholesale price cap for outgoing calls;
- a price cap for maximum retail prices for outgoing and incoming calls ("Euro-tariff").

Mobile telephone operators made the Euro-tariff available to all their customers on July 30, 2007.

For customers whose rate plan did not already include roaming and who immediately requested it, the Euro-tariff was applied beginning on August 30, 2007.

For customers who did not request its application and whose rate plan did not already include roaming, the Euro-tariff was applied beginning on September 30, 2007.

All customers whose rate plan already included roaming were able to request immediate application of the Euro-tariff.

With specific reference to the application of EU law:
- the European Commission deemed that the measures taken by Telecom Italia complied with the new regulation on prices and declared as much;
- Telecom Italia was deemed to have also complied with the obligation to notify customers of the relevant information.

The Regulation is valid for three years, during which time the Commission together with the National Regulatory Authorities will ensure it is properly enforced.

The Commission will review the Regulation after 18 months to establish whether it is necessary to prolong its effects or intervene again in respect of the tariffs for text messaging and the transmission of data in the roaming market.

Fixed-mobile integration services

In Resolution 415/07/CONS of August 2, 2007, AGCom adopted a regulatory framework for all fixed-mobile integrated services. In particular, the Resolution established that:

1) it is currently impossible to identify a new market for integrated services, although there is a need to monitor competitive dynamics and clarify, through market analysis, if these services can effectively represent a new market, distinct from the existing ones;
2) for now this solution enables unnecessary procedures to be avoided and guarantees the possibility of assessing retail issues underpinning the rules of interconnection and the interoperability of “Vodafone casa” and “Unico” services in the context of market analyses now under way (Markets 15 and 16).

Pre-paid residual credit for mobile customers

In Resolution 416/07/CONS of August 2, 2007 AGCom ordered all mobile operators (including “virtual” ones) to comply, within 45 days of being notified, with the obligation to restore and/or transfer all residual credit to customers with pre-paid SIM cards who wished to terminate their contract or requested number portability.

Telecom Italia filed an objection to this Resolution with the Lazio Regional Administrative Court, despite having opened a procedure for restoring credit to customers in the event of termination of contract or a request of portability of mobile numbers. In Judgment 1775/08 the Court established the incongruity of the deadline for implementing the obligations of operators, with special reference to the transfer of residual credit, and declared null the relevant part of the Resolution.

Specific measures reserved to special customer categories

In Resolution 514/07/CONS dated October 3, 2007 AGCom issued a series of measures concerning favourable economic conditions reserved to particular customer categories for the provision of accessible telephone services to the public.
AGCom confirmed the exemption from the fixed-line rental subscription for deaf residential subscribers and residential subscribers whose family unit comprises a deaf person.

The expense of financing of these subsidies falls within the set of Universal Service obligations.

AGCom also introduced other concessions, which do not fall within the Universal Service provisions:

1) mobile operators should make available to deaf users an offer comprising the sending of at least 50 free text messages per day and in which “*the price of each service available to these users does not exceed the best price for the same service applied by the operator to all its users, including for special promotions*”;
2) operators that provide access to Internet from a fixed location should grant at least 90 hours of free Internet navigation per month to blind users and to users whose family unit comprises a blind person.

Measures on the transparency of telephone bills, selective call blocking and user safeguards

In Resolution 418/07/CONS AGCom introduced new rules for the protection of users, in particular:

- two new free services for blocking outgoing calls to several groups of risky numbers (a permanent disconnection service and a self-administered disconnection service using a PIN);
- a second ad hoc bill, provided on request, for debits relating to calls towards numbers offering premium rate services;

- information on the economic conditions linked to services customers sign up for and on specific administrative aspects governed by contractual conditions (procedures for the suspension of a line in the event of delayed payment, the management of claims, settlement etc.);
- a free service, available on request, which alerts customers if they exceed a pre-determined expenditure threshold.

The Resolution, which took effect on December 14, 2007 (120 days after its publication in the *Gazzetta Ufficiale* of August 16, 2007), was challenged by Telecom Italia before the Lazio Regional Administrative Court, which, in a staying order dated December 13, 2007, ordered AGCom to set new deadlines for the implementation of the measures. To date AGCom has yet to set the new deadlines. Discussion of the merits of the appeal is pending.

Measures protecting consumers in respect of the provision of electronic communications services through remote contracts

In Resolution 664/06/CONS, AGCom adopted rules envisaging, amongst other things, the introduction of Verbal Ordering for the conclusion of remote contracts in order to comply with the obligations to provide information and ensure informed consent, through a complete recording of the relevant conversation.

Setting Universal Service quality goals for 2007

In Resolution 142/07/CSP AGCom included in the quality criteria of Universal Service response times by customer assistance services for users of Telecom Italia's fixed network (this indicator is measured in three separate phases: the time it takes to get through to the Interactive Voice Response (IVR) system, Average Wait Time before speaking with an operator, % of calls answered within 20 seconds). The Resolution, to be applied immediately and fixing the minimum quality standards for the year 2007, was communicated to Telecom Italia on August 9, 2007. The Company responded by lodging an appeal with the Lazio Regional Administrative Court, which it notified on November 5, 2007. To date the Court has not discussed the appeal.

Universal Service

Telecom Italia is responsible for the provision of universal service throughout Italy.
With reference to the funding of the net cost for the year 2003, AGCom issued Resolution 28/07/CIR approving the applicability of a mechanism for sharing the net cost. In particular, the net cost to be financed was set at euro 41 million, with total compensation to be paid to the Telecom Italia "fixed network" of approximately euro 29 million, of which about euro 12 million to be borne by the ex-Tim, and the rest by Vodafone, Wind and Telecom Italia Sparkle.

The above-mentioned procedure will be concluded when AGCom issues a separate order for the revision of the method used to calculate the net cost and following public consultation with regard to the quantification of the cost of the universal service sustained by Telecom Italia in 2003, to which Resolution 22/06/CIR refers.

In its Resolution on public consultation and in Resolution 28/07/CIR, AGCom expressed its intention to apply retroactively a "new method" of calculation, and to introduce it to check the net cost for 2004 (and then for the subsequent years), quantified by Telecom Italia based on the method of calculation in force at the time of presentation (March 31, 2005). Telecom Italia has lodged an appeal against Resolution 28/07/CIR with the Lazio Regional Administrative Court, to prevent it having to comply with the part of the Resolution regarding AGCom's intention to apply the non-specified "new" methodology retroactively.

Regarding the other financial years, AGCom has already launched an inquiry into the financing of the net costs for the universal service provided in the years 2004 and 2005, as presented by Telecom Italia on March 31, 2005 and March 30, 2006, respectively.
To date, AGCom has not yet informed Telecom Italia of the start of the review for those years.

Finally, in compliance with the time limits laid down in the "Electronic Communications Code", on March 29, 2007, Telecom Italia sent AGCom its evaluation of the net cost of providing the universal service for the year 2006. To date, however, AGCom has not commenced any inquiry into this evaluation.

Regarding the administration of the financing fund, in December 2007, the Treasury Ministry approved the payment to Telecom Italia of part (approximately euro11 million) of the sums paid by the operators in the form of contributions to the net cost for the years 1999-2002 but still with the fund.

Turning to the dispute regarding universal service, the Lazio Regional Administrative Court rejected the appeals lodged by Vodafone in Resolutions 14/02 (net cost for the year 2001), 16/04 (net cost for the year 2002) and 28/07 (net cost for the year 2003). The favourable outcome of the rulings for Telecom Italia on the years 2001, 2002 and 2003 accordingly confirms the validity of the resolutions requiring the alternative operators (fixed and mobile, and in particular Vodafone) to contribute to the fund in respect of unfair charges for the universal service in an amount corresponding to the amounts indicated therein.

Despite having dismissed the majority of the objections raised by Vodafone in its Resolution on the year 2000 (23/01), in Judgement 11260/07 the Lazio Regional Administrative Court partially upheld some criticisms of the inquiry proceedings. Telecom Italia has already appealed this ruling to the Council of State.

Accounting separation and fixed network cost accounting

In 2006 AGCom appointed Mazars & Guerard to verify Telecom Italia's accounting separation for the years 2002, 2003 and 2004, establishing that the verification should begin in 2004, and then be extended first to 2003 and then to 2002.

In August 2007, AGCom was responsible for the "Publication of the description and reports on the conformity of the cost accounting system, accounting separation and regulatory accounting of Telecom Italia S.p.A. for the financial year 2004" (Resolution 351/07/CONS, published in the *Gazzetta Ufficiale della Repubblica Italiana* 186 of August 11, 2007). The auditor, as stated in Annex A of the Resolution, concluded that overall the 2004 Regulatory Accounts were drawn up in accordance with the criteria set out in Resolution 152/02/CONS and the applicable sector rules.

Accordingly, the last certified Regulatory Accounts of Telecom Italia are those of 2004.

During 2007 the verification of the 2003 Regulatory Accounts was concluded and AGCom is due to publish the auditor's reports.

The 2002 Regulatory Accounts are still being verified and this process is expected to be concluded by March 2008.

In light of the introduction of the "relevant markets" provisions, it should be noted that the "rules" of the Regulatory Accounts have been updated under Recommendation 2005/698/EC on "Cost accounting and Accounting Separation", in order to take account of the "new" sector regulation, now structured by "relevant markets".

In Italy, AGCom issued resolutions on the relevant markets which, by supplementing and modifying the fixed network obligations for accounting separation and cost accounting imposed by Telecom Italia in Resolution 152/02/CONS, have given rise to a new legal "corpus".

As already pointed out to AGCom, the new rules are not unambiguous and – in some cases – are not completely in line with the above-mentioned EU Recommendation.

Since this state of affairs creates uncertainties regarding the preparation of the 2005 fixed network Regulatory Accounts, Telecom Italia has appealed to AGCom to harmonize the legal framework, in order to make it more consistent with Community principles.

In the last quarter of the year, following these appeals, Telecom Italia formalized the fixed network Regulatory Accounts documentation for 2005, despite the aforementioned lack of harmonization. This documentation was prepared on the basis of methodologies, structures and qualitative and quantitative data consistent with the appeals already presented to AGCom.

Accounting separation and mobile network cost accounting

In compliance with the obligations laid down in Resolution 3/06/CONS, the results of the Regulatory Accounts audit conducted on the historical costs for 2005 were notified, aimed at providing evidence of the costs underlying mobile termination services.

Together with the four mobile operators, AGCom established the technical working panel as per Resolution 3/06/CONS to define the methodological guidelines for the implementation of a “Long Run Incremental Costs” model.

In the context of the newly launched procedure “market for the termination of voice calls on individual mobile networks (Market 16 among those identified by European Commission Recommendation 200/311/EC)” referred to in Resolution 342/07/CONS, economic and quantitative data were provided for the setting of new Network Cap values.

Last year also saw the conclusion of the activities by the auditing firm Mazars & Guerard S.p.A., appointed by AGCom (see Resolution 217/04/CONS, later amended due to material errors by Resolution 324/04/CONS), to verify the Regulatory Accounts at historical costs for the years up to 2004 and at current costs for the financial year 2002.

AGCom fee for 2007

In Resolution 696/06/CONS AGCom established how operators should pay their fee for 2007 and the amounts to be paid.

More specifically, for the year 2007, the fee fixed by Article 1.66 of Law 266 of December 23, 2005, equal to 1.5 per thousand owed to AGCom by companies operating in the communications sector identified in Resolution 110/06/CONS, is calculated based on the revenues recorded in the last financial statements approved prior to the adoption of Resolution 696/06/CONS.

Legislation on competition

Telecom Italia is obliged to observe Italian competition law.

Law 287 of October 10, 1990 (“Provisions for protecting competition and the market”) created Italy’s *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; b) abuses of a dominant position; and c) concentrations of enterprises;
- applying, whenever the necessary conditions exist, the corresponding Community law (Articles 81 and 82 of the EC Treaty);
- applying the standards of Legislative Decree 206 of 2005 with regard to misleading advertising and comparative advertising;
- monitoring conflicts of interest in the case of people holding government posts.

It is important to note that the “Bersani package”, as it is commonly called, attributed additional powers to the Antitrust Authority.

Article 14 of Decree Law 223/06, entitled “Supplementary powers for the Antitrust Authority”, converted into law by Law 248/06, established that the Authority may impose the adoption of precautionary measures and declare obligatory the commitments made and presented by businesses, in order to eliminate any anti-competitive practices, simultaneously ending the proceedings with the finding of a non-violation.

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”).
Authorizations for supplying telecommunications services are granted either in the public sphere (through a concession or permit) or in the private sphere (through an authorization).
At the present time, 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.

Authorizations

- ***Mobile and long-distance telephone services***

  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).

  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. The authorizations for mobile telephony give the companies of the Telecom Italia Group (which operate under the brand name TIM Brasil) coverage of the entire Brazilian territory and include the possibility of offering long-distance calls.

- ***Local fixed telephone services***

  In May 2007, Tim Celular, a company in the Telecom Italia Group, obtained the licenses to operate local fixed telephone networks throughout Brazil; this will also enable the Tim Brasil group to operate in the fixed telephone services market.
  In October 2007, Tim Brasil launched a new convergent service based on a mobile telephone also equipped with a landline number; this number will be active only in the area of coverage where customers reside. Through targeted commercial offers, Tim Brasil can accordingly compete with fixed network operators in the local telephony market.

Rules on interconnection

Telecommunication 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 prevent damage to competition, ANATEL may fix the amounts if the operators do not succeed in reaching an agreement.
The maximum charged for fixed network interconnection by operators with significant market power (SMP) is regulated by a retail minus mechanism (40% of the retail price of the “basic” rate, taking into account the hour the call is made); non-SMP operators can apply rates up to 20% higher than the regulated tariffs. Local interconnection services between fixed network operators apply the partial bill & keep rule (55/45). It is expected that cost-oriented termination rates based on LRIC will be introduced in the future.
Interconnection agreements must be approved by ANATEL before they can be applied.

Significant Market Power (SMP) and instruments for cost orientation

In 2005 ANATEL published a specific regulation regarding operators with significant market power and issued the regulation on “Accounting Separation and Cost Accounting”, introducing the obligation to present the Accounting Separation and Allocation Document to the Concessionaries and groups holding significant market power in the provision of interconnection services for fixed and or/mobile network services and for “wholesale” leased circuits (EILD).

The groups with significant market power and the deadlines for presenting the Document are defined in specific resolutions issued by ANATEL; in particular, all mobile operators are considered to have SMP in the interconnection service in their own area.
Cost-oriented mobile termination tariffs are likely to be introduced from 2010 onwards.

The main regulatory developments in 2007

- **Number portability**
  In March 2007 ANATEL approved the new regulation on the portability of fixed, mobile and non-geographical numbers, and established an implementation plan for the companies involved.
  Portability, for which customers may be charged, will be marketed in the largest towns from December 2008. It will then be extended to the whole of Brazil by March 2009.

- **Cost-orientation instruments**
  Between July and September 2007 a public consultation was held on the methodology used to calculate the Weighted Average Cost Of Capital (WACC) for the regulatory purposes of telecommunications businesses. The findings are expected to be announced in the first half of 2008.
  Mobile network operators will be obliged to present the Accounting Separation and Allocation Document for the first time by April 2008, as envisaged in Resolution 483 of October 24, 2007, which extended the original deadline of October 31, 2007.

- **Frequencies**
  As a result of the assignments of frequencies in 2007, there are now at least four mobile operators active in each area of Brazil.

- **Assignment of frequencies for second generation services**
  In September 2007 the bid for the assignment of new frequency lots in the 900 MHz, 1800 MHz and 1900 MHz bands were held. Tim Brasil was awarded several frequency lots in various areas, which will enable it to expand its range of services nationwide.

- **Assignment of frequencies for third generation services**
  In December 2007, the tender was held for the assignment of frequencies for 3G services in the 2 GHz band. Tim Brasil was awarded a frequency lot in every state of Brazil except for a portion of the state of Minas Gerais.
  The licenses are valid for 15 years and may be renewed for another 15 years. An important feature of the tender rules is the link between the assignment of licenses in key areas (Sao Paulo and its metropolitan environs) and the obligation to provide the service in less commercially attractive areas (the Amazon regions of the North and Northeast).
  Within two years of the authorizations, 3G coverage must be provided to the capitals and cities with over 500,000 inhabitants. Coverage must be extended to all towns with over 200,000 inhabitants within four years. Within five years, 50% of towns with a population of between 30,000 and 100,000 inhabitants and 100% of those with a population outside of this band will have coverage. Within eight years the 3G services will be extended to 60% of the towns with less than 30,000 inhabitants (approximately 2,740 towns).
  For the provision of the service to minor towns, operators may develop solutions based on network-sharing mechanisms.
  Finally, within two years of authorization, 2G coverage must be provided in towns with less than 30,000 inhabitants that are not yet covered by the mobile service (approximately 1,800).

Regulatory frameworks in France, Germany and the Netherlands

Telecom Italia is present in the European retail market, where it markets broadband products under the “Alice” brand: it is represented in France by the company Telecom Italia S.a.S., in Germany by HanseNet Telekommunikation GmbH; and from August 2007 in the Netherlands by the company BBNed, which previously operated in the wholesale and top business markets only.

The regulatory framework in these three countries is the result of the national transposition of the European Framework defined in the European Directives mentioned earlier.

The regulatory framework 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, Opta in the Netherlands). Here too, individual operators with significant market power (and attendant obligations) have been identified as a result of an analysis of the significant markets in those countries. In the retail markets, the three companies mentioned above were not notified as having significant market power in their respective countries.

Regulatory framework in the broadcasting industry

Television

Regulatory reforms in the broadcasting industry and the EU infringement procedure in respect of the Gasparri Law

The Gentiloni bill has expired without being approved by the previous government. This has repercussions on the EU infringement procedure focusing on conflicts between the Gasparri Law (and the Consolidation Law on Broadcasting) regulating bandwidth, and the European statutory framework. The issue is bound to become a priority for the new administration which must choose between: either (i) formally amending the current text of the statute, to allow all corporations to bid for setting up digital networks, or (ii) drastically changing the current reform policy for the broadcasting industry.

Moreover, the recent decision by the Council of State, reflecting the ruling of the European Court of Justice in the Centro Europa 7 case, could also have far-reaching implications for Italian broadcasting. In that case, the European Court of Justice ruled that the Italian government's refusal to release bandwidth to Europa for commencing operations, as required under the government license issued in 1999, constituted a breach of community law. However, the assignment of bandwidth to Europa 7, free of charge, at this late stage, would disrupt the market, insofar as the "new" broadcaster would be provided access to a capital asset (bandwidth) that other competitors had to acquire through bidding.

Bandwidth

AGCom resolution 53/08/CONS sets forth the "Bandwidth assignment plan for digital television broadcasting in the Region of Sardinia, in anticipation of the switch-off", in light of the conclusions of the technical round-table, set up pursuant to resolution 603/07/CONS, that brought together all the parties involved in network digitalization in Sardinia.

The aforesaid plan defines the criteria for the transition of Digital Terrestrial in Italy's first all-digital region, and in particular: (i) confirms that operators will be allowed to use single-frequency networks for digital broadcasting, (ii) identifies the criteria underlying the international negotiations underway with neighboring countries and (iii) establishes the rules for converting already existing networks and related broadcasting rights.

Under the AGCom plan, Telecom Italian Media is assigned 4 networks, including at least 2 covering 80% of the national territory and all provincial capitals. The plan leads to greater coverage of the four networks operated by Telecom Italia Media and asset stabilization.

Telecom Italia Media's goals are:

- quick conclusion of the single frequency planning to avoid negative effects of the Geneva agreements;
- release of bandwidth to new operators, for consideration;
- the assignment of four MUXs to Telecom Italia Media, with coverage at least equal to that of the networks currently in operation;
- not worsening of beneficial relationships with other network operators, especially RAI and Mediaset;

The Ministry and AGCom have undertaken to assign the bandwidth — temporarily, pending the conclusion of international talks — by late March/early April, so as to allow for switch-off in Sardinia by the end of October 2008.

Television advertising

AGCom has amended the rules on television advertising (resolutions 12/08/CSP and 162/07/CSP — at present suspended pending a legal challenge by Mediaset), in a last-ditch effort to avoid an infringement procedure being opened by the EU Commission focusing on the incomplete transposition of the TV Without Frontiers Directive into Italian legislation.

The shortcomings raised by the Commissions include: (i) failure to assimilate self-promotion and advertising, and non-compliance with thresholds; (ii) minimum duration of teleshopping windows — 15 minutes — and inclusion of teleshopping spots — 3 minutes — as part of advertising time; (iii) ineffectiveness of the Italian enforcement system. The new rules resolve the first two issues.

The Italian government filed its reply by the required deadline (February 11, 2008), pointing to the promulgation of the aforesaid resolutions which substantially address and resolve community concerns.

The issue most relevant to Telecom Italia Media involves the enforcement framework which currently imposes fines calculated without any regard to the benefits reaped through the underlying regulatory misconduct. AGCOM bears a lot of the responsibility for the current situation, since under the statutory framework, the regulator was bound to ensure that sanctions are determined in light of the size of the offending corporation, a factor that has been totally ignored so far.

Market 18

On 23 November, AGCom passed Resolution No. 544/07/CONS "Market of radio and television broadcasting services for the broadcasting of content to end users (market No. 18 on the list of markets identified in the recommendation on significant markets, contained in European Commission Directive No. 2003/311/CE): market identification and analysis, assessment of the presence of operators with significant market power". The Resolution identifies RAI and Mediaset as dominant operators in a position of joint dominance on the analog broadcasting market.

The remedies under consideration include the co-placement of analog plant. It is in Telecom Italia Media's interest for these remedies to be extended to the digital sector, especially for the switch-off areas where single bandwidth networks may be used by extending the same bandwidth over several broadcasting plant. The results of the consultation are to be announced in the spring of 2008.

Disposal of 40% of digital MUX broadcasting capacity

Following the publication of the rules governing the tender procedure for selecting parties to be assigned 40% of the broadcasting capacity of Digital Terrestrial networks subject to disposal, by resolution 645/07/CONS, AGCom established the rules for the submission of bids and the terms and conditions applicable to national and local broadcasters lacking coverage and suppliers of independent content, intending to participate in the tender.

RAI, Mediaset and Telecom Italia Media are the parties bound to dispose of 40% of their broadcasting capacity. Whilst raising no objection to the obligation to dispose of 40% of its broadcasting capacity, Telecom Italia Media, however, challenges its subjection to the same terms and conditions applicable to RAI and Mediaset, resulting in the deprivation of its right to freely negotiate the disposal of the said percentage. Telecom Italia Media has brought legal action on this issue.

The bids are currently awaiting AGCom approval. The time periods contemplated for the tender procedure shall be deemed to run from the date of publication of the said lists, following AGCom approval. The tender is not expected to be completed before the end of June 2008.

Amongst other things, the rules allow for Telecom Italia Media Group's analogue channels to be hosted in the regions with Digital, on the MUX of RAI and Mediaset, at arm's length terms, to make up for any shortfalls in analog coverage (coverage of less than 80% of Italian territory and all the provincial capitals).

This possibility represents an opportunity for the Telecom Italia Media Group to ensure that La7 and MTV enjoy the same coverage as RAI and Mediaset channels.

European content

The Finance Law for 2008 (Bill 1817) contains a revision of the rules in favor of independent Italian procedures, as part of regulations aimed at promoting European content. In particular, whilst the percentages of broadcast-time and investment that each national broadcaster must devote to European content, are confirmed, the rules introduce subquotas and investment commitments in favor of Italian films produced in the past five years. Pursuant to the "Thousand Extensions" ("Milleproroghe") Decree the Group's broadcasters may avail of the option to apply for an exemption from these obligations, open to all broadcasters that generated no profits or that acquired a market share of less than 1%, in terms of revenues from advertising sales, teleshopping, sponsorships, agreements and contracts with public and private entities, public subsidies and pay-TV offerings, or that operate theme-specific channels, taking due account of actual market availability of the content in question.

Governmental subsidies
The government has not yet announced its decision regarding the formula for determining the penalties to be imposed on the companies — Mediaset, Telecom Italia Media and Fastweb — which indirectly benefited from subsidies for the purchase of decoders in years 2004 and 2005.

News
The bill containing the "New regulatory framework for publishing and investing the Government with powers for the promulgation of the Consolidation Law on the reform of the regulatory framework in the publishing sector", promoted by the Finance Act for 2007 (article 1, paragraph 1245), expired with the end of parliamentary session that closed on January 24, last.

Competition

Our domestic fixed and mobile telecommunications operations, as well as our broadband services businesses are subject to strict regulatory requirements in Italy and our international operations and investments are subject to similarly stringent regulation in 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
Following the full liberalization of the Italian domestic market for telecommunications services, we have faced increasingly stiff competition since 1998 from more and more competitors.

In 2007 competition in the Italian domestic market continued to be characterized by offering innovation through the introduction of bundled voice/broadband (double play) and bundled voice/broadband/IPTV (triple play) offers.

Market development also continued to be defined by migration from a primarily reseller approach (Carrier Selection/Carrier Pre Selection for voice and Wholesale for ADSL) to an infrastructure-based approach (Shared Access but especially Local Loop Unbundling- "ULL").

During the year the first phenomena of fixed-mobile convergence emerged as an additional competitive model (the launch of MVO by fixed operators and the acquisition of Tele2 by Vodafone).

In 2007 competition in the Italian domestic market was dominated by five players (other than Telecom Italia) with differentiated business models focusing on different market segments:
- Fastweb (a national player focused on broadband services and value-added 3Play offers), acquired by Swisscom;
- BT Italia (focused on business customers and ICT offers: voice, IT data and solutions);
- Wind-Infostrada (an integrated fixed/mobile/Internet operator specialized in retail customers with medium/low-cost 2Play offers);
- Tiscali (a narrowband and broadband internet operator, developing medium/low-cost 2Play/VoIP offers);
- Tele2 (voice services, dial up Internet and broadband, specialized in retail customers with low-cost 2Play/VoIP offers), purchased by Vodafone.

Telecom Italia's market share of Italian retail traffic (retail voice only and on-line traffic), on December 31, 2007, stood at 71,1%, as against 71.9% on December 31, 2006 and 72.3% on December 31, 2005. Our most significant competitors in this segment are: Tele2 and Wind; BT Italia and Fastweb are focused on specific market segments (business customers for BT Italia and high-spending customers for Fastweb).

For some time now, the Italian fixed voice market has been a target for cannibalization: this is explained, on the one hand, by the development of mobile operators, which can attract voice traffic thanks to the advantage of mobility and the huge range of value added services and high performance terminals; and on the other by the growing popularity of alternative communication solutions (text messaging, e-mail, chat).

In 2007 the broadband market continued to grow at the same rate as in 2006 and was subject to increased competitive pressure. Broadband has become more than just a facilitator of Internet access; its market penetration is driven by a growing demand for speed and access to new Voice Over IP services (VoIP, Content, Social Networking Services, On Line Gaming, LAN Point, IP Centrex, etc.).

In the top customer markets and the data transmission market competition remained high and had an impact on average prices.

We believe that our combination of service, performance, quality, reliability and price is an important factor in maintaining our strong competitive position in this market. Telecom Italia will continue to seek out new business opportunities in high-growth sectors (e.g. ICT and Pay TV), delivered via innovative technologies and platforms.

Domestic mobile telecommunications services market

In 2007 the mobile telephony market in Italy experienced its first ever contraction, primarily due to regulatory interventions (the reduction of fixed-mobile termination costs, the reduction of international roaming tariffs and the scrapping of mobile top-up charges under the Bersani Decree). Net of these measures the market grew by 4-5% thanks to the ongoing increase in the number of lines, the migration of traffic from fixed to mobile and the strong growth in VAS and mobile browsing supported by technological developments (UMTS, HSDPA).

At December 31, 2007, the number of cellular phone lines reached 90.2 million with a penetration rate of the population of around 153%. Telecom Italia confirmed its continued market leadership with a market share of 40.3%, while the other operators reported market shares of 32.9% (Vodafone), 17.3% (Wind) and 9.1% (H3G).

In terms of net purchases of GSM and UMTS lines, in 2007 Telecom Italia held a market share of 40%, representing an increase of 3.9 million lines, compared with 3.5 million for Vodafone, 0.9 million for Wind and 1.1 million for H3G.

In 2007 mobile virtual network operators (MVNOs) gained access to the domestic mobile market thanks to commercial agreements signed with other mobile network operators (e.g. COOP/Telecom Italia, Poste Italiane/Vodafone; Carrefour/Vodafone). The mobile virtual operators have positioned themselves in the low band of pre-paid mobile rates of the traditional operators.

Competition for mobile telecommunications services remained strong in 2007 and Telecom responded with:

- innovative offers and offers targeting specific market segments to defend its leadership position;
- a strategy focused on volume and value;
- solutions for leveraging the benefits from fixed and mobile integration, limiting price wars between fixed and mobile telephony;
- focus on handset leadership (8.8 million handsets sold in 2007) - successful TIM 3G strategy: 3.9 million 3G handsets sold in 2007;
- 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, the strengthening of our sales network and the development of innovative and convergent services are important factors in maintaining our position in a complex competitive and regulatory scenario such as Italy's.

The European broadband market

Germany

Germany is the top broadband market in Europe in terms of size, with 19 million broadband connections, equal to approximately 50% penetration of total fixed lines, and it continues to demonstrate significant prospects for growth (CAGR 07-10 +10%) .

It is characterized by:

- five main competitors and room for further mergers and acquisitions following the recent consolidation process;
- an increase in alternative operators' LLU coverage and VDSL/Fibre Optic network projects;
- increasing penetration of dual and triple play offers and fixed-mobile convergent offers, partly as a consequence of the commercial campaigns of O2 and Vodafone;
- in the first quarter of 2007 the main players launched more aggressive policies on pricing, which is still above the European average.

HanseNet's strong performance in 2007 was mainly due to:

- an increase in the ADSL customer base to 2.349 million users of which 1.083 million acquired by AOL (approximately 929,000 broadband customers in 2006);
- the extension of LLU network coverage to 60% of families in Germany at the end of 2007 (the sites covered by the proprietary network total 891, while those covered through its partners QSC and Telefónica amount to 1,616);
- the completion of the operational integration with AOL with the maximization of synergies: an organization that combines the resources and expertise of HanseNet with those of AOL; the migration of AOL clients to HanseNet systems; the integration of commercial channels; and the up-selling of the AOL customer base to offerings made under the "Alice" brand. In 2007 cost savings due to synergies with AOL exceeded €25 million;
- the launch of a commercial partnership with the Time Warner Group, which created a dedicated portal under the joint Alice-AOL brand;
- innovation of the offering: HanseNet was the first alternative operator in the German market to launch a complete Quadruple Play offer, integrating ADSL2+, Voice, IPTV and mobile offers (as a Mobile Virtual Operator).

Following the acquisition of AOL Germany, HanseNet became the third largest broadband operator in Germany with an ADSL market share of around 13%. The other main ADSL operators are: T-Online with a 46% market share, United Internet with 14%, Arcor with 13% and Freenet with 7%.

France

In 2007 the French market for broadband services expanded to around 15 million lines, equal to approximately 49% penetration of the total number of fixed lines, and it is continuing to grow at a rapid pace. The principle characteristics of this market are:

- intense competition, focused on product innovation (the launch of ADSL2+, the leading market in terms of penetration of VoIP and IPTV services in Europe);
- the stabilization of the average prices for the triple play offerings (at around €30 per month for all operators);
- the launch of offerings for Ultra-Broadband fibre services by part of the Iliad group and development of similar projects by France Telecom and Neuf Cegetel.

In 2007, Telecom Italia France's performance was marked by:

- the consolidation of its market position thanks to an increase in its ADSL customer base, which climbed to 901,000 broadband lines in December 2007 (+16% compared with 2006);
- an ADSL market share equal to approximately 6% at the end of 2007. The other main competitors are: France Telecom with 49%, Neuf/Cegetel with 22%, and Iliad with 20%;
- the ongoing development of its product range, and especially triple play content:
  - the extension of available IPTV channels (including through its partnership with Canal+) and of the Video on Demand offering;
  - the renovation of the "Alice" portal and creation of a partnership with TF1 for the introduction of new content and the management of advertising on the portal;

  – the enhancement of the voice offering by increasing international destinations included in the Basic Voice Bundle and the launch of new premium options towards additional international destinations and mobile numbers.
- focus on commercial activities on the LLU offering;
- the launch of the “Alice pour Vous” campaign which contractually formalized our commitment to excellence in the quality of the service offered, with mechanisms for cash reimbursements to customers in the event the commitments made are not met;
- the expansion of the LLU network, which at the end of 2007 extended coverage of the unbundling service to 687 “Ready for Service” sites.

The Netherlands

The Dutch market has undergone an important process of consolidation driven by KPN’s acquisition of numerous ISPs; there is also a significant offering of broadband services via cable.

The incumbent KPN’s announcement of a plan to develop the VDSL offering fits into this context. It lead to moves by the Dutch regulator (OPTA) to reach agreements with operators about how the technological change of the offering and consequent period of transition should be managed. This negotiation process led to the signing of a Memorandum of Understanding between BBNed and KPN in July 2007.

It was in this context that in 2007 BBNed embarked on a process of competitive repositioning and developed a targeted retail Consumer and Business offering, including through fibre services. During the third quarter of 2007 the acquisition of InterNLnet was finalized, an operator active in the residential retail sector, where it provides ADSL and fibre offerings.
On August 16, 2007 the ADSL Dual Play at 20 Mega was launched under the Alice brand.

The Brazilian market for mobile telecommunications services

In 2007 the growth of the Brazilian market was driven by mobile telephone and broadband services.

The fixed telephony market (voice and broadband), which continues to account for approximately 57% of the telecommunications business and generates around 50 billion reals in profits, represents an opportunity for competitors of the fixed telephone operators.

The market for mobile telephone services continued to expand and in 2007 the number of mobile lines was triple that of fixed lines (121 million), with 64% penetration of the population. This compared favourably with 99.9 million lines in 2006 and a 53.2% penetration rate.

The Brazilian market for mobile telephony is highly competitive, with the presence of both domestic and international operators; the leading operators are Vivo, with a market share of 28%, Tim Brasil with 26%, Claro with 25% and OI with 13%.

During 2007 the company began to consolidate its market position with:
- its entry into the fixed and broadband markets (the acquisition of a national license in July 2007 and of broadband frequencies in December 2007);
- the launch of new business models for managing low-income clients (low average revenue per user – “ARPU”).

On December 31, 2007 TIM Brasil had 31.3 million lines, with the best post-pay mix: 22% (6.8 million lines) compared with the 19% average of competitors, and during the year the company recorded higher ARPU than the market average, positive net income and positive cash flow.

Sustainability Section

Introduction

For the past eleven 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.

References

In defining and implementing Sustainability strategies and programs, the Telecom Italia Group 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 the 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, relevant to the various stakeholders:
– the ISO 9000 and ISO 14000 certifications for Quality and Environmental 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;
– the Assurance Standard (AA1000AS) and the Stakeholder Engagement Standard (AA1000SES), issued by AccountAbility in order to ensure the quality of the stakeholder involvement process and of the internal reporting system.

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 commitments undertaken by the Group towards its stakeholders are based on a system of Charters and Codes which are available on the www.telecomitalia.it website (Sustainability/Our model/Policies) and on the Group Intranet, allowing easy access to all employees. 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 Code states goals and guiding values at the basis of corporate activities with reference to the main stakeholders interacting with the Group. The respect of the Code of Ethics is a requirement for governing bodies, managers and employees of all the companies of the Group, within the boundaries of their competences, functions and responsibilities.

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 services offered to customers.
The Charters of Services are available on the websites of the Group's companies (www.187.it; www.191.it; www.adsl.alice.it; www.tim.it and www.la7.it).
The Charters of Services of Telecom Italia S.p.A. are completed by the General Subscription Conditions, regulating the contractual relations related to fixed voice telephony. These are published, together with the Charters of Services, on the www.187.it and www.191.it websites and on the first pages of telephone directories.
Moreover, in compliance with the Resolutions concerning quality issued by the Italian Communication Authority (AGCOM), the objectives set on a yearly basis for each service (fixed and mobile voice telephony, Internet access services, pay television services with IP – IPTV technology) are published on the relevant Group website.

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 development 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 make things 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.
- **Transparency**
  To ensure an ethically-oriented conduct of business; to entertain internal and external relations 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.

The policies adopted by the Group concern:
The social responsibility of the Telecom Italia Group, regulating the compliance with labour standards within the Group, in particular child labour, forced labour, health and safety, freedom of association, discrimination, disciplinary procedures, work hours and remuneration.
Relations with Suppliers within purchasing processes of the Telecom Italia Group, regulating the Group's ethical negotiation (transparency, role separation, fairness, traceability), and the requirements concerning the labour and environmental standards which Telecom Italia's suppliers are asked to meet.
TV self-regulation code, aimed at the protection of minors with respect to television services.

Reporting and Planning

Reporting

The analysis of the performance and the related reporting are based on a multi-stakeholder approach and on a set of approximately 200 KPIs (Key Performance Indicators). KPIs have been developed through the analysis of the GRI (Global Reporting Initiative) guidelines, of the Global Compact principles, and of 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 sustainability 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 requirements: revenues exceeding euro 50 thousand, number of employees exceeding 50, excluding sold activities /non current activities destined to be sold.

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 and on the basis of the principles of Completeness and Responsiveness defined by AccountAbility 1000 Assurance Standard (AA1000AS), in accordance with the GRI guidelines.

Through the integration of Sustainability report into the consolidated financial statements, implemented since financial year 2003, the Group has anticipated the application of European Directive 51/2003, transposed in Italy with Legislative Decree February 2, 2007 no. 32. By amending art. 2428 of the Civil Code, such Decree regulates the introduction in the Report on Operations of non financial indicators related to corporate activities, including information related to environment and staff, whenever necessary to better understand the company's situation, the results of operations and their future trends.

Planning

Within planning activities, a new model for the Sustainability Plan has been developed, constituted by four phases:
1. identification of improvement areas in sustainability performance;
2. comparison between improvement areas and the investment projects planned by the Group for business purposes;
3. definition of targeted actions relative to those improvement areas which either are not yet involved in investment projects or are not adequately affected, in terms of sustainability, by planned investment projects;
4. monitoring of issues which need to be always kept under control in order to sustain the achieved performance level.

The identification of improvement goals is based on:
- commitments required by international organisations – such as UN, ILO, OECD – as well as regulatory entities, tailored to the Group by means of its Code of Ethics, Charters of Services and policies;
- general issues assessed by analysts for admission to Sustainability indexes;

- stakeholders' requests (conveyed through associations, media, direct contacts, etc.);
- benchmarking with peers.

Projects involving significant investments, submitted to the approval of appropriate Committees, are complemented by an assessment form which is filled in by the project managers and ranks the impacts of the project in terms of Sustainability, relative to selected issues encompassing each stakeholder. The ensuing information is taken into account when decisions on investments take place, and it is a useful synthetic tool in order to analyze the consequences, in terms of sustainability, of the Group's investment decisions.

Results and Acknowledgements

Results

A synthesis of the main initiatives undertaken in 2007 is reported below.

- In order to evaluate at best the energy performance, Telecom Italia has developed an indicator which is the ratio between services offered to customers - simplified in the quantity of transmitted bits – and the related corporate impact on environment, measured in terms of energy consumption.
  With respect to 2006 the improvement of eco-efficiency, as measured by such indicator, is equal to 45%. For further information please see the chapter "The Environment/Energy".

- The institutional website of Telecom Italia (http://www.telecomitalia.it) has attained the highest score with reference to quality and transparency of online communication in the European classification Webranking, conducted by Hallvarsson & Halvarsson, Sweedish company leader in financial communication, in collaboration with the Financial Times. The ranking takes into consideration approximately 500 among the most important listed companies in Europe and is formulated by over 300 journalists, analysts and opinion makers. The 125 parameters considered evaluate the quality and availability of content, the transparency, surfing, graphic, interactivity, and the overall usability of websites. The Sustainability section of the Telecom Italia website has achieved the highest score with respect to similar sections of other websites.

- The meetings with SRI (Socially Responsible Investing) investors took place in 2007, too. These financial operators prefer to invest in companies caring about ethical, social and environmental issues without neglecting the economic-financial performance. A specific road show, organised by a joint team including the Investor Relations and Group Sustainability departments with the participation of the Chief Financial Officer, has been devoted to SRI investors in three European markets (London, Paris and Amsterdam). Investors expressed their appreciation for the Group Sustainability Model and offered some useful suggestions for future improvements.

- With reference to the Alliance between the European Commission and European companies, launched on 22 March, 2006 in order to make Europe a pole of excellence on CSR, several "laboratories" have been setup with the participation of companies and stakeholder representatives, supported by the European Commission. These laboratories are meant to explore and develop shared operational solutions allowing to implement measurable improvements in the Alliance priority areas, among which the integration between financial and non-financial performance and the improvement of communication with stakeholders, especially investors. For this purpose the laboratory "Sustainability and evaluation on non-financial performance", of which Telecom Italia is co-leader, was set up. It aims at defining an advanced communication model for non-financial performance, as required by investors and the other stakeholders.
  The laboratory has received an award in Brussels during the 2007 edition of Sustainability Market Place, organised each year by CSR Europe.
  Telecom Italia also took part in the laboratory on Equal Opportunities at the Sodalitas Foundation. The document "Pursue gender parity in careers. A path for change on the basis of practical corporate experience" was issued at the end of the workshop. It is meant to propose concrete indications for the enhancement of Equal Opportunities within corporations, starting from processes such as selection, training, career development, remuneration and internal communication. The document was presented on 3 December, 2007 to the Rights and Equal Opportunity Minister, Hon. Barbara Pollastrini, during the meeting "Gender equal opportunities today. Corporations move into actions".

Telecom Italia also takes part to the “Eco–efficiency” laboratory, whose activities are still ongoing under the coordination of the Sodalitas Foundation.

- A survey has been conducted concerning the perception of the Group’s staff on Sustainability initiatives implemented by Telecom Italia and on the related reporting. The answers yielded a practically unanimous appreciation of the positive value of companies “investing” in sustainability and the opportunity to inform about the initiatives undertaken both inside the company and outside, in view of positive effects in terms of culture and reputation.
  With respect to Sustainability reporting most respondents consider the information issued interesting and useful for their job, but they would like a less technical language.
  A summary of results obtained has been posted on the company intranet.

The table below shows results achieved in 2007, as compared to objectives established on December 31, 2006.

Area	Indicator (1)	Measurement unit	Target 2007	Final Balance 2007	Target Status 2007
CUSTOMERS	Keeping the technician appointment at the customer’s premises	%	98	98	▲
CUSTOMERS	Percentage of telephone lines activated through “Linea Pronta” (Ready access)” (2)	%	18	13.1	▼
HUMAN RESOURCES	Employee satisfaction (3) measured through the survey “Group Photo”	Mean level of satisfaction	≥6.21	/	(4)
HUMAN RESOURCES	Training	Training hours per capita (5)	29.3	30.6	▲
HUMAN RESOURCES	Health: sickness hours as compared to working hours	%	≤3.5	3.7	▼
HUMAN RESOURCES	Equal opportunities: women workers as compared to total staff	%	26.8	26.9	▲
ENVIRONMENT/Energy	Eco-efficiency indicator	Bit/Joule	850	873	▲
ENVIRONMENT/ Electromagnetism	Reduction of emissions from UMTS cells (6)	Number of additional cells with second carrier	500	4,289 (7)	▲
ENVIRONMENT/ Electromagnetism	SAR qualification (8)	%	95	100	▲
ENVIRONMENT/Waste	Corporate offices with over 100 employees with differentiated waste collection in place	Number of offices	70	75	▲
ENVIRONMENT/Paper	Purchased recycled paper (9)	%	40	45	▲
ENVIRONMENT/ CO_2 emissions	Replacement of Euro3 vehicles with Euro4 vehicles (10)	Number of replaced vehicles	1,000	1,901	▲
ENVIRONMENT/ CO_2 emissions	Replacement of oil boilers with methane boilers	Tons of CO_2 not emitted	500	182	▶ (11)
DIGITAL DIVIDE	ADSL coverage (12)	%	94.5	94	▶
DIGITAL DIVIDE	IPTV coverage (12)	%	51	52	▲
DIGITAL DIVIDE	UMTS coverage (13)	%	77	76.5	▶

Target status: ▲ achieved; ▶ partially achieved; ▼ not achieved.

(1) Unless otherwise indicated targets refer to activities of Telecom Italia S.p.A.
(2) Linea Pronta (Ready access): fast and automatic activation of telephone lines, without technical assistance, at the customer’s premises.
(3) Data refers to the activities of the Group in Italy and is calculated on a 10-point scale.
(4) The objective has not been measured because in 2007 the survey on staff attitude did not take place.
(5) The data include training in the classroom, on line and on the job.
(6) In high traffic conditions the use of two radiofrequency carriers instead of a single carrier reduces the total power emitted by the station.
(7) The development of the UMTS “high speed” coverage, due to commercial reasons, has allowed the activation of a number of cells with second carrier remarkably higher than foreseen.
(8) The percentage is calculated on cellular terminal model of the type more widespread and technologically innovative. SAR: Specific Absorption Rate.
(9) Measured as compared to the total purchased paper.
(10) Euro4 vehicles allow an approximate 30% reduction of CO2 emitted as compared to Euro3 vehicles.
(11) The target should be achieved by April 2008. Data reported refer to the period of use of boilers in 2007 and do not include the benefits occurred during the first months of the year 2008.
(12) The percentage refers to fixed telephone lines.
(13) The percentage refers to the residential population.

As far as the achievement of Suppliers qualitative targets due at December 31, 2006, see the relevant chapter.

Ackowledgements

Sustainability indexes represent stock-exchange indexes whose securities are selected not only on the basis of economic-financial parameters, but considering social and environmental criteria as well. The selection process is entrusted to international rating agencies who assess companies on the basis of information publicly available or on the basis of questionnaires, as well as considering media and stakeholders' opinions. The selection process is very strict and only the companies that are deemed to be worthy are admitted to the indexes.
The admission to the indexes is in general a strategic achievement for companies, both due to the positive effects on their reputation and to the ever-increasing number of "traditional" investors, besides pensions funds and ethical funds, who prefer "sustainable" companies especially if they are included in specific indexes, as they consider them less risky in the medium/long term. The participation in the assessment process is moreover a useful opportunity for companies to evaluate the results they achieved, and the rating agencies' indications at the end of the selection process are quite often very useful to plan future improvement actions.

The inclusion of Telecom Italia in both the categories of indexes managed by Dow Jones has been confirmed:
- Dow Jones Sustainability World Indexes (DJSI World), including 316 companies, Sustainability leaders at World level;
- Dow Jones STOXX Sustainability Indexes (DJSI STOXX), including 154 companies, Sustainability leaders at European level.

The SAM Sustainable Asset Management rating agency, which manages the DJSI indexes, has awarded Telecom Italia with the "2008 Gold Class" award, assigned to companies whose sustainability performance stands out in their sectors.

Telecom Italia has also been confirmed as a component of all the significant indexes (tradable and non tradable) of FTSE4Good:
- FTSE4Good Global (900 companies), the first 100 companies by market capitalization are included in the FTSE4Good Global 100 - tradable index;
- FTSE4Good Europe (480 companies), the first 50 companies by market capitalization are included in the FTSE4Good Europe 50 - tradable index
- FTSE4Good Environmental Leaders Europe, including 40 securities selected within the FTSE4Good Europe on the basis of results achieved in the field of environment protection.

Telecom Italia is also included in the following indexes:
- ESI (Ethibel Sustainability Indexes):
  - Excellence Europe, consisting of 202 securities
  - Excellence global, consisting of 338 securities
  - Pioneer global, consisting of 190 securities
- ASPI (Advanced Sustainable Performance Index) Eurozone, including 120 companies;
- ECPI (E.Capital Partners Indexes):
  - Ethical Global, consisting of 300 securities, with the related tradable index including 100 components;
  - Ethical Euro, consisting of 150 securities, with the related tradable index including 100 components;
  - Ethical EMU, consisting of 150 securities;
  - ECPI Global TOP 30;
- Axia Ethical and AXIA Euro Ethical Axia, consisting of 40 securities;
- KLD Sustainability Indexes:
  - Global, consisting of 686 securities;
  - Global ex US, consisting of 485 securities;
  - Europe, consisting of 200 securities.

Telecom Italia has been included among the 20 companies most often selected by the managers of "Green Social and Ethical" funds at European level, in the survey carried out by Avanzi SRI Research/Vigeo Italia. Telecom Italia ranks second in the TLC sector and eighteenth in the intersectorial rating.

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.

Added value and stakeholder

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

(millions of euro)	12.31.2007 (a)	12.31.2006 (b)	Change % (a-b)/b
Standard production value [1]	31,871	31,767	0.3%
Consumption of raw materials and external services	(14,545)	(14,191)	2.5%
Added value	**17,326**	**17,576**	**(1.4%)**
Other items [2]	3,474	2,982	16.5%
Gross added value	**20,800**	**20,558**	**1.2%**

(1) Including revenues, change in work in progress, change in inventory, costs for internal works capitalised, operational grants.
(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, other financial income, profit on exchange rates, net result from activities sold/non current activities destined to be sold, net profit arising from current activities.

DISTRIBUTION OF ADDED VALUE AMONG STAKEHOLDERS AND OTHER PARTIES

(millions of euro)	12.31.2007 (a)	12.31.2006 (b)	Change % (a-b)/b
Employees	2,933	3,005	(2.4%)
Institutions	3,057	3,691	(17.2%)
Of which			
– Social security costs	951	796	19.5%
– Income taxes	1,681	2,519	(33.3%)
– Indirect taxes	142	141	0.7%
– TLC licence fees	283	235	20.4%
Shareholders	2,840	3,002	(5.4%)
Financers	5,094	5,014	1.6%
Business (depreciation and amortization, reserve funds for risks and fees, other accruals and adjustments)	6,876	5,846	17.6%
Added value distributed to stakeholder	**20,800**	**20,558**	**1.2%**

CONTRIBUTION TO THE STAKEHOLDERS

(millions of euro)		
Suppliers [1]	18,504	Consumption of raw materials and external services, industrial investments
Institutions [2]	3,057	Expenses, taxes and TLC contributions
Employees	2,933	Cost of labour net of compulsory contributions
Shareholders	2,840	Dividends deliberated
Financers	5,094	Interests and other financial costs

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

Strategy

Sustainability strategy for 2008-2010

The Group is fully convinced that business activities have to be carried out taking into consideration the stakeholders’ expectations, consistently with principles included in the internationally accepted standards to which the Group refers (in this regard see Introduction/References).
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 presented in 2007 for the three-year period 2007-2009 is confirmed and is based on:

- care on service quality, constantly monitored by the departments in charge (Customers/Customer Satisfaction);
- 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 (Introduction/Reporting and Planning);
- stakeholder involvement in corporate processes (Introduction/Stakeholder Involvement);
- 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 (Introduction/2008 Objectives);
- 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 of the transmission network;
- confirmation of international commitments on Sustainability among which the adhesion to Global Compact and the support to the Alliance with the European Commission (Introduction/Results and Acknowledgements).

The strategy defined for each single stakeholder is described at the beginning of the relevant chapter.

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 – Health and safety of employees – Training on safety and environment issues – Training on professional growth programs – Welfare activities and employee well-being
The Environment	– Materials, energy and water consumption – Emissions – Waste management – Environmental remediation
Market and 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

2008 Objectives

Consistently with the analysis on the most significant Sustainability topics (in this regard see the “Hot Topics” paragraph) and with engagements undertaken, the Group has defined quantitative targets concerning Customers, Human Resources, the Environment, Suppliers and Digital Divide, briefly described below and more widely discussed in the related chapters.

These targets are included in the 2008-2010 Sustainability Plan and are shown in the table below.

Area	Indicator (1)	Measurement unit	Year end 2007	Target 2008
CUSTOMERS	Keeping the technician appointment at the customer’s premises	%	98	98
HUMAN RESOURCES	Training– Italian companies (2)	Training hours per capita (3)	30	30.5
HUMAN RESOURCES	Training– Italian companies (2): coverage (no. of people taking part at least once in training over the total population)	%	84.3	85
THE ENVIRONMENT	Eco-efficiency indicator	Bit/Joule	873	1,130
THE ENVIRONMENT	Energy saving by the use of low-consumption lighting systems (10 buildings)	kWh	0	3,000,000
THE ENVIRONMENT	Energy saving due to the optimisation of the electrical efficiency of 50 substations through power factor correction (4)	Kvar/h	0	1,950,000
THE ENVIRONMENT	Reduction of power emission from UMTS cell (5)	Number of additional cells with second carrier	4,289	600
THE ENVIRONMENT	SAR qualification Italy (6)	%	100	100
THE ENVIRONMENT	SAR qualification Brazil (6)	%	0	25
THE ENVIRONMENT	SAR qualification Bolivia (6)	%	0	40
THE ENVIRONMENT	Other corporate offices to be equipped for differentiated waste collection	Number of offices	75	100
THE ENVIRONMENT	Paper consumption reduction	%	7.6	3
THE ENVIRONMENT	Recycled paper purchased (7)	%	45	60
THE ENVIRONMENT	Replacement of 15 oil boilers with new generators/heat pumps (8)	Tons of CO_2 not emitted	182	200
THE ENVIRONMENT	Replacement of Euro3 vehicles with Euro4 vehicles (9)	Tons of CO_2 not emitted	1,951	2,700
SUPPLIERS	Increase of audits on Suppliers with reference to Ethics and Sustainability	%	16	10
DIGITAL DIVIDE	ADSL coverage (10)	%	94	96
DIGITAL DIVIDE	IPTV coverage (10)	%	52	54
DIGITAL DIVIDE	UMTS coverage (11)	%	76,5	81
DIGITAL DIVIDE	HSDPA coverage (11)	%	70.6	81

(1) Unless otherwise indicated, targets refer to activities of Telecom Italia S.p.A.

(2) Italian companies: Telecom Italia S.p.A., BU Media, BU Olivetti, Elettra S.p.A., TI Sparkle, Telecontact Center S.p.A., Path.Net S.p.A., Loquendo S.p.A., Matrix S.p.A.

(3) The data include training in the classroom, on line and on the job.

(4) The power factor is adjusted installing a device in the Medium Voltage/Low Voltage substations that, for the same active power used, reduces transmission losses in the electrical distribution grid.

(5) In high traffic conditions the use of two radiofrequency carriers instead of a single carrier reduces the total power emitted by the station.

(6) The percentage is calculated on cellular terminal model of the type more widespread and technologically innovative. SAR: Specific Absorption Rate.

(7) Measured as compared to the total purchased paper meant for office use.

(8) Most new plants are gas-fuelled.

(9) Euro4 vehicles allow an approximate 30% reduction of CO2 emitted as compared to Euro3 vehicles.

(10) The percentage refers to fixed telephone lines.

(11) The percentage refers to the resident population.

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 meetings;
- analysis of media and reports published by specialised agencies;
- benchmarking of Sustainability activities carried out by other companies, both national and foreign.

Area	Stakeholder	Telecom Italia engagement	Chapter/Reference paragraph
Customer Care	Customers, Human Resources	The attention to customer needs and the improvement of their satisfaction is one of the most important objectives for Telecom Italia. Several projects and initiatives are ongoing.	Customers/Customer focus
Human Resources	Human Resources, Institutions, The Community	Human Resources are a critical factor for the Group success and are particularly considered. Several initiatives are ongoing on Equal Opportunities, Development, Training, Health and safety, Welfare.	Human Resources /Equal opportunities, Development, Training, Welfare, Health and safety
Digital Divide	Customers, Institutions, The Community	The availability of communication technologies may generate social and geographic discrimination. The risk of exclusion is particularly high for certain population brackets such as the elderly, sick people and disabled people. Telecom Italia has launched several initiatives to ensure a wide availability of the new technologies.	Customers/ Digital Divide
Radio Base Stations and electro-magnetism	The Environment, The Community, Institutions, Customers	Telecom Italia uses technical solutions which allow to optimise electromagnetic emissions and involves stakeholders to identify the optimal position on the territory of Radio Base Stations, also adopting co-sharing solutions.	The Environment/ Electromagnetic emissions
Energy and climate change	The Environment, Suppliers, Institutions, The Community, Customers	The Group is committed to reduce its emissions through energetic saving, the use of alternative energy sources and the promotion of asset and service dematerialisation.	The Environment/ Climate change
Supply chain	Suppliers, The Community	The globalisation of markets and supplies has made the control of the supply chain an unavoidable issue for Sustainable corporations. The Group is implementing several initiatives with suppliers meant to protect the environment and labour standards.	Suppliers/Main sustainability initiatives
Innovation	Customers, Institutions, The Community, The Environment	In the framework of the competitive context and the development of technologies in the ICT sector, innovation is a significant competitive lever. The new TLC services may provide an ever-increasing contribution to the improvement of people life quality and to the decrease of the environmental impact of human activities.	Customers/ Study and experimentation of innovative services
Web content	Customers, Institutions	The diffusion of Internet is a great opportunity but can also be a source of dangers, most of all for minors. Telecom Italia has implemented several initiatives for the protection of minors.	Customers/Protection of minors, The Community/Initiatives in the Community

Stakeholder Involvement

The involvement of stakeholders in the company decision-making processes is one of the most qualifying aspects of a sustainable company and is an issue in the Sustainability strategy pursued by the Group.
The Telecom Italia Group's stakeholder involvement mainly refers to the following activities:

Stakeholder	Tool used	Reference chapter/ paragraph
Customers	The co-operation with Consumer's Associations involves meetings aimed at guarantee the protection of the consumers' rights with regard to the Group's products and services as well as providing Associations with information about any company organisational changes possibly affecting customers.	Customers/ Relations with Consumer's Associations
Customers	Customer Satisfaction is measured through the Integrated Feedback System (IFS) that considers both the overall assessment by the customer and the specific assessment of the last contact occurrences. Data collected are processed to improve organisational processes and service quality.	Customers/ Customer Satisfaction
Suppliers	At the end of 2007 the Purchasing Department conducted a satisfaction survey involving the most important Suppliers through an online questionnaire. The questions included in the questionnaire made it possible to assess the interaction of Suppliers with the Purchasing Department in all the purchasing process, getting their feedback.	Suppliers/Main Sustainability initiatives
Suppliers	Audits were conducted in order to evaluate the initiatives adopted on Ethics and Sustainability, such as the respect of the principles of Business Ethics and the procedures to ensure the health, the safety and the rights of workers. This led the majority of audited companies to put into effect the actions agreed upon not only in their own sphere, but also promoting them with their suppliers and thus starting a virtuous process along the whole supply chain.	Suppliers/Main Sustainability initiatives
Competitors	Telecom Italia has signed an agreement with Vodafone Italy to share the access sites to the mobile network as far as passive infrastructure (poles and pylons, electrical and air-conditioning systems, civil infrastructures). Thanks to such agreement the two companies are putting into practice the guidelines included in the Electronic Communications Code and favouring a more efficient use of network infrastructures.	The Environment/ Electromagnetic emissions
Competitors (national associations)	At national level Telecom Italia takes part with competitors in the following associative activities: • DGTVi - Association for the development of Terrestrial Digital in Italy • Radio and Television Federation (FRT) • High-Definition Forum (HD Forum) • National Committee Digital Italy; • Auditel; • Confindustria; • Fondazione Ugo Bordoni.	Competitors/ Organizations and associations
Competitors (international associations)	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	In December 2007 a "Memorandum of Understanding" has been signed by the Ministry of Communications, Infratel Italia and Telecom Italia with the aim of reducing, and eliminating in perspective, the digital divide, thus favouring the development of broadband infrastructures over the whole national territory.	Customers/Digital Divide
Institutions	Control activities aimed at preventing the diffusion of juvenile pornography are continuing. The Group's companies have set up teams for the management of abuses the so-called "Abuse Desks", in collaboration with the appropriate Authorities for the detection of pedo-pornographic material on the Group networks.	Customers/Minor protection
The Environment	Together with the most important TLC players Telecom Italia took part 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.	The Environment/ Energy

The Environment	In collaboration with the second Naples University and the National Agency for Environment Protection and Technical Services (APAT) Telecom Italia launched a project meant to improve the energy efficiency of TLC equipment using renewable sources, energy saving strategies and interventions to reduce emissions.	The 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 address efforts towards the satisfaction of the principal needs as perceived by the Community. Within the initiatives carried out: • The project "Alice for children", in partnership with Twins International, for the realisation of 2 hosting centres designed after the family home, in the degraded suburbs of Nairobi; • The "Solidarity ponies", an initiative stemmed from the collaboration with Social Policies Councils and Volunteer Associations of the involved towns, and aimed at providing free assistance at home to the over 65; • "Literacy for young and adults", in partnership with the "Pastoral da criança" non governmental organisation: an educational programme to be implemented in the North-Eastern and Southern communities of Brazil, scoring the highest rate of social exclusion in the country.	The Community/ Investments in the Community
The Community	"Web as a friend" is an information campaign meant to educate young people, parents and teachers to a safe navigation of the Internet. The campaign is promoted by MOIGE (Italian Parent Movement) and is supported by Telecom Italia, Microsoft, Polizia Postale e delle Comunicazioni (Postal Police), Poste Italiane (Italian Post Services), under the sponsorship of the Ministry for Family Policies, the Ministry of Communications and the Ministry of the Interior.	The Community/ Initiatives in the Community
Human Resources	A survey has been conducted among the Group's employees to assess the perception on the Sustainability initiatives by Telecom Italia and the relevant reporting. A synthesis of the survey's results has been disclosed on the corporate intranet.	Introduction/Results and Acknowledgements
Human Resources	Telecom Italia actively participates, in collaboration with other companies and representatives of stakeholders and institutions, in the laboratories activated within the framework of the Alliance, set up with the European Commission on March 22, 2006. Among these laboratories there are the one on non-financial performance, of which Telecom Italia is co-leader, the one on man-woman career equal opportunities and the laboratory on eco-efficiency.	Introduction/Results and Acknowledgements
Human Resources	"The Lighthouse" project is an initiative aimed at getting employees' feedback in order to define action plans to improve the staff attitude, develop internal loyalty indicators and start actions aimed at developing corporate business.	Human resources/ Internal communication
Human Resources	The first online Intranet community devoted to the Group's social solidarity initiatives has been created; this is an interactive space for social networking.	Human resources/ Internal communication
Shareholders	The channel for financial communication and interaction with retail shareholders is operative and acts 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 special road show devoted to SRI (Socially Responsible Investing) investors.	Shareholders/ Financial communication

More information on the projects described in the above table is available from the Sustainability section of the Group website.

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.

- A Project called *Evolution* – launched in 2005 in order to provide customers with clarity, transparency and reliable time estimates concerning the activation of new phone lines – has been expanded to residential customers and it now includes all data services ("standard ADSL", "Alice Mia", "Alice Home TV", etc.). The front end operator, upon receiving the customer's request , agrees with the customer on the date and hour of the technician's visit at the customer's premises, afterwards the customer is updated on the status of request and on needed time. After the implementation of *Evolution*, indicators of customer satisfaction with respect to phone line activation have shown a growing trend, with an increase of over 10% as compared to September 2005. The results achieved so far let us foresee for 2008 the expansion of the project to Business customers and to new services which will be launched in the future.
- The 187.it portal, which was improved during 2007, is a significant caring tool available to the residential customers of Telecom Italia. Besides information on services, customers can find options such as:
  - Invoice viewing
    Customers may:
    - preview their Telecom Italia bill directly on line, before being mailed the paper copy;
    - gain online access to the last six two-month billing periods, with the options to view the related documents in "pdf" format, to save them on their PC and to surf among items reported on each invoice;
    - obtain explanations on all items of the invoice, check variations of last invoice as compared to previous ones, lodge inquiries to Customer Service and receive an answer within 24 hours;
    - obtain exhaustive information relative to their calls, with the last digits of called numbers being omitted;
    - keep their consumptions under control before billing by Telecom Italia (only for Customers having an active "Alice Free" connection); the service lists all calls with date, hour, tariff range and length;
    - analyse calls of the last six two-month billing periods both in tabular and graphic format;
    - check payments of the last six two-month billing periods;
    - receive every two months an e-mail saying that the new bill is available online;
    - avoid paper bills thus saving mailing expenses.
  - "Your line" service
    offering the possibility to look at:
    - personal data, information reported on phone directory and privacy consent;
    - the mailing address for the Telecom Italia bill, which can be changed directly on line;

  - unblocked and blocked phone numbers (for instance non-geographic numbers such as those beginning with 899, 166, 144), that can be changed directly on line;
  - kind of bill (paper or on line), that can be changed directly via web;
  - services and discount packages which are active on the line (for instance "Teleconomy", "Alice"), with the option of online changes of features and profiles of packages.
- Your records
  the service allows to track the progress of requests which are being processed.
- On line payments
  customers may pay their bill online, at no added cost.

- A further customer care service for business customers has been launched in order to:
  - provide information on when requests will be met or on possible problems ;
  - provide all the call centre operators with the date when requests will be met, in order to make relations with customers easier in the event of a second call.

- In order to provide technical assistance to residential customers as well as to very small business customers (in the latter case, for the time being, only relative to voice services) we improved the IT platform for customer management used by operators: we thus improved and simplified customer/operator relationships. Improvements and expansions also took place concerning the pre-diagnosis and telemetry tools available to customers through the diagnostic tool "Alice ti Aiuta (Alice helps you)", the latter is available on the "Aiuto Alice" website, and it is distributed together with the Alice installation kit. A digital assistant has been placed on the web site to help surfing.

- To improve relations with customers, all customer care operators of technical services have been trained on communication and management of relations.

- A new technology has been implemented on the Customer Care platform of mobile telephony; it provides:
  - dynamic management of calls: re-routing of requests towards Customer Care Centres with lower work load, thus reducing waiting time and switching off;
  - Virtual Queuing: centralised management of a single virtual queue, with positive effects on the efficiency of answers;
  - Queue to Agent: re-routing of a customers towards the same agent in the event of multiple calls by the customer.

For further details see www.telecomitalia.it (Sustainability/Stakeholders/Customers).

Customer Satisfaction

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 Centre for information, administrative issues, reporting inefficiency or claims. This information is used to improve organisational processes, in order to provide customers with services which are closer to their needs.

Telecom Italia uses two methods in order to survey Customer Satisfaction:
- a 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 used to develop the ACSI (American Customer Satisfaction Index), is based on an indicator which allows for inter-sectorial and international comparisons, which is stable and predictive. Such an 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 survey is carried out immediately after the event being analysed. 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 reported in the two tables below refer to the first kind of survey.

	Customer segment	Satisfaction with access service (*)	Satisfaction with Billing (*)
Fixed telephony	Consumer	86.2%	77.5%
	Business	81.9%	72.1%

	Customer segment	Satisfaction with access service (*)	Satisfaction with Billing (*)
Mobile Telephony	Consumer	87.5%	77.9%
	Business	86.9%	82.7%

(*) Percentage of customers who are "very satisfied" and "satisfied" (TOP2) in a 5-point scale: very satisfied, satisfied, not entirely satisfied, unsatisfied, very unsatisfied.Weighed 2007 average.

Data reported in the table below refer to the second kind of survey.

Customer satisfaction on Customer Care

	Customer segment	Overall satisfaction (**)	Courtesy of operator (***)	Competence of operator (***)
Fixed telephony	Consumer (1)	62.5%	88.9%	74.0%
	Business (2)	56.3%	87.1%	70.5%
Mobile telephony	Consumer (3)	78.0%	91.8%	82.0%
	Business (4)	66.1%	91.5%	71.7%

(**) Percentage of customers who are "very satisfied" and "satisfied" plus positive share of those who are "moderately satisfied" (TOP2+) in the 5-point scale: very satisfied, satisfied, moderately satisfied, unsatisfied, very unsatisfied. Customers stating to be moderately satisfied were asked another question to understand if their assessment is mainly positive (sufficient/acceptable) or negative (insufficient/unacceptable). Weighed 2007 average.

(***) Percentage of customers who are "very satisfied" and "satisfied" (TOP2) in the 5-point scale: very satisfied, satisfied, moderately satisfied, unsatisfied, very unsatisfied. Weighed 2007 average.

(1) Assistance provided by the 187.1 service for information, marketing and administrative calls.
(2) Assistance provided by the 191.1 and 191.9.1 services for information, marketing and administrative calls.
(3) Assistance provided by the 119 service.
(4) Assistance provided by the Business toll-free number.

Besides surveys on fixed and mobile telephone services, special attention is paid to the satisfaction of ADSL customers. In 2007 we conducted ad hoc surveys, based on focus groups which were held in 2006 aimed at identifying the most important issues for consumers. These issues were then adopted as the subject of the survey, conducted through telephone interviews. The Group has thus collected information and the opinions and knowledge of customers on broadband, on the potential development of demand, and on opportunities to innovate and expand its ADSL offer.

Customer satisfaction within the management incentive system

The short-term incentive system for Telecom Italia's management includes, among the objectives of all people within the incentive system, a target associated to customer satisfaction, which is adapted to the manager's specific role. The basic indicators, whose weighed average constitutes the general index of Customer Satisfaction of Telecom Italia S.p.A and is used in incentives, come from the ACSI survey and depend on the market (fixed vs mobile telephony) and on customer segment.

Certifications

Telecom Italia's processes and departments having a significant impact on its products and services and, in general, on the community, have certifications which ensure the adoption of procedures and behaviours that are in line with the expectations of the stakeholders they involve.

In particular, the attention to customers and to the quality of products and services is shown by the UNI EN ISO 9001:2000 certification, the interest for the environment is the basis of the UNI EN ISO 14001:2004 certification, the safety of information is certified through the ISO 27001:2005 norm.

The table below shows the certifications achieved by the various Departments/Companies of the Group, with reference to particularly significant processes and activities.

More details are available on the www.telecomitalia.it website (Sustainability/Our model/Certifications).

	Certification	Certified companies/departments
Telecom Italia S.p.A.	ISO 9001	Departments: Domestic Fixed Services, Top Client & ICT Services, Quality & Field Services Management, Domestic Mobile Services - Sales Consumer, Technology, Purchasing Companies: TI Sparkle, Elettra Tlc, Path.Net, Loquendo
	ISO 14001	Departments: Technology, Companies: TI Sparkle, Elettra Tlc
	AUDIWEB (*)	Companies: Matrix
	ISO 27001	Departments: ICT operations of Technology
Olivetti S.p.A.	ISO 9001	Departments: Business & Market Development, Product & Technology Development, Industrial Operations, Market Communication
	ISO 14001	Olivetti Plant di Arnad (AO)
Mobile Brazil and others	ISO 9001	Companies: Tim Brasil s.a., Tim Nordeste s.a.

(*) Audiweb certifies quantitative and qualitative information on the use of Internet tools and online systems.

New certifications are scheduled for 2008 and they are currently in an advanced implementation phase:

– OHSAS 18001 certification (Management System for Occupational Health and Safety) and ISO 14001 certification of the call centre units in Rome (Via Oriolo Romano) and Naples (Centro Direzionale);
– ISO 14001 certification (Environmental Management System) for the Building and Services - Facility Management Department;
– Extension of the ISO 9001 certification (Quality Management System) to the whole Purchasing Department.

Digital Divide

The growth of information and communication technologies has given rise to noticeable opportunities of development for the population. Telecom Italia is aware of the need for a careful and insightful approach in managing this phenomenon, to avoid the risk of generating both geographic and social divides in the community.

Geographical Digital Divide

The “Anti digital divide plan”, announced by Telecom Italia in 2006, aims at expanding ADSL coverage, which, at the end of 2007, has reached 94% of Telecom Italia’s fixed lines. In the same period IPTV covered 52% of Telecom Italia’s fixed lines.

As for mobile broadband, the percentage of resident population covered by Telecom Italia through UMTS at the end of 2007 was 76.5%. A significant development concerning mobile telephony is HSDPA technology, allowing to attain 3.6 Mbp/s and covering, at the end of 2007, 70.6% of the population.

Thanks to a Working Group on digital divide, in 2007 we have developed an important tool providing support for operations and decisions, the “Digital Divide Project” (DDP).
DDP contains the complete map, both current and future, of the Italian territory concerning ADSL, ADSL 2+, 20M/IPTV coverages. DDP is used not only for daily management of broadband, but also to drive, as much as possible, network activities towards the locations which are most vulnerable to digital divide.

On December 18, 2007 a Memorandum of Understanding has been signed between the Ministry of Communications, Infratel Italia and Telecom Italia. The agreement launches joint activities to define a plan aimed at reducing as much as possible the number of areas not yet covered by broadband, both in the South (where Infratel is already operating) and in the Centre-North (on the basis of agreements signed or being signed by the Ministry with Regions). The aim is reducing, and, in perspective, eliminating, digital divide, favouring the development of broadband infrastructures over the whole national territory.

Social Digital Divide

Belonging to underprivileged social groups due to physical problems, age or income may lead to the exclusion from the benefits of ICT.
The main areas where the Telecom Italia Group acts for the reduction of social Digital Divide are:

- Spreading ICT culture;
- Support to the elderly;
- Support to people with disabilities;
- Support in developing areas;

More information on single initiatives is available in "The Community" chapter.

The Digital Terrestrial Television

Telecom Italia Media – La7 has contributed to the process of transition of our country towards the digital television system, supporting the launch of the All Digital areas in Sardinia and in Valle d'Aosta, in view of the 2012 switch. In these areas, starting from April 2007, the Qoob, Raidue and Rete Quattro TV programs are already exclusively broadcast through digital terrestrial technology. Telecom Italia Media – La7 customers were provided all the necessary technical information and support, also thanks to the help of a call centre, set up in collaboration with the Ministry of Communications.

Research and Innovation in e-security

Research and development activities concerning e-security mainly focused on:

- innovative tools for an efficient and immediate protection from attacks to the new network infrastructures and to services, with special focus on solutions for detecting even the faintest signals of computer attacks;
- innovative tools for predictive analysis of risk exposure level, through advanced use of modelling and simulation techniques;
- systems allowing to manage security measures by switching automatically action rules when changes in risk scenarios and security targets occur;
- services for the protection of new generation mobile handsets;
- innovative technologies to render data anonymous, whenever necessary for compliance with ruling laws, and which simplify management processes.

Research activities are associated both to patent development, in order to protect innovation, as well as to scientific publications for dissemination of results.

Research and tests on innovative services

The main tests on innovative services, designed by the Laboratories of the Telecom Italia Group in collaboration with Research Institutes and both Italian and foreign universities, are described below.

<u>Reduction of electrical energy consumptions</u>

- Energetic and environmental control system for Telecom Italia's exchanges, which analyses and segments consumptions, with remote control in real time through wireless network.
- Management and control solution for water and electrical energy consumption in households, through a wireless sensor network and fixed and/or mobile peripherals.

New technologies for the reduction of environmental impact
- Infomobility services (i.e. traffic management, traffic information, payment services, navigation services) and technological infrastructure based on specific onboard units.
- IT management of metered parking areas. Mobile phones are used in order to identify the position of users and vehicles, and to indicate which parking areas are easier to reach and how to reach them, also identifying the parking permit, if any, and applying the right toll.
- Dynamic management of vehicle access to limited traffic urban areas through personal mobile handsets or onboard devices.
- Traffic management through onboard devices. Tests will be carried out in partnership with Autostrade S.p.A.
- Remote control solution in real time of fire brigade actions thanks to a ZigBee sensor (Body Area Network) integrated in the firemen's clothes. The solution has been submitted to the Ministry of the Interior.

Assistance services
- Tele-assistance service through the control of parameters such as heart rate, body temperature, movement. The service offers the possibility to call for help through a Panic Button. Communication with the service centre occurs through innovative ZigBee technology, incorporated in videophones or mobile handsets.
- Health kiosks: a project in collaboration with Parmalat (a dairy firm) for the control of significant personal parameters (such as weight, body mass index, body fat percentage, blood pressure) through health kiosks connected to a service centre.
- Remote monitoring of some physiological parameters, meant for patients affected by chronic pathologies (diabetics, cardiac patients, chronic bronchitis patients).
- "Geofencing" service aimed at supporting outdoor mobility of patients affected by mental health problems (i.e. Alzheimer), through the definition of safe areas and localization functionalities of mobile handsets and network.

A consortium for infomobility
Telecom Italia and Magneti Marelli, a leader firm in the field of car component production, have created a consortium for new infomobility services in order to develop and market a new open platform ensuring uninterrupted connections with information and entertainment services and favouring "ecodriving", thus minimising traffic congestion. The system will allow for the integration between the automotive environment and ICT, thanks to an onboard telematic device for dialogue between the vehicle and the software applications of the various service providers. Such applications may be used by public authorities to provide information on road conditions and traffic (in order to avoid jams, to pay tolls and parking, to manage access to limited traffic areas, etc.) and by companies managing corporate fleets in order to locate vehicles and enable communications.

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.

- Guidelines have been issued for the classification and control of contents provided 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 which is subject to filtering. Should the Group launch in 2008 adult content services on its mobile platform, appropriate protection and filtering measures would be adopted. 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 Resolution no. 661/06/CONS "Safety measures for minor protection to be implemented on video 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 having adult content; 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.
- As for the offer of content/services on corporate websites (Rosso Alice and Virgilio), further guidelines of conduct are currently under study.

In 2007 control activities to prevent the diffusion of juvenile pornography continued.
The Group's companies have set up abuse management teams, called "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 (residential and business): besides managing alarms on problems associated to the Group's services, desks, through an officer who acts as reference point for the Postal Police, inform the appropriate authorities about any significant event, such as the presence of pedo-pornographic 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.

Relations with Consumer's Associations

Telecom Italia places special emphasis on the protection of consumers' interests and to relations with the Associations representing them, in a framework of loyal collaboration and transparent mutual information.
The company started its collaboration with Consumer's Associations in 1983. Since then several agreements have been signed and Telecom Italia actively collaborates 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 of the main projects of organisational development possibly affecting customers (for instance the reorganisation of certain Customer Care services or information on the possibility of enabling/disabling non geographic phone numbers through an appropriate PIN).
Telecom Italia regularly transmits the following information to Associations:

- Telecom Italia bill: all messages sent to customers and included in the "Telecom News" section of the Telecom Italia bill, concerning tariff changes, the launch of new services and offers, institutional information and in general all news useful to customers;
- In linea con Te (On line with you), that is information generally concerning tariff policies and initiatives undertaken in compliance with specific regulations, published by Telecom Italia on the most widespread national newspapers.

The Group is a founding member of the Consumers' Forum, which gathers Consumer's Associations, companies and research institutes. The Forum deals with issues related to consumerism. To promote the development of a "collaborative consumerism" and to provide feedback to the appropriate Group departments, in 2007 some important meetings took place ("Media, Consumers and Consumerism", "Authority: which strategies for the future?") with the participation of the highest institutional authorities.
Furthermore, within the Forum's activities and with Telecom Italia's support, there occur initiatives of joint training with the Associations on Conciliation.

Conciliation

Direct results of Telecom Italia's collaboration with the Associations are its "Conciliation procedures". Based on the 'parity' model, these procedures have led to the resolution of approximately 48,000 client disputes since their adoption in 1991.
The conciliation procedure between Telecom Italia and Consumer's Associations is based on the "parity" model involving direct responsibility of both parties: the customer, who chooses a Consumer's Association and fully entrusts the relevant representative to deal about his/her dispute, and the Company, which participates with its representative having an equivalent mandate. Conciliation applications are presented at appropriate offices hosted 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 them. If the conciliation proceedings 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

TELECOM ITALIA GROUP

(millions of euro)		2007		2006
Expenditure for raw materials and external services (net of TLC licence fee)		14,262		13,956
– of which correlated entities	288		263	
Industrial investments		5,520		5,114
– of which correlated entities and internal capitalization	990		1,039	
Total contribution		**19,782**		**19,070**
– of which correlated entities and internal capitalization		(1,278)		(1,302)
Total net contribution		**18,504**		**17,768**

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.
The Group aims at ensuring the quality of purchasing processes and their continuous improvement through the implementation of the ISO 9001:2000 certification, already attained by some departments of the Purchasing Area. The certification attainment will be completed in 2008, as specified below.

General

For high-risk commodity categories, the selection, evaluation and control process 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.
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/).

Controls

More than 8,500 controls were performed on the execution of technical works, mainly focused on the installation phase of new plants and on the provision of services and works.

The most significant controls carried out on suppliers during 2007 are summarized below.

- Supplier qualification: 871 qualification controls involving 504 suppliers, of which 254 with a negative outcome and 91 with a fixed-term qualification.
- Sub-contractor qualification: 124 qualification controls, of which 7 with a negative outcome.
- Vendor rating monitoring: 75 reports issued relative to approximately 366 suppliers and 44 purchase categories.
- Technical-organisational audits at Supplier's premises to perform Incoming Quality Control on products and services: 545 batches of controlled products. Of these 55 were rejected for nonconformity.
- Technical-organisational audits at Supplier's premises to perform qualification procedures: 273 controls involving 171 suppliers, of which 34 with a negative outcome and 29 with fixed-term qualification.
- 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: 166 audits involving 115 suppliers, of which 5 with a negative outcome and 14 with fixed-term qualification.

The Group has defined the criteria for the systematic monitoring, also with respect to vendor rating, of the number and severity of accidents involving the employees of high-risk Telecom Italia Group suppliers (network works, Radio Base Station installations, exchange/building works).
The model defined has been derived from the UNI 7249 ed. 95 regulation, "Statistics on accidents at work". It identifies specific indicators, such as Severity index and Frequency Index.

The comparison of data obtained with the average value calculated considering all the suppliers of the monitored departments and with indexes published by INAIL (National Institute for Insurance against Accidents at Work), will allow the definition – in collaboration with suppliers – of actions aimed at continuous improvement (the objective being zero accidents).

Main Sustainability Initiatives

In 2007 the following initiatives were carried out:

- Application of the "Guidelines for the assessment of product life cycle" (issued at the end of 2006) to 50 suppliers and 17 products. These guidelines are meant to assess, through an eco-compatibility index, whether the products purchased/handled/marketed by the Group meet the requirements related to reference environmental regulations. Also whether such products are designed, manufactured, used and disposed of in view of a better management of the whole life cycle, from the environmental and economic standpoints.
  The product groups to which these guidelines apply are defined on the basis of purchase volume, impact on corporate reputation, hazardousness and economic/legal risk. These are:
  - Products destined to be launched on the market (telephone terminals, exchanges, fax, modems);
  - Office products (computer and peripherals, copiers, paper, consumption materials such as toner, batteries, etc.);
  - Network equipment/materials (poles, masts, cabinets, accumulators, exchanges).
- Concerning the 50 above mentioned suppliers, the assessment of the product life cycle has been integrated with other controls aimed at assessing in general the initiatives adopted on Ethics and Sustainability, such as the compliance on corporate ethics and the procedures applied to ensure the worker's health, safety and rights. The assessments are also aimed at promoting a commitment to pursuing Sustainability throughout the supply chain, with the involvement of their suppliers (sub-contractors of the Group). Among the audited suppliers 44% showed adequate attention to Ethics and Sustainability issues (32% in 2006), while 61% of suppliers who in 2006 had undertaken improvement commitments with the Telecom Italia Group, has implemented the agreed actions.
- Audit procedures on the suppliers of subsidiaries abroad also continued. In particular, before being included in the Suppliers' List, all the new suppliers of Telecom Italia S.A. (France) and TIM Brasil, 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.

- Several departments belonging to the Group's Purchasing Area have attained in the month of October 2007 the certification of compliance to the ISO 9001:2000 requisites related to the "Quality Management System"; the certification process, contributing to ensure the quality and continuous improvement of purchasing processes, will be completed in 2008. This initiative involved mapping the whole Purchasing Area processes and defining over 90 control indicators in order to improve the management of services provided to internal customers and suppliers.
- At the end of 2007 the Purchasing Area carried out a survey meant to monitor satisfaction among the main suppliers. An online questionnaire was posted on the Suppliers portal to this purpose.
  This analysis, carried out in collaboration with corporate department IT Quality & Processes, involved 580 suppliers of which approximately 200 (equal to 34%) participated in the initiative. A positive outcome was recorded, with scores in excess of 7/10.
  The questionnaire includes 28 questions, allowing to assess the interaction with the Purchasing Departments in all the phases of the purchasing process.
- The Group has issued the English version of the Suppliers Portal and of the "Policy on relations with Suppliers" illustrating how the Sustainability and Ethics principles are promoted and pursued in the purchasing process.
- Since 2006 the Telecom Italia Group takes 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 standard 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 a well-known independent company, was "very good" for 2006. The assessment for 2007, recently concluded, has emphasized a further improvement in the areas not attaining the maximum score in 2006.

Table summarizing 2007 results vs 2007 objectives

2007 objective	2007 results	Objective status
Start of the procedure to attain the ISO 9001 certification by the Purchasing Area of the Telecom Italia Group.	The ISO 9001 certification has been attained by the TLC and IT Purchasing departments, and by the Logistics, Facility Management, Operational Planning, Suppliers Control and Information Technology Support departments, operating within the Purchasing Area of the Telecom Italia Group.	**Achieved**
Issue of the English version of the Suppliers Portal and of the related documents.	The English version of the Suppliers Portal has been issued.	**Achieved**
Application of the guidelines for the assessment of product and supplier eco-compatibility to a higher number of products.	Application of the "Guidelines for the assessment of Products Life Cycle" (issued at the end of 2006) to 50 suppliers and 17 products.	**Achieved**
Application to a higher number of suppliers (experimental audits carried out in 2006 on 43 suppliers) of audits on initiatives adopted by suppliers on Ethics and Sustainability and control of the compliance with respect to the commitments by suppliers during the first cycle of audits.	Audits on initiatives concerning Ethics and Sustainability on 50 suppliers.	**Achieved**
Extension of the 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 subsidiaries abroad (in particular Tim Brasil, Telecom Italia France SA and Hansenet Telekommunikation GmbH).	Audits on suppliers of subsidiaries abroad concerned Tim Brasil and Telecom Italia France S.A. and are progressively being expanded to the most important suppliers of Hansenet Telekommunikation GmbH (Germany).	**Partially achieved**

2008 Objectives

- Completion of the ISO 9001 certification within the Purchasing Area of the Telecom Italia Group, together with the ISO 14001 certification of the Facility Management Department of the same Area.
- 10% increase of audits scheduled on suppliers on Ethics and Sustainability, integrating the controls so far performed through audits with a monitoring based on self-certification.
- Development of an *e-community* project through the creation on the Suppliers Portal of a multimedia environment aimed at:
  - Publishing policies, standards, specifications, objectives and best practices, in the field of Sustainability;
  - Encouraging the start of Sustainability initiatives and projects;
  - Staging e-voting campaigns for suppliers on Sustainability initiatives both by the Group and by suppliers.
- Development of a global vendor rating index involving the most important suppliers of the Group and considering the suppliers' performance in the field of environmental and social Sustainability.
- Extension of audits to the most important suppliers of the subsidiary abroad Hansenet Telekommunikation GmbH (Germany), who will be requested to adhere to the Code of Ethics' principles of the Telecom Italia Group.

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.

Organisations and associations

Co-operation with competitors at national level

During 2007 Telecom Italia Media took part in the DGTVì, the Association for the development of the Terrestrial Digital broadcasting in Italy to which Rai, Mediaset, Radio and Television Federation, Aeranti-Corallo and D-free also take part. Telecom Italia Media is also holding the position of President of the DGTVì up to March 2008. Participation in the DGTVì enables the TI Media Group broadcasters to interact with the radiotelevision 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 third national conference on Terrestrial Digital (Turin - November 30 and 1st December) during which the report "The future is clear" was presented. This is a study, developed by four research institutes and approved by the public and private companies participating in the DGTVì, which summarises the data, analyses and opinions shared by the scientific community and by industry;
- release of the DGTVì label for the certification of integrated decoders and televisions on the basis of technical specifications developed by the Association. The label will be placed on equipment of the manufacturing companies adhering to the agreement starting from February 2008;
- continuation of the two market surveys aimed at assessing the diffusion of decoders, both at national level and in the so-called "all digital" areas, with the aim of monitoring the spread of digital decoders in Sardinia and in Valle d'Aosta.

DGTVì is also actively taking part in the National Committee Digital Italy, involving the players in the digitalisation process (Institutions, television broadcasters, cable and satellite operators, publishers, consumers). It deploys its strategy and analysis activities through a Technical Committee devided into nine thematic subgroups.
As of October 2007 no. 5,500,000 decoders and 1,200,000 integrated television sets 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.

Telecom Italia has formalised its membership as founder to the High Definition Forum (HDF), whose main goal is the promotion and diffusion in Italy of high-definition. Within the Association Telecom Italia coordinates three working groups on distribution/supply, production and utilisation. The adhesion to the Forum favours the regular updating on competitor activities related to high definition (in particular Sky, Mediaset and Fastweb) and the promotion of regulation and standardisation initiatives.

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 relations, 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 related to the development of business and safeguarding the corporate interests on the economic, legislative, trade unions and labour issues.

The TI Group is a member of 100 territorial Associations and of the following Federations/National partner organizations: Confindustria Servizi Innovativi, Asstel, Assoelettrica and Assografici (terminated on December 31, 2007 for Matrix), Distretto dell'Audiovisivo e dell'ICT.

Together with other operators of the sector, Telecom Italia Group participates in the Ugo Bordoni foundation, involved among else in research, study and consultancy in the sectors of Communications and Information Technologies, with particular reference to the Digital Television sector.
The Foundation has a considerable experience, well known at international level, in areas such as radiopropagation, optical communication, safety and protection of telecommunications, TLC networks, multimedia communications.
The Ugo Bordoni foundation has been legally entitled to the technical supervision of experimental activities relating to Terrestrial Digital transmissions and interactive services and manages several projects in collaboration with the Ministry of Communications and other public entities.
The contributions of Telecom Italia to the Ugo Bordoni foundation are included at level 3 of the London Benchmarking Group (LBG) model (see "The Community" chapter).

<u>Collaboration with competitors at international level</u>

At international level the Telecom Italia Group collaborates with several organisations and/or associations, among which:

- BRT (The Brussels Round Table): this organisation brings together the most important European TLC and manufacturing companies and aims at maintaining a constant dialogue with European Institutions on significant issues concerning the ICT sector at European Community level;
- ETNO (European Telecommunications Network Operators' Association): it is the most important association in the field of telecommunications across the continent and aims at developing a competitive and efficient European telecommunication market by coordination of operators and dialogue with Institutions;
- GSME (GSM Europe): it is an association gathering the European mobile operators. Among its objectives there is the development of the European telephone and mobile services market with particular attention to the regulatory aspects;
- EIF (European Internet Foundation): it gathers European Parliament members, TLC manufacturers and operators, software providers, ISPs and content providers and supports public policy related to the fast development of the Internet, broadband and information technologies;
- ERT (European Round Table of Industrialists): this forum brings together about 45 European industrial leaders to promote the competitiveness and growth of the European economy;
- ESF (European Services Forum): this is an association of European operators in the services sector and aims at promoting the interests of the European services industry, and liberalising the service sector worldwide within the WTO framework;
- EABC (European American Business Council): it is an association whose goal is to support and facilitate transatlantic dialogue on significant industry issues of interest to the EU and the USA;
- BRUEGEL (Brussels European and Global Economic Laboratory): it is a European study centre dedicated to the critical analysis of the international economy, to the development of the main industrial sectors and to the role of the EU in the global economic context;
- ETP (European Telecommunications Platform): it is an organisation gathering TLC operators and manufacturers, aiming to promote and discuss common telecommunications-related issues;
- ITU (International Telecommunications Union): it is an agency belonging to the United Nations whose objective is to favour the joint elaboration, between Governments and the

private sector, of an international set of technical standards, operating procedures for wireless services and of development programmes for TLC infrastructures in developing countries;
– BIAC (Business and Industry Advisory Committee): it represents the industrial Association of OECD countries.

Activities regarding competition

In the first months of 2006 the guidelines for an "Antitrust Compliance Programme" were defined. The program consists of a series of multilevel information and training and aims at spreading the correct cultural approach to Antitrust regulations within the Group, as well as the awareness that competition is not a threat but, on the contrary, an essential asset for business activities.
The substantial changes in the Telecom Italia organisation chart occurred in the second half of 2006, and corporate events occurred in the second half of 2007, prompted a pause in the implementation of the Antitrust Compliance Programme; this was necessary in order to avoid involving in the huge training activities required for the implementation of the program corporate departments being possibly affected by organisational change.

The implementation phase of the program should start within the first half 2008, once the already defined guidelines have been appropriately updated.

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

TELECOM ITALIA GROUP		
(millions of euro)	**2007**	**2006**
Social security and pensions	951	796
Income taxes	1,681	2,519
Indirect taxes	142	141
TLC license fees	283	235
Total	**3,057**	**3,691**

Strategy

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

Relations

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 issues of interest to the Group is therefore constantly monitored. Telecom Italia 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.

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, 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 2007, are reported below.

Approved legislative provisions

- Law 40/2007 dated April 2, 2007, converting Legislative Decree no. 7/2007 containing “urgent measures to safeguard consumers, promote competition, develop economic activities and create new businesses” (the so-called “Bersani Law”).
  The text contains provisions related to mobile phones recharging services, transparency and the freedom to rescind contracts with telephone, television and Internet service providers.

- Law no. 106/2007 of July 19, 2007 delegating the Government to review regulations concerning ownership and marketing of transmission rights for football events both on television and other electronic communication networks. During the legislative approval proceedings Telecom Italia has represented the Group position (both as television broadcaster and telephone provider supplying digital content by means of cable or mobile networks), with the objective of minimising the impact of some critical parts of the text related to the definition of contracts and the sub-licensing of acquired rights within the technological platform.
- Law no. 244/2007 of December 24, 2007 (2008 Financial bill).
  The law includes provisions involving the sector:
  - concerning wire-tapping a unified national system on the subject of room and telephone wire-tapping is going to be launched by the Ministry of Justice;
  - as far as telephone tariff concessions to the publishing industry a mechanism involving tariff discounts will be applied by the Government directly to publishing industries;
  - the Fund for under-exploited areas and the Fund for transfer to digital will be increased to promote broadband development;
  - a contribution system by electronic communication operators has been created to promote European audiovisual works;
  - Public Administration systems will migrate towards the VOIP services;
  - the limitation, given to companies, related to VAT deducibility of costs occurred for mobile telephony and provided by the preceding regulations is eliminated;
  - telephone operators are required to communicate to the land tax register the data related to the building in which the telephone line has been activated.

  The law has moreover introduced the regulation of the collective compensation of damages to safeguard consumers (class action), including in the current Code of Consumption (Legislative Decree no. 205/06) article 140-bis. The recognized Consumers' Associations, as well as associations and committees appropriately representing collective interests, can now act in order to protect the collective interest of consumers and users by requesting from the competent court to ascertain the right to the compensation of damage and the restitution of the due sums to single consumers in the framework of juridical relations associated to "mass contracts" (ex article 1342 c.c.), i.e. as a consequence in the case of unlawful extracontractual acts, unfair trade practice or anticompetitive behaviours, whenever the rights of a plurality of consumers or users are prejudiced.

Legislative provisions under examination (*)

- On June 13, 2007, the Chamber of Deputies approved the Bill promoted by the Government and concerning "Citizen-Consumer Measures for facilitating productive and commercial activities as well as initiatives in sectors of national relevance" (the so-called "Bersani law" on liberalisations). The text is under examination by the Senate. This provision includes several issues quite relevant to the Group, among which the government amendment resolution on the functional separation of Telecom Italia's access network on the basis of which AGCOM has been conferred the power to oblige Telecom Italia to carry out such functional separation, to be implemented after previous authorisation by the EU Commission, however without doing away with the provision on voluntary commitment that was introduced by Law 248, dated August 4, 2006.
- During the month of October 2006 the Council of Ministers approved and submitted the so-called "Gentiloni Bill" to the Chamber of Deputies for examination. This Bill sets out regulations for the television sector in the conversion to digital technology.
  This Bill is a legislative initiative by the Government that seeks to implement the EU recommendations in national legislation as a result of the infringement procedure against Italy that was started last July, to dispute some aspects of the "Gasparri law" and of the radio-television Consolidating Act with respect to European regulations.
  The main provisions of this Bill concern: the setting of November 30, 2012 as the date for the conversion from analogue to digital; the establishment of a ceiling equal to 45% of the television industry advertising revenues to define a monopoly position in the sector; anticipation of the digital conversion for one network for operators owning 3 networks (within 15 months since the law's approval).
  The Bill introduces a ban for the Telecom Italia Group concerning the connection/control with respect to dominant television broadcasters; it also introduces for Telecom Italia the obligation to grant the access to its broadband infrastructure with respect to the provision of television services and the linear distribution of multimedia content.

(*) Information provided refers to activities carried out as of December 31, 2007

- The Government Bill on wire-tapping has been approved by the Council of Ministers in August 2006. After transmission to the Parliament for examination it has been approved by the Chamber of Deputies in April 2007 and has then been transmitted to the Senate for examination, which started in June. The Bill redesigns the subject, mainly concerning the duration of wire-tapping, the publication of investigation reports and the related sanction regulation.

European legislation

The Group activity focused on the following issues:

- monitoring of European Commission activities related to revisions within the Community framework: revisions of directives and recommendations about significant markets;
- adoption process of the TV Directive that was approved at the end of May by the EU Parliament and Council. This Directive separates linear services (traditional TV) from non linear ones (on demand audio-visual content); it extends some televisions provisions to on demand services and makes quantitative regulations on advertising lighter;
- adoption process of EU recommendations on collecting societies;
- adoption process of EU directive on domestic services market (Service Directive);
- adoption process of the Directive on electronic payments on the internal market;
- adoption process and approval procedures of the EU Directive on penalties for intellectual property rights infringement;
- proposal for the regulation of international roaming and adoption of it. This regulation has been adopted by the EU Parliament and Council. It calls for setting a ceiling related to prices for international roaming services (price cap), both for final customers (retail market) and for operators (wholesale market);
- analysis of the activities being carried out by European bodies charged with implementing regulatory framework (sector committees – Cocom and the European Regulators Group – ERG);
- monitoring of the possible revision process for the e-commerce Directive.

International legislation

The Group activity focused on the following issues:

- analysis of regulatory development in countries of interest and support to the Group's 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 both national and European public consultations; monitoring and possible participation in working groups within the various Regulatory Authorities;
- participation in the Merger & Acquisition processes and in sell procedures related to foreign companies, in strict collaboration with the appropriate central departments and development of the relevant antitrust and regulatory notifications;
- control of regulatory compliance of foreign subsidiaries and safeguard of the related licences.

The Environment

Strategy

The TI Group environmental strategy is based on the following principles:
– to optimise the use of energy sources and natural resources;
– to minimise the negative environmental impacts and maximise the positive ones;
– to disseminate the culture of a correct approach to environmental issues;
– to implement the progressive 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. Due to changes in this report scope with respect to past years, some data related to the previous two-years period might have been appropriately reclassified for comparison uniformity purposes.
The scope of Domestic/Broadband/Mobile Brazil and other activities includes the Central Departments and all the fixed and mobile telephony operations, both in Italy and abroad.

Waste

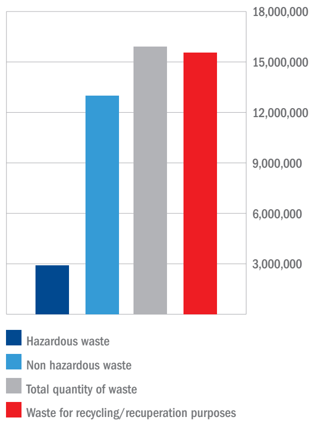
Data shown in the table below refer to the quantity of waste handed over[1] to carriers and booked in compliance with the related law[2].

WASTE HANDED OVER (*)

			Change %	
		Telecom Italia S.p.A. 2007	2007 vs 2006	2007 vs 2005
Hazardous waste	kg	2,913,607	2.63%	6.72%
Non hazardous waste	kg	12,980,361	68.24%	37.43%
Total quantity of waste	kg	15,893,968	50.59%	30.54%
Waste for recycling/recuperation purposes	kg	15,558,013	55.12%	49.72%
Ratio between recycled/recuperated waste and total waste		97.89%	3.00%	14.69%

(*) Data do not include the removed telephone poles, which are reported in the relevant table.

Waste handed over (kg)



As compared to the preceding years non hazardous waste shows a significant increase, already foreseen and commented in the latest Sustainability report and connected to the management contract signed in the last quarter 2006.
The ratio between the quantity of waste handed over for recycling/recovery and the total quantity of waste is improved. The high levels of recuperation/recycling and the progressive improvement of the index show the process efficiency and the good interaction with companies to which such service is entrusted[3].

(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 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.
(3) Controls concerning technological waste (approximately 6,000,000 kg of waste handed over to carriers for cycling and recovery) were carried out in 2007 and showed that the 97% has been actually recycled and recovered while the remaining 3% has been disposed of.

WASTE HANDED OVER

			TI Group breakdown by BU (%)		
		TI Group 2007	Domestic/Broadband/ Mobile Brazil and other activities (*)	Media	Olivetti
	kg	20,263,161	94.97%	0.67%	4.36%

(*) In this table and in those following in the Environment chapter the scope of Domestic/Broadband/Mobile Brazil and other activities includes all the fixed and mobile TLC domestic activities, as well as the related support activities, the broadband services in France, Germany and The Netherlands, TIM Brasil and Entel Bolivia.

Waste Management

Industrial waste produced by Telecom Italia is managed using computerised waste accounting books, also allowing regular monitoring.

The differentiated waste collection of waste produced by corporate offices, started in 2006, has been progressively expanded to all Italian offices having more than 100 employees. The service is currently ongoing in 107 territorial offices and in the Rome and Milan headquarters. In 2008 the service will be implemented in other smaller offices. In 4 particularly representative and ISO 14001 certified offices, the opportunity to realize other initiatives aimed at improving the service (Ecobox and double-compartment waste baskets) will be tested.

Concerning the management of waste from electrical and electronic equipment (WEEE), ruled by Legislative Decree 151/05, Telecom Italia is required to manage the product end-of-life, being both a distributor and a producer. While waiting for the executive decrees related to the above legislative decree to be issued, Telecom Italia will join a consortium specialised in the management of equipment end-of life. The processes for the collection and selection of WEEE have been defined for each direct sale channel, and appropriate provisions have been added to the standard purchase contractual conditions, concerning the WEEE and the hazardous substances (RoHS) [(4)].

The responsibilities related to the management of end-of-life electrical and electronic equipment are at the basis of some initiatives both concerning the company and customers, such as:
- the disposal of obsolete computer workstation;
- the withdrawal of products (in particular basic telephones and ADSL modems), owned, rented or entrusted to customers on a free loan basis;
- a collection of used mobiles for reuse and/or recuperation (for instance through the project "Become a mobile phone-donor" described in chapter "The Community/Charity").

These initiatives are meant to:
- collect and correctly dispose of the hazardous components contained in these equipment/accessories, including batteries;
- recuperate materials, from plastics to noble metals such as gold, copper, palladium, silver and platinum;
- start a new life cycle for repairable or operating equipment.

Product Responsibility

Product responsibility – also known as product stewardship – is related to aspects such as the safety and environmental impact of products and services supplied to customers, for instance the compliance to health/safety and environmental standards, labelling and marketing actions.
The products marketed by Telecom Italia undergo strict technical tests meant to ensure their conformance to European Directives and to the national legislation implementing these measures. The most important are:
- the EU regulation on the protection and safety of customers using such equipment;
- the RoHS regulation, banning the use of hazardous substances in electrical and electronic equipment;
- the already mentioned WEEE regulation.

(4) European Directive 2002/95/CE on restrictions to the use of certain hazardous substances in electrical and electronic equipment (Restriction of Hazardous Substances Directive).

Products are submitted to rigorous quality tests to make sure they match the environmental and safety requirements agreed with suppliers. More information on the safety of mobile terminals is available in the "Electromagnetic emissions" paragraph.

The technical/commercial departments of Telecom Italia S.p.A. and Olivetti also show their care for health, safety and the environment through the acquisition of certifications: UNI EN ISO 9001:2000 (for quality); UNI EN ISO 14001:2004 (for the environment); ISO 27001:2005 (information security standards). For further information on the subject please see chapter Customers/Certifications.
During 2007 the Life-cycle Analysis (LCA) method has been applied to a group of 17 products (mobile and fixed terminals, fax and printers). The LCA assesses and quantifies the environmental impact of a product, a process or an activity, starting from raw material acquisition to end of life. The LCA method, developed within Telecom Italia in a form simplified and appropriate for corporate requirements, also aims at supporting the purchase decision-making process, in particular for commercial products, also through the involvement of suppliers.

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 2007 the TI Group continued the recovery of the poles. Details are shown in the table below.

TELEPHONE POLES REMOVED

			Change %	
		Telecom Italia S.p.A. 2007	2007 vs 2006	2007 vs 2005
	no.	208,250	+9.53%	+1.33%

The recuperation activity will continue in 2008.

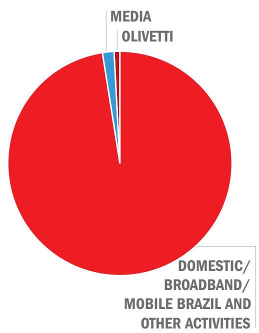
Paper

Paper consumption breakdown by Business Unit and related incidences on TI Group's total volume are reported below.

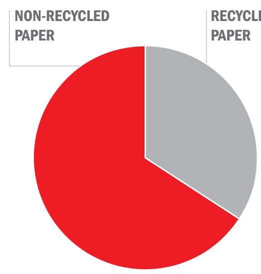
PAPER

			TI Group breakdown by BU (%)		
		TI Group 2007	Domestic/Broadband/ Mobile Brazil and other activities	Media	Olivetti
Non recycled paper purchased	kg	746,462	96.40%	2.66%	0.94%
Recycled paper purchased	kg	390,768	99.74%	0.22%	0.05%
Total paper purchased	kg	1,137,230	97.55%	1.82%	0.63%

Total paper purchased



Recycled and non-recycled paper purchased



Also due to the awareness campaign concerning all employees of Italian offices, the consumption of paper is reduced as compared to 2006. The use of recycled paper, instead of new paper, has recorded a strong percentage increase. The quantitative objective defined for Italian operations in 2007 (40% of recycled paper used) has been reached and outperformed.

In the year it has been presented to customers the initiative "Stop to paper! Saying YES to the environment REWARDS YOU", aimed at favouring the on line invoicing of telephone bills, replacing the traditional mailing of the paper document. The initiative has been associated to a competition with prizes with final draw among subscribers.

In Brazil TIM Partecipações has replaced new paper for commercial use (telephone bill invoices and promotional material) with recycled paper. The total use is quantifiable in over 2,500 tons.

Water

Water consumption data relative to Telecom Italia S.p.A. and the TI Group are reported below.

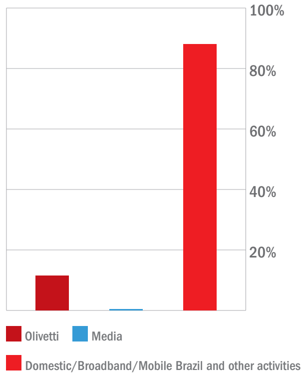
WATER CONSUMPTION

			Change %	
		Telecom Italia S.p.A. 2007	**2007 vs 2006**	**2007 vs 2005**
	m^3	4,147,359	–1.73%	–12.92%

WATER CONSUMPTION

			TI Group breakdown by BU (%)		
		TI Group 2007	**Domestic/Broadband/ Mobile Brazil and other activities**	**Media**	**Olivetti**
	m^3	5,141,499	88.01%	0.48%	11.50%

Water consumption



The decreasing trend of water consumption by Telecom Italia, as compared to preceding years, continued also in 2007. The monitoring of water consumption on heavily staffed premises, already started in the past and expanded in 2007 to corporate offices with more than 100 employees, associated to the office disposal plan, is the basis of the result achieved.
The overall Olivetti environmental profile, though showing an increase of water consumption due to the introduction of a closed cycle-cooling system at the Arnad plant, is improved as the new process granted the elimination of ozone depleting gases.

Energy

Electricity consumption data relative to Telecom Italia S.p.A. and the Group are reported below.

Electricity

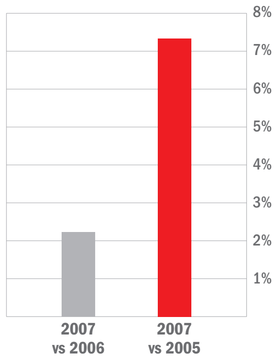
PURCHASED OR PRODUCED ELECTRICAL ENERGY

			Change %	
		Telecom Italia S.p.A. 2007	**2007 vs 2006**	**2007 vs 2005**
Electricity from non-renewable or mixed energy sources	kWh	2,121,870,937	2.16%	10.28%
Electricity from renewable energy sources	kWh	32,000,000	6.67%	–61.12%
Total purchased or produced electricity	kWh	2,153,870,937	2.23%	7.36%

PURCHASED OR PRODUCED ELECTRICAL ENERGY

			TI Group breakdown by BU (%)		
		TI Group 2007	**Domestic/Broadband/ Mobile Brazil and other activities**	**Media**	**Olivetti**
	kWh	2,608,334,981	97.97%	1.13%	0.90%

Purchased or produced electrical energy

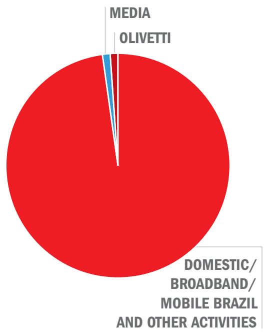


The increasing trend characterising the electrical energy consumptions is mainly due to the increase of broadband lines and data traffic, to the new services being offered and to the progressive spread of flat rates. A trend inversion is expected thanks to a further development of energy saving activities and most of all to the introduction of the Next Generation Network (NGN2) as unique access platform.

The electrical energy purchased in Brazil in 2007 derives from natural sources (hydroelectricity) and is equal to 267 millions of kWh.

The Group is committed to the development of alternative energy sources, as shown by the following initiatives:
- installation of fuel cells in five locations (Trentino Alto Adige, Piemonte and Sicilia). These plants use hydrogen as energy 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;
- experimentation continues on innovative self-routing concentration photovoltaic plants, enabling an increase of electric yield up to 35% as well as a reduction of costs for plants and spaces occupied;
- completion and activation within March 2008 of the co-generation (trigeneration) plant at the Data Processing Centre of Pomezia (Rome). Here energy requirements will be met using a system which should provide – in association to the usual suppliers – electrical energy, heating and cooling with a 30% estimated energy saving;
- four Base Transceiver Stations have been equipped this year with a supplementary mixed wind and photovoltaic power (a 15 kW wind generator and 3,5 kWp photovoltaic modules) ensuring 30% of energy requirement;
- a project in collaboration with the second Naples University and the National Agency for Environment Protection and Technical Services (APAT), meant to improve the energy efficiency of TLC equipment by the use of renewable sources, energy saving strategies and interventions to reduce emissions, has been launched;
- in collaboration with TILab it has been started, at the Turin Vanchiglia exchange, the experimentation of a system for the monitoring of energy consumption through the "Wireless Sensor Network" technology. The aim is the continuous monitoring of environmental conditions (air conditioning, free cooling, lighting, router and gateway) and of energy consumption. The project is planned to be applied to larger exchanges.

Purchased or produced electrical energy



As far as the Technology industrial consumption, the energy saving initiatives started in past years are continuing. The most important interventions are:
- The replacement of power supply units with low conversion rate;
- The optimisation of system usage and the technological upgrade of obsolete equipment;
- The installation of new free cooling plant systems;
- The replacement, rationalisation and optimisation of air conditioning systems;
- The compacting of switching modules.

TIM Brazil has also implemented several projects to rationalise electrical energy consumption, which were started in 2006:
- automatic lighting and air conditioning of buildings, through motion sensors;
- electrical circuit sectioning;
- replacement of incandescence lamps with low-consumption fluorescence ones.

Eco-efficiency indicator

Telecom Italia S.p.A. monitors its own energy efficiency through an indicator comparing the service offered to customers (simplified to the quantity of transmitted bits) and the related environmental impact measured in terms of energy consumptions. For this purpose the following inputs are considered: voice and traffic data, both from fixed and mobile networks; industrial (air conditioning of plants, network operation) and civilian energy consumptions (i.e. office heating, vehicle fuel consumption, office electricity consumption).
The table below shows the last five years trend of the TLC service eco-efficiency.

Year	kBit/kWh	Bit/Joule	% increase Year 200X vs year 200X-1
2003	492,082	137	
2004	777,248	216	+58%
2005	1,311,676	364	+70%
2006	2,144,178	596	+63%
2007	3,144,283	873	+45%

The indicator figure for 2007 shows an approximate 45% increase as compared to 2006, thus higher than the defined target (850 Bit/Joule). The annual increase of the index is however progressively shrinking: the actions undertaken in the last years for energetic efficiency purposes and the increased traffic volume involve a reduction of the index improvement margins.
The commitment continues with the objective for 2008: +30% with respect to 2007.
For further details please see paragraph "2008 Objectives" of "Introduction".

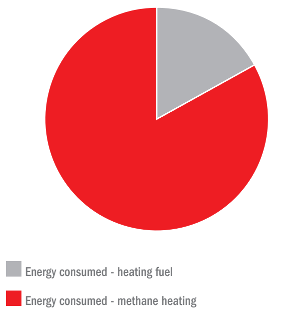
Energy efficiency is promoted by the EU JRC (Joint Research Centre) and by ETNO (European Telecommunications Network Operators' Association), also through Code of Conducts aimed at minimising energy consumption without interfering with technological development and the quality of services offered to customers.
Besides having an active role in the drawing of the Code of Conducts, Telecom Italia uses the related targets as reference for technical specifications and for the evaluation of offers during bids for the purchase of broadband equipment. The TI Group is evaluating the hypothesis to replace the first generation DSLAM equipment currently in use with lower energetic consumption equipment.

Heating fuels

ENERGY CONSUMPTION FOR HEATING SYSTEMS

		Telecom Italia S.p.A. 2007	Change % 2007 vs 2006	Change % 2007 vs 2005
Energy consumed - heating fuel	MJ	149,150,349	–7.78%	–10.37%
Energy consumed - methane heating	MJ	721,333,711	–0.67%	–5.35%
Total energy consumed for heating	MJ	870,484,060	–1.96%	–6.25%

Energy consumption for heating systems



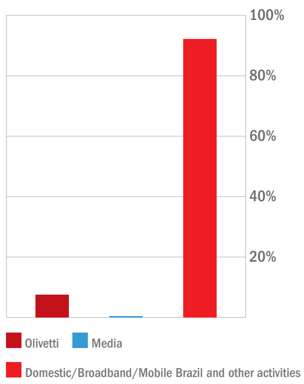
The reduction of the consumption of heating fuels in Telecom Italia S.p.A. with respect to the preceding years is due to the dismissal of three buildings and to the improvement of heating systems in 20 buildings. Considering that in 2006 the winter temperatures have been higher than the season's average, the consumption decrease appears all the more valuable.

The consumption trend reflects actions undertaken to improve and upgrade boilers through the replacement of the old oil boilers with last generation heating generators.

ENERGY CONSUMPTION FOR HEATING SYSTEMS

		TI Group 2007	TI Group breakdown by BU (%) Domestic/Broadband/ Mobile Brazil and other activities	Media	Olivetti
	MJ	981,703,175	92.23%	0.29%	7.48%

Energy consumption for heating systems



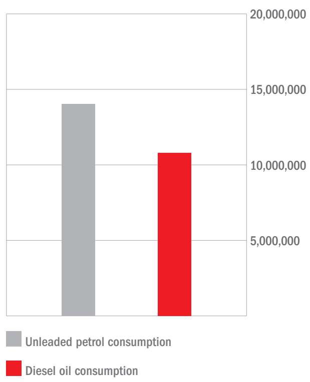
Vehicle fuels

VEHICLE FUEL CONSUMPTION

		Telecom Italia S.p.A. 2007	Change % 2007 vs 2006	Change % 2007 vs 2005
Unleaded petrol consumption	l	14,046,076	–17.31%	–25.81%
Diesel oil consumption	l	10,781,175	20.46%	30.02%
Total vehicle fuel consumption (*)	MJ	836,484,253	–3.38%	–7.57%

(*) Represents the conversion in MegaJoule of unleaded petrol and diesel oil consumption expressed in litres.
The consumptions of LPG have not been included in the table as not significant (1.300 litres of LPG, equal to 38,961 MJ).

Vehicle fuel consumption (liters)



Within the general decrease of vehicle fuel consumption, as shown by the figure expressed in MJ, an increase of diesel oil consumption and a marked reduction of petrol consumption have been recorded, due to a gradual fleet renewal in favour of diesel vehicles.

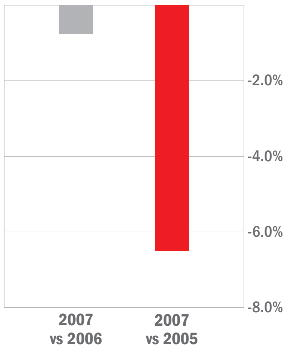
We have started the experimentation of the hybrid vehicle Panda Van, whose first prototype should be delivered in February 2008. This vehicle allows an approximate 20% reduction of carbon dioxide (CO_2) as well as a marked reduction of particulate emissions, thus confirming the TI Group intention to adopt low environmental impact vehicles.

NUMBER OF VEHICLES AND DISTANCE TRAVELLED

		Telecom Italia S.p.A. 2007	Change % 2007 vs 2006	Change % 2007 vs 2005
Total number of vehicles	no.	21,558	–2.60%	–5.17%
Number of low-emitting vehicles (*)	no.	21,207	–2.61%	–6.30%
Overall distance travelled by vehicles	km	311,969,057	–0.75%	–6.51%

(*) 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.

Overall distance travelled by vehicles



NUMBER OF VEHICLES AND DISTANCE TRAVELLED (*)

		TI Group 2007	TI Group breakdown by BU (%) Domestic/Broadband/ Mobile Brazil and other activities	Media	Olivetti
Total number of vehicles	no.	23,648	98.43%	0.55%	1.02%
Overall distance travelled by vehicles	km	353,812,287	97.44%	0.88%	1.68%

(*) 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 Partecipações, 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.

Telecom Italia is committed to the development of technologies in order to meet the growing mobility requirements, mostly in large urban centres, reducing the negative impacts on the social and environmental system, such as traffic, accidents, pollutants and CO_2 emissions, and noise pollution. The description of actions undertaken is included in the chapter Customers/Research and tests on innovative services.

Atmospheric emissions

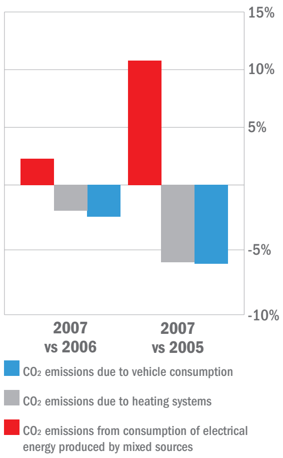
The only significant concern of Telecom Italia as to atmospheric emissions is carbon dioxide (CO_2). These are divided by indirect emissions (deriving from electrical energy used to power telephone and data networks and premises) and direct emissions (fuel used for heating and vehicles).

EMISSIONI ATMOSFERICHE

		Telecom Italia S.p.A. 2007	Change % 2007 vs 2006	Change % 2007 vs 2005
CO_2 emissions from consumption of electrical energy produced by mixed sources (*)	kg	965,451,276	2.16%	10.28%
CO_2 emissions due to heating systems	kg	57,849,069	–2.13%	–6.37%
CO_2 emissions due to vehicle consumption	kg	60,077,983	–2.62%	–6.50%
Total CO_2 emissions	kg	1,046,498,089	1.63%	7.55%

(*) The national coefficients in CO_2 grams per kWh are as follows: Italy 455; Germany 453; France 87; Bolivia 537. Source GHG Protocol "Indirect CO_2 Emissions from the consumption of the purchased electricity" – www.ghgprotocol.org.

Emission change



ATMOSPHERIC EMISSIONS

			TI Group breakdown by BU (%)		
		TI Group 2007	Domestic/Broadband/ Mobile Brazil and other activities	Media	Olivetti
CO_2 emissions from consumption of electrical energy produced by mixed sources (*)	kg	1,039,485,363	98.39%	1.29%	0.32%
CO_2 emissions due to heating systems	kg	65,166,276	92.27%	0.28%	7.44%
CO_2 emissions due to vehicle consumption	kg	96,521,117	97.97%	0.68%	1.35%
TTotal CO_2 emissions	kg	1,164,749,654	98.01%	1.18%	0.80%

(*) The national coefficients in CO_2 grams per kWh are as follows: Italy 455; Germany 453; France 87; Bolivia 537. Source GHG Protocol "Indirect CO_2 Emissions from the consumption of the purchased electricity" – www.ghgprotocol.org.

In 2007, notwithstanding the confirmation of reduced direct emission, the increased consumption of electrical energy from non renewable sources (mainly due to the increase of data traffic and to the new services offered), has caused a slight increase of CO_2 emissions as compared to the preceding years.
The criterion applied to calculate indirect emissions deriving from electrical energy purchase has been modified with respect to 2006, following the adoption of the conversion coefficients developed by "GHG Protocol" (Indirect CO_2 Emissions from the consumption of the purchased electricity) [6]. Up to 2006 it was used a coefficient calculated on ENEL production capacity as a function of the energy source mix used.
The calculation method suggested by the GHG Protocol considers the energy mix of the countries where the Group operates; it is an internationally adopted method and allows comparisons with other companies of the sector.
The transition from the preceding calculation method to the current one has not highlighted significant changes in CO_2 emission quantity [7].
The CO_2 emissions from fuels used for vehicles and heating systems have been calculated according to UNEP indications (United Nations Environmental Programme Guidelines for Calculating Greenhouse Gas Emissions for Businesses and Non-Commercial Organisations – www.uneptie.org).

According to a study of 2007 on the Telecom Italia S.p.A. scope, we estimate that indirect consumptions related to Scope 3 of the Global Reporting Initiative involve yearly emissions into the atmosphere of:
– 71 million kg of CO_2, due to employee house/office displacement;
– 9.5 million kg of CO_2, due to air travels for work missions;
– 4 million kg of CO_2 related to 1,570,000 oil litres used by 123 power plants (managed and owned by Telecom Italia S.p.A. suppliers) continuously operating at the Base Transceiver Stations where electrical energy is not available.

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 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 emissions, both direct and indirect;
– to favour and support the dematerialisation of assets and services.

(6) The GHG Protocol (Greenhouse Gas Protocol initiative) has been established in 1998 after the signature of the Kyoto protocol within the framework of the World Business Council for Sustainable Development (WBCSD) and the World Resources Institute (WRI), in order to support companies on the specific topic of greenhouse gas emissions through the development of calculation methods and scientific studies promoting innovation and responsibility on climate change.

(7) The TI Group CO_2 emissions in 2007, calculated with the preceding method are 1,003,062 tons; with the new method the figure is 1,039,485 tons: the deviation between the two methods is approximately 3%.

As far as the reduction of the TI Group's greenhouse gases, the following initiatives were launched in 2007:

– Car fleet: a multi-year modernisation program has been launched in view of reducing greenhouse gas emissions. In 2007 we replaced 1,900 Euro3 vehicles with the same number of Euro4 vehicles. Such vehicle renewal brought forth an approximate 30% reduction of CO_2 emissions that would have been produced by the replaced vehicles.
– Boilers: the replacement of oil-fuelled thermal systems with methane-fuelled or heat pump has continued, allowing to reduce CO_2 emissions for the heating of buildings. The replacements implemented in 2007 achieved a CO_2 emission reduction equal to kg 180,000.
– Energy saving and use of renewable energy sources: the initiatives launched are described in the "Energy" and "Atmospheric emissions" paragraphs of this chapter.

As far as dematerialisation the TI Group provides products and services enabling to eliminate or reduce the greenhouse gas emissions caused by people and object displacement. Here are some examples [8].

- 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 payments.
- 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.

As far as the emission of substances depleting stratospheric ozone that shields life on earth by filtrating harmful UV radiation, starting from January 1st, 2009, the marketing of ozone-depleting substances (e.g. HCFC) for air conditioning systems will be banned.
In collaboration with the Universities of Naples and Turin we have implemented experimental interventions to upgrade systems operating on ozone-depleting gases. These systems have been replaced with others using a gas compatible with ozone-protecting requirements.
The experimentation concerns buildings (12 systems replaced) and technological plants (497 air conditioning systems and 130 refrigerating units) and will continue in 2008.

Electromagnetic emissions

The commitment of Telecom Italia Group to the electromagnetic emissions 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.

(8) According to estimates 100 millions of audio-conferences replacing physical travel would save more than 2 million tons of CO_2 emissions; 10 million teleworkers working for two days from home would save nearly 11 million tons of CO_2 while if 10 millions subscribers would receive online telephone bills instead of traditional paper bills approximately 11,000 tons of CO_2 could be saved. Examples are indicative and their purpose is providing concrete indications of the potential to TLC services. These data are based on projects, have been verified by independent third parties and have been tested on a small scale by ETNO members within the framework of the initiative "Saving the climate @ the speed of light" developed in collaboration with the WWF (www.etno.be/sustainability).

In this regard the TI Group has exceeded expectations as far as its 2007 objective (SAR qualification of 95% of mobile terminal new models) by submitting to the SAR qualification the 100% of the new models of mobile terminals (66 technologically innovative and widespread models), marketed by Telecom Italia. The objective for 2008 involves maintaining the performance with the consequent commitment of the TI laboratories on mobile bands GSM 900MHz, DCS 1800MHz and UMTS. For further details please see paragraph "Results and Ackowledgements" of "Introduction".
From 2008 the SAR qualification will be applied to mobile terminals marketed in South America: it has been planned to submit to the test 25% of mobile models in Brazil and 40% in Bolivia.

The 2007 objective related to the activation of cells with second carrier for UMTS Base Transceiver Stations (BTS), best described in paragraph "Results and Ackowledgements" of "Introduction", has been achieved and exceeded.
The remarkable development of the UMTS "high speed" coverage, due to commercial needs connected to the increase of data transmission speed, has allowed the activation of a number of cells with second carrier (4,200 cells) remarkably higher than planned (500 cells). For 2008 the objective is to install 600 further cells with second carrier.
If two radiofrequency carriers are used instead of a single one, traffic carried being the same, the total power emitted by the Station is lower. In high-traffic conditions a 15% power reduction is achieved.
The laboratory tests conducted confirmed the validity of such estimate.

Concerning the TI Media Group, the systematic monitoring of the electromagnetic emission levels of the La7, MTV and TIMB (Telecom Italia Media Broadcasting) broadcasting stations has been continued in order to ensure the compliance to law limits in force and to keep 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, recently adopted by the national legislation with Legislative Decree 257/2007.

On the basis of controls performed on the Italian territory in 2007, the electromagnetic emissions generated by La7 and MTV resulted within lawful limits, and showed significantly lower values with digital television transmission, which allows an approximate 75% reduction of electromagnetic emissions as compared to the traditional analogical technologies.

Telecom Italia has moreover signed with Vodafone Italia an agreement that involves sharing the mobile network access sites with reference to passive infrastructures (poles and masts, electrical and air conditioning systems, civil infrastructures). Thanks to this new agreement, renovating and expanding the content of the preceding one, the two companies are fulfilling the recommendations of the Electronic Communication Code, thus favouring a more efficient use of network infrastructures both in urban and rural areas. According to the agreement each operator, though owning its own infrastructures, will host the other in its radiomobile stations all over the national territory in view of optimising the mobile network coverage. The sharing of electronic equipment providing mobile telephony services to customers and the relevant operational services is excluded in the agreement.
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 Further information is available on the website www.telecomitalia.it, (Sustainability/Hot Topics/Mobiles and health).

Acoustic emissions

In observance of regulations in force the control of acoustic emissions by corporate plants continued. In 2007 we performed 421 intensity measurements on the noise produced by air conditioning systems and power supply units of telephone exchanges and Base Transceiver Stations.

Culture, Training and Information

During the year more than 8,000 hours of specialized technical training have been provided to internal departments whose activities are related to environmental themes. Other informative and cultural interventions also promoted among the Group's employees the culture of energetic saving and the adoption of environmental sustainable behaviours.
We also organised a workshop, devoted to the Human Resource departments, in order to analyse the role and tools available to human resources on the subject of environmental protection.
The Prevention, Protection and Environment Service department has upgraded on the corporate Intranet the Environment Project website, making easier for colleagues the navigation of the "Environment Protection" website.
A workshop on "Integrated competence for the environment" for the management most involved in environmentally significant activities has been held.
The corporate Intranet also hosted awareness-raising initiatives such as: the World Environment Day (June 5); the World Climate Change Day (December 8); the report of the national conference on climate change held in Rome on September 12-13; the summary of activities carried out by Intelec (International Telecommunications Energy Conference).

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.
Among the TI Group's companies Telecom Italia has promoted in the years the planning of these systems as tools ensuring the efficient management of working processes, the prevention and continuous reduction of environmental impacts. The TI Group EMS have achieved the UNI EN ISO 14001 certification.

In 2007 we started the implementation of two new EMS: the first one within the Facility Management Department of Telecom Italia S.p.A., in the Building and Services department; the second within TI Media Broadcasting.
We also continued the activities started in 2006 and related to the definition of an Integrated System for Safety management and the Environment within two *call centres* located in Rome and Naples.

The chapter "Customers/Certifications" reports the environmental certifications achieved or confirmed in the year.

The Environment Project

Started in 2004 with an action plan spanning over the three years 2004-2006 the project has been re-launched in 2007-2009 in order to complete initiatives and plan further activities. Instead of the preceding Environment Project Committee we established an Operational Committee which proposes and monitors projects and a Steering Committe, that approves the projects submitted and ensures the relevant funding. For each approved project, a project manager in charge of the implementation is identified and entrusted with the management and the coordination of an interfunctional team.

The most significant projects dealt within the framework of the Environment Project are: the prevention and reduction of noise pollution, the mapping and decontamination of asbestos, the optimisation of energy consumption, the reduction of paper consumption and the progressive replacement of new paper with the recycled type, the promotion of differentiated waste collection, the reduction of emissions by car fleets and heating systems, the optimisation of the management of the electromagnetic field intensity of Base Transceiver Stations, the SAR (Specific Absorption Rate) qualification for mobile handsets, the promotion of initiatives involving environmental culture, training and information.

The Community

The TI 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 stakeholders, the TI 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, the TI Group's companies do consider the social significance of telecommunication services, meeting the needs of the Community and of its less fortunate members. The TI 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

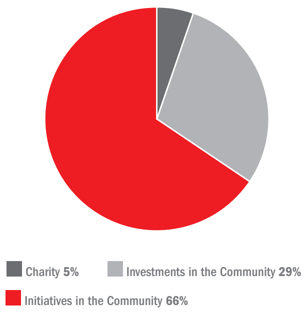
In 2007 the contribution of the TI Group to the Community, calculated according to the guidelines of the London Benchmarking Group (LBG), is equal to approximately euro 32 million (euro 42.4 million in 2006). Contributions have been calculated on the basis of management data appropriately reclassified and partly based on estimates. Founded in 1994, the LBG is an association comprising over 110 large international companies and represents the worldwide standard of reference for the classification of contributions to the Community. Consistently with the LBG model, to measure and report corporate commitment to the Community, contributions have been classified according to three categories (Charity, Investments in the Community, Initiatives in the Community) and allocated to the various levels of the LBG model pyramid [9]:
The criteria adopted for the allocation of contributions to the various levels of the pyramid are reported in the following table:

<u>Charity</u> Support to a wide range of "social" issues in response to the needs and appeals of community organisations, increasingly through partnerships between the company, its employees, customers and suppliers.	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.
<u>Community investments</u> Long-term strategic involvement of the company to address a limited range of "social" issues.	Memberships and subscriptions. Grants and donations based on a specific medium/long term program.
<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 con philanthropic organisations.	Sponsorship of events, publications and activities promoting brand or corporate identity. Cause Related Marketing, promotional sales. Support to scientific and University research and to philanthropic organisations. Care for consumers with special needs. Civil protection activities.
<u>Business Basics</u> Core business activities for the production of socially useful goods and services in a manner which is ethically, socially and environmentally acceptable.	Optimisation of electromagnetic fields. Reduction of Digital Divide. Energy saving activities. Reduction of the visual/acoustic impact of telephony equipment. Electronic health solutions. Services and products for disabled people and the elderly.

(9) The LBG model requires to include in the first three levels of the pyramid the activities mainly characterized by a sense of moral responsibility, and leaving to companies the possibility to indicate separately the activities more directly connected to the core business (*Business Basics*). Consistently with these guidelines, the figure related to the overall contribution of theTelecom Italia Group to the Community do not include Business Basics.

LBG model

Breakdown of contributions to the Community by the Telecom Italia Group



Progetto Italia

Progetto Italia operates within the Advertising, Image and Brand Enrichment Department. Its activities hinge on TI Group's competences, technologies and abilities, and are aimed to realize initiatives and events which are characterized by a large participation and easily access to everybody, with a view to contributing to the cultural and social growth of the country.

Progetto Italia activities are based on the targeted divulgation, quality, and originality principles, as well as on the measurability of outputs and impacts related to the different inititiaves. These pay special attention to young people and to the most vulnerable groups of the population.

In the past five years Progetto Italia has organized more than 500 initiatives, both at national and international level, related to solidarity, education and sport, involving hundreds of institutional representatives and protagonists from the world of culture, science and sport. The events have been attended by 4 million people and by 25% of employees, besides the public connected through the www.telecomprogettoitalia.it website, on which the complete list and description of activities may be found.

2007 activities

Some of the TI Group's initiatives, classified according to the LBG model, are reported below.

LEV. 1 - Charity

SMS and solidarity calls

Several fundraising initiatives have been implemented in 2007 through SMS or telephone calls to donate to non profit associations and entities.
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.
Approximately 70 fundraising initiatives have been activated, among these we point out:

- Associazione Italiana Ricerca sul Cancro (Italian Association for Research on Cancer), as support to the fundraising initiative "An Azalea for Research";
- WWF, for the "Giornata delle Oasi (Oasis day)" project;
- TELETHON, in support of the fundraising television marathon in favour of research on genetic diseases, associated this year to the initiative "Become a mobile-donor". In some specific days, people owning old mobiles were given the opportunity to bring these phones to some corporate offices of Telecom Italia, to all the "il Telefonino" shops and to the gazebos set up thanks to the support of the Environmental Services Department in the Premier League stadiums and in the squares of the main Italian towns. Each mobile donation brought 5 euros to Telethon, in support of research projects, totalling 25,000 euros plus further 25,000 euros, directly donated by Telecom Italia.

  Equipment out of order have been shipped to specialised disposal companies in order to provide to the extraction of gold, copper, palladium, silver, platinum and to ensure the correct disposal of hazardous components, in compliance with European environmental legislation. Batteries have been safely regenerated while the charger and accessories underwent recycling, with plastics transformed into objects for daily use. Still working mobiles have been prepared to be sold at accessible prices in developing countries.

"Salam" Heart Surgery centre

On May 3rd in Khartoum, Sudan, the Salam Regional Heart Surgery Centre was inaugurated. Progetto Italia helped fund this centre built by Emergency. The Centre aims at promoting the universal right to free and qualified health care, and friendly, peaceful relations in the Northeast Africa.
The centre was established to provide free surgery to heart patients in Sudan and its nine bordering countries. The structure is provided with biomedical equipment and high-level technological solutions such as the photovoltaic plant used for the hospital air conditioning system.

Since the beginning of diagnostic activities (March 2007) up to 31 October 2007, the hospital performed 4,491 medical examinations of which 2,183 were specialistic, together with 49 cardiology operations as well as 257 cardiosurgery operations.

LEV. 2 - Investments in the Community

Alice for Children

Matrix took part as sponsor in the initiative proposed by the "Twins International" Association, whose goal is the improvement of the quality of life for orphan children living in the degraded suburbs of Nairobi, through the realisation of two hosting communities according to a family home model. The first centre, "Alice Children Home", has been built in the North-East of Nairobi, near to an existing orphanage, while "Alice Village" is located 30 km South of the Kenyan capital.
These centres will also hold professional training courses for the children.
This project is also associated to the Telecom Italia initiative "Alice Mail" for "Alice for Children", involving the donation by Telecom Italia of 3 euros every 30,000 mails sent from or received by all "Alice Mail" mailboxes.

Solidarity ponies

Telecom Italia continued in 2007 its support of the initiative "The Solidarity Ponies", aimed at providing free home assistance to elderly people (over 65s).
The elderly can call a telephone number, made available by the Municipality or by the Associations participating in the project, to ask for help. The Municipality operators are connected to an operational exchange and switch the calls to the mobiles of voluntaries who are readily available, also in the summer months.
The initiative, stemmed from the collaboration with Social Policies Councils and Volunteer Associations, is this year at its ninth edition and covers six important Italian towns (Milan, Turin, Bologna, Rome, Naples and Palermo).

The TI Group's broadcasters and their environmental and social commitment

The Telecom Group's broadcasters, MTV and La7, are devoted to the implementation of awareness-raising programs on social and environmental issues, particularly with respect to the less developed countries.
In 2007 two main subjects were shared by the two networks:
- The environment protection, mostly with the "Live Earth", a worldwide event meant to raise awareness on the climate crisis currently affecting our planet. Several concerts have been broadcast. The event has been attended by 2 billion people all over the world, on the web and on the main television (among which NBC and BBC) and radio channels;
- Fighting the mafia: La7 has produced and broadcast the film "La memoria ha un costo (The price of memory)", dedicated to the fighting against mafia and to the antimafia initiatives by don Ciotti in Calabria; MTV has realised a series of meetings and has broadcast documentaries to raise awareness on the subject.

Adult and Youth literacy

This project was launched 16 years ago by one of the largest and most important NGO's in Brazil, "Pastoral da Criança". Since 2001, TIM has participated in this educational programme with participants coming from some regions of the north east and south of Brazil, having the highest rate of social exclusion in the country. According to research conducted by the "Pastoral da Criança" NGO, the project has demonstrated a strong correlation between education and quality of life: the higher the mother's educational level, the lower the infant mortality rate.
In 2007 the project was implemented exclusively in the South of Brazil where 126 classes (717 people benefited from the initiative) were established.

LEV. 3 - Initiatives in the Community

TIM Talks

In 2007 Telecom Italia and the Italian Union for Blind People made available in exclusive for Italy "TIM Talks", a free innovative software programme allowing to blind people, short-sighted people and the elderly to use all the available mobile functions thanks to an electronic voice reading the display on the basis of the user needs and indications.
The service users can write and read SMS and emails, compose and download multimedia messages (MMS), call and modify numbers in the address book, change phone settings, manage the appointment calendar and read and write texts.

Web is your friend: safe exploration of the Web

The aim of this initiative is to devise appropriate tools to help minors in their safe navigation of the Internet, avoiding pedo-pornographic sites, grooming and frauds. The campaign ”web is your friend” is promoted by Moige (Italian Parent Movement) and is supported by Telecom Italia, Polizia Postale e delle Comunicazioni (Postal Police), Poste Italiane (Italian Post Services) and Microsoft, under the patronage of the Ministry for Family Policies, the Ministry of Communications and the Ministry of the Interior.
The campaign schedule involves lessons for parent and teachers and separately for children, totalling 46 “Open school days for safety on the Internet”, managed by Moige and Postal Police experts. Access to the initiative was also extended online through the “Web is your friend” site and the free support service offered by the same “Ask an expert”.

Internet Saloon

Telecom Italia is a partner of the AIM (Association for Metropolitan Interests) of Milan, with respect to the Internet Saloon initiative, started in 2000 with the goal to favour the diffusion of the Internet and of new technologies among the over 60s, thus contributing to reduce the cultural digital divide. In order to held courses and practices, classrooms have been equipped with 26 multimedia workstations, software and Internet connection. During these courses, free lessons for different levels are provided, aimed at informatics and web surfing learning. More than 23,000 over 60s have successfully attended these courses in the seven years since the start.

Business Basics

Electronic Health Solutions

The following paragraph describe some ICT solutions for managing medical treatment and diagnostics at Healthcare facilities.

MYdocs ehealth: a solution ensuring an optimal system to manage current and historical clinical files with instructions to create a digital archive, in order to optimise the available space and speed up the access to patient information.
MYPharma Management is an offer providing a two-fold solution:
- centralised management of single dose medicines: a Pharmaceutical Risk management solution designed to improve drug prescription safety, preparation and administration and to optimise supplies and consumption;
- management of pharmaceutical protocols at hospital wards: a prescription and administration software and automated pharmaceutical storage closets allow clinical and logistical drug management.

MyImage Archiving: allows remote archiving of digital diagnostic images in the standard DICOM format on Telecom Italia data centres.
MYPatient Hospital record: application platform that allows the integration of information issued from hospital information systems, the recording of clinical and medical documentation, also making such information available throughout the Internet aiming at the integrated monitoring of the hospitalised patient.
MYAsset Tracking: solution allowing to track and localise patients with special needs, to track and manage sanitary equipment and transfusion blood sacks through the RFID (Radio Frequency Identification) technologies.
MYDoctor@Home: telemonitoring service allowing to assist chronic patients directly in their home, avoiding hospitalisation. The patient’s home is equipped with simple wireless electromedical instruments capable of sending data via a mobile phone or videophone to a centre whose specialised operators (doctors and paramedics) check the data received through the web and undertake the appropriate actions.

Research, development and innovation

The Italian market of telecommunications is considered among the most advanced, both from the technological viewpoint and the evolution of customers’ attitudes and consumption profiles.

To Telecom Italia Group, technological innovation is therefore an essential and differentiating issue to develop a competitive advantage and maintain leadership in an increasingly competitive market.

The wealth of technological and innovative competences of the TI Group has allowed in these years the design, development and adoption on the field of state-of-the-art networks, terminals and services, a wealth to be used also in foreign countries where the TI Group operates.

Technological innovation activities range from reviews of basic technologies, aimed at increasing network and system efficiency, to complex activities involving the radical review of platforms, services and architectures; the effort concentrated on the field by business unit operational departments is therefore essential to assure the compliance of new services to customer needs and the continuous improvement of qualitative levels.

Besides by TILab, technological innovation activities are carried out also by the operational and business units (Network, Market, Information Technology, Web & Media and Security) as well as by Olivetti.

During financial year 2007 the investments of Telecom Italia Group for tangible and intangible assets related to development and innovation totalled approximately euro 3,400 million. Internal resources devoted to these activities as well as to research amount approximately to euro 6,200 million, with an overall commitment equal to about euro 560 million (of which about euro 163 million already included in the investments).

In 2007 the research and development centres of Telecom Italia carried out in particular the activities detailed below.

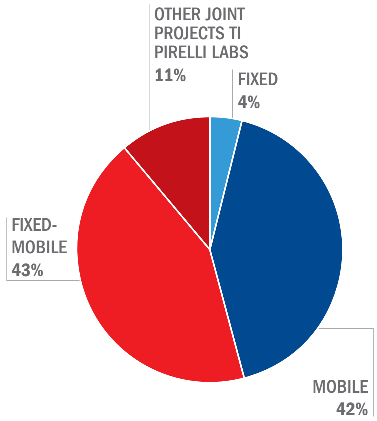
TILab

TILab is the catalyst at the basis of the Telecom Italia Group technological innovation and operates as a competence centre for the internal departments devoted to business development and also operates externally as a centre of excellence for the telecommunications industry. The TIlab laboratories have contributed for instance to the development and success of achievements such as GSM, MP3 and optical transmission.

TILab activities are focused on research, evaluation and development of emerging technologies and on the revision of basic technologies designed to increase the efficiency of networks and systems as well as of platforms, services and network architectures.

TILab regularly collaborates with both national and international research centres and with the most qualified academic institutes (the Polytechnic institutes of Turin and Milan, the Universities of Pisa, Genoa, Florence, Rome, Naples, Bologna, Reggio Emilia, Brescia, Turin, Verona, Modena, the University of Berkeley, the Columbia University and Massachusset Institute of Technology). TILab continued in particular with the Polytechnic Institute of Turin the collaboration on the University Master “Network and Services Innovation in the ICT Sector”, with the objective of training on specific technological skills through a marked integration between classroom and laboratory activities.

In 2007 forty-seven new patents were filed (63 in 2006), of which 10 are the result of joint research projects with Pirelli Labs (to be added to more than 500 patents already filed). A breakdown by activity sector is reported below:



Within the framework of the activities aimed at the TI Group's technology development scenario TILab has defined the Technological Plan 2008-2010, outlining the strategic lines for the development of the network and platforms in terms of target architecture, as well as technological and operational assets. The plan also provides deep information on subjects which are particularly strategic and relevant as far as the positioning of the Telecom Italia Group technologies such as terminal development and multimedia domestic solutions, the start of NGN2, the service framework and the related brokering towards third parties, information technology as network service, the content-based services and their convergence towards communication.
The results accomplished by TILab in 2007 with respect to infrastructures and platforms have contributed to raise the TI Group's profitability by improving the network solution efficiency and consequently rationalizing costs, and by developing solutions that allow to offer new services and performances. Particularly relevant from this standpoint are the following initiatives:

- the engineering of technical solutions for the new generation network NGN2, whose implementation is started from the Milan area;
- the implementation of a "naked ADSL" solution, representing in perspective the transition towards IP telephony, substituting traditional analogical access; it ensures number portability, reuse of home equipment and access to non geographic phone numbers;
- the experimental start of real time monitoring of energy efficiency in the exchange areas of Telecom Italia; the appropriate distribution of technologies such as the "wireless sensor networks" made it possible in particular to experiment the efficiency of energy saving solutions, implemented through the monitoring and profiling of consumptions related to single systems, the support of designs related to energy saving targeted interventions, the identification of operation and consumption anomalies;
- the definition of introduction scenarios in the field of both fixed and mobile WiMAX technology, in terms of architecture and impact on the access network and terminals, as well as the related simulation of the system performances;
- the definition of innovative algorithms/models to plan the radiomobile access network, also in real-time, for the relevant sizing and optimization with the development of new functionalities of the TIMPLAN/GUITAR software platform. The results achieved enabled new solutions for the management of radio resources in scenarios characterized by multiple radio access technologies and the production of simulation tools for the optimized use of the frequency spectrum;
- the definition of the software platform development scenario at service level (Service Framework) to enable the role of platform provider to third parties (Service Broker), for application in different vertical situations, with focus first of all on the context of services meant for car drivers (emergency, information services, traffic management, fleet management). Within this framework service prototypes on a circulating vehicle have been experimented , and used as demo in several occurrences, among which the presentation to the Turin Mayor and to the CTO Summit in Venice. The activity is connected to the "Tema.mobility" initiative, in partnership with Magneti Marelli;
- the laboratory experimentation of possible applications of principles oriented to the Web 2.0 paradigm and the world of telecommunications started. It aims at supporting the study of new business models and scenarios for the integration between Web 2.0 and the software platform with regard to the telecommunication operator service. In particular, solutions for functionalities available via the internet have been realized, as well as a system allowing users to create/share services within a community.

Concerning the development of new services, the activities carried out and the results achieved have generated new opportunities in support of the development of the current offer and of the expansion to new product or service segments. The most significant implementations achieved in the year are described below:

- the development, integration and test of the dual mode service launched with the name of "Unico". The service allows to manage on a single dualmode mobile terminal (2G-3G/Wi-Fi) the fixed telephony VoIP service Alice Voce and the mobile telephony 2G/3G TIM service;
- the design, development, integration and test of the TIM Casa solution. The service allows customers to call from home on the mobile network with differentiated tariffs and by using the fixed network phone numbers;
- the development in the field of digital entertainment services, of the IPTV services, such as high definition digital and interactive television, video and music services on demand, and self-production of multimedia and web-diffused content such as "Plays in the community";

- the demonstration of the first innovative applications of mobile TV on commercial terminal such as "Rich Media", which will allow the operator to have a sophisticated control of the user interface and particularly attractive interactive applications;
- the release of a new Set Top Box also offering the access to the Terrestrial Digital TV channels managing video codes and high performances;
- the implementation among mobile services of the "SMS Real Time Charging" function, meant to reduce the frauds generated by SMS sent by mobile and large account users towards other mobile operators;
- the start-up of an innovative experimentation based on the implementation of a service named First Life Communicator which has allowed the Group to access the virtual community Second Life with the telephone service subsequently extendable with e-mail and instant messaging;
- the continuation of the research on new television utilization paradigms (Dynamic TV) which, taking advantage of the interest associated to mass content diffused through DTT or IPTV, aim at the effective promotion of a high number of niche content available in digital format and at low cost;
- the study and development of interactive and multichannel multimedia advertising service prototypes (IPTV and Mobile) through the use of innovative technologies such as for instance the 2D barcode, the access to past television programs, the 3D mobile client presented at the Science Festival of Genoa and at the Science White Night of Turin. Their purpose is the simplification of advertising content fruition, making it more attractive at the same time;
- the analysis and development of service prototypes based on the Mobile Personal Web Server such as, for instance, personal sites and personal journals;
- the initiatives to amplify the SIM role on the mobile terminal, transforming it in an operator asset, as a tool for the authentication and personalization of services to the customer. In this sense, the specifications related to the new SIM/USIM and the requirements for the new sim-based services have been defined, besides the development and experimentation on the first mega/giga SIM prototypes;
- the development of the architecture and communication protocols among equipment using the SIM and the integrated ZigBee (ZSIM) radio interface as a safety component managed by the network operator to ensure high safety communication besides enabling Authentication/Authorisation services and the configuration and personalization of equipment and services through proximity technologies;
- the preparation of demos and technical experimentations with respect to Radiomobile commerce, in order to assess solutions and new services using proximity technologies for the support of m-commerce services, such as micro-payments and mobile-ticketing.

In conclusion we report the results achieved in the field of validation and test of innovative solutions in the TILAB testing laboratories, as a contribution ensuring the availability of high technical quality solutions and meeting the market requirements. Test campaigns have been implemented to develop the systems for the ADSL access network and for the new generation one (NGN2). Other test campaigns concerned the terminals and network terminations for the Group's offer both of innovative services (i.e. Access Gateway, combo videophone, DECT headers, Set top box for IPTV) and traditional services (Cordless, Printers, Fax, etc.).

The Olivetti Group

The Olivetti Group 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 200 employees, accounting for over 15% of its total workforce.
In 2007 the Olivetti research centres have been committed to the development of products and terminals for counter automation and of ink-jet products and accessories.

Human Resources

Strategy

The TI 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 TI Group's companies safeguard health and safety 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

Telecom Italia Group

	Changes in the period					
Headcount at December 31, 2006 (*)	Recruited	Terminated	Decrease of temporary staff	Changes in report scope	Total change	**Headcount at December 31, 2007 (*)**
83,209	7,345	–8,310	–682	+1,867	+220	**83,429**

(*) Includes staff on temporary contract, equal to 2,654 in 2006 and 1,972 at December 2007.

Headcount at December 31, 2007 is 83,429.

The increase of 220 employees with respect to December 31, 2006 is due to:
– the acquisition of AOL (+1,101 employees) and of the Tecnosis branch (+104 employees), the addition of SSC to the scope (+670 employees) and the sale of Domus Academy (-8 employees);
– to the entry of 7,345 employees and the termination of 8,310 employees, plus a decrease of 682 employees on temporary contract.

Telecom Italia S.p.A.

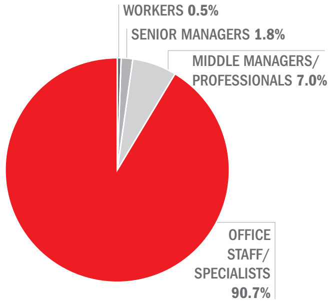
Headcount at December 31, 2006			Changes in the period						**Headcount at December 31, 2007**		
Employees	Temporary staff	**Total**	Recruited	Terminated	Transfers among Group companies	Changes in temporary staff	Changes in report scope	Total change	Employees	Temporary staff	**Total**
61,040	1,360	**62,400**	795	–3,401	148	–87	104	–2,441	58,686	1,273	**59,959**

Telecom Italia S.p.A. headcount at December 31, 2007 is 59,959.

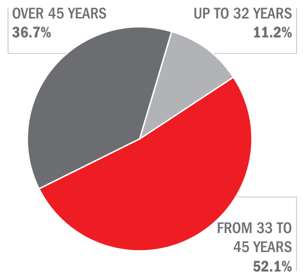
As compared to December 31, 2006 there is an overall decrease of 2,441 employees due to 3,401 terminations, 795 recruitments, the entry of 148 employees from other companies of the TI Group, plus 104 employees due to the acquisition of a business activity from Tecnosys and a decrease of 87 employees with temporary contracts.

The staff operating in Italy is equal to 80.5% of the TI Group's total and is characterized as follows:

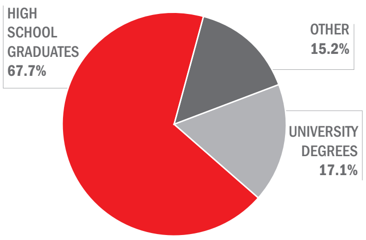
Telecom Italia Group - Italy: employee breakdown by professional category



Telecom Italia Group - Italy: employee breakdown by age group

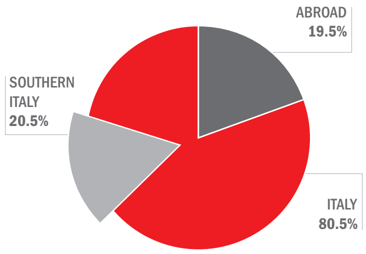


Telecom Italia Group - Italy: employee breakdown by academic qualification

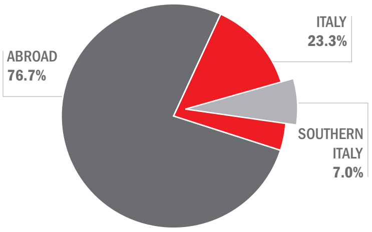


Staff presence breakdown by geographic area and TI Group staff recruitment breakdown by geographic area:

Telecom Italia Group: employee breakdown by geographic area

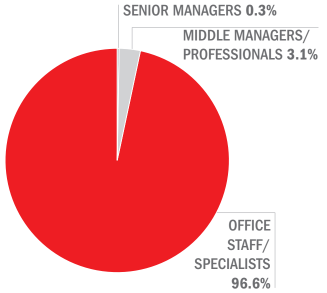


Telecom Italia Group: recruitment breakdown by geographic area

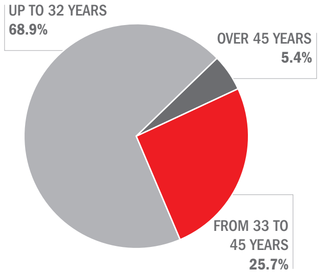


Characteristics of the staff operating in South America:

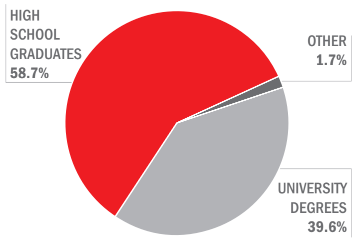
Latin America: employee breakdown by professional category



Latin America: employee breakdown by age group

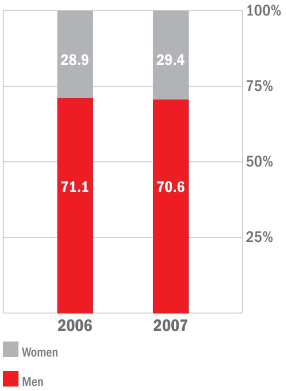


Latin America: employee breakdown by academic qualification

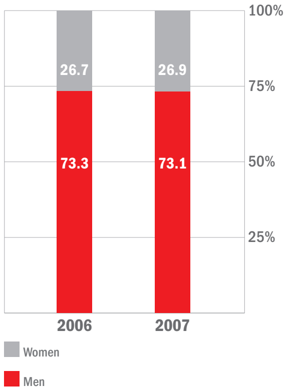


Gender balance

Distribution of men and women Telecom Italia S.p.A. (2006-2007)



Distribution of men and women TI Group (in Italy) (2006-2007)



In 2007 the percentage of women holding senior management positions in the Group (in Italy) was approximately 15%; at middle management level it was about 25%.

Equal opportunities

In line with the "Woman Project", launched in 2003, several initiatives have been realized to favour the diffusion of equal opportunities.

- Childcare centres: a new childcare centre has been opened in Ancona while six are already operating in Rivoli (Turin), Palermo, Naples, Rome and Milan.
- Loans for mothers and fathers: the TI Group granted 500 loans to new parents with children up to three year of age.
- Children's day: on May 25, 2007, in coincidence with the "working mother's and father's day", all the Telecom Italia offices were open to employees' children who could visit their parent's workplace. Entertainments were held in 29 offices, with snacks and small giveaways, involving approximately 7,500 children.
- Christmas day: visit to the offices in 4 corporate locations, entertainment and small giveaways for employees' children up to 12 years of age.
- Time off for mothers and fathers: "time chequebooks" for employees up to the fifth level (according to the Italian labour contract) and children up to 8 years of age, with 150 hours of time off every year to be repaid with overtime.
- Time off to attend prenatal birth courses: paid time off up to 12 monthly hours to be recuperated, granted to pregnant employees and fathers.
- Development of management policies through interventions on flexibility 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).

On the occasion of the European Year for Equal Opportunities and in line with the activities related to the "Woman Project", Telecom Italia has launched the "Equal Opportunities for everyone" project. This initiative aims at defining and implementing actions promoting equal opportunities at corporate level starting from a qualitative and quantitative survey, also involving focus groups.

Within the framework of the Alliance with the EU commission of March 22, 2006 a laboratory on career equal opportunities for men and women has been set up at Sodalitas. Telecom Italia actively participated together with other companies. The laboratory results have been presented on December 3, 2007 during a conference held in Milan. For further information please see paragraph "Results and Acknowledgements" of "Introduction".

Initiatives for employees

Welfare
In 2007 the Welfare Department ensured the operation of the TI Group Recreational and Welfare Organisations through the provision of social services for the improvement of employees well-being, 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 corporate offices (Turin, Milan, Padua, Bologna, Florence, Rome, Naples and Palermo) feature permanent counters for the management of errands (administration, post office, etc.).
- Wellness/Concierge: within the corporate offices of Turin, Padua, Rome and Palermo an area has been equipped for fitness purposes. Two offices in Rome and one office in Milan offer laundry and shoe repair services.
- Price agreements: national and/or territorial agreement for purchase/use of goods and services at reduced cost: cars and motorbikes, culture and entertainment, electronics, fashion and accessories, health and fitness, sport, travels and holidays.
- Company loans: the TI Group granted 399 loans, of which 57 to buy house, 61 for renovating houses and 281 for various reasons.
- Corporate loyalty: in the year approximately 3,921 employees were rewarded for 25, 30 and 35 years seniority.
- Health information: an interactive medical section has been introduced. It includes a FAQ section and an e-mail medical answer service “The doctor online”: a staff of specialists is available to offer advice on medical problems.

The following initiatives are devoted to employees’ children:
- **Traditional summer holiday camps**: 15-day camps for TI Group company employees’ children aged 6-12. Participants in 2007: 4,571 children.
- **Thematic summer holidays**: 14-day holiday devoted to learning English and sport practice (tennis, sailing, horse-riding, volley and basket) for TI Group company employees’ children aged 7-15. In 2007 several initiatives have been added: dance, theatre, canoe, Jam Camp Volley and Basket and two college summer courses in England. 1,235 youths took part in these initiatives.
- **Scholarships**: 80 scholarships abroad devoted to English learning. Four weeks for boys and girls aged 15-16 (45 in Ireland and 35 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 TI 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 (23,218 members, of which 3,918 are working employees) continued the realization of its institutional activities, confirming the co-operation with the Olivetti Gold Pins Association (3,904 members).

ASSILT
At December 31, 2007 over 217,066 people were enrolled in the Association for Integrative Healthcare for Telecom Italia Group workers: 64,433 employees, 44,656 retirees, 107,977 employees’ family members.
Besides reimbursing healthcare expenses to integrate the National Healthcare Service (430,000 cases in 2007 totalling over euro 46.8 million), the association conducts campaigns for preventive medicine and healthcare education, using its mobile diagnostic units and support from public healthcare facilities.
Also in 2007 the programs for multidisciplinary Oncological Prevention to discover breast and skin pathologies continued (Lombardy, Campania, Lazio and Piedmont), as well as the programs for the prevention of respiratory allergies (Tuscany, Sardinia, Calabria, The Marches, 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 night shows).
The contribution in favour of members may reach 40% and dues for all initiatives may be paid in monthly deductions from salary.
At December 31, 2007 about 53,803 members has joined the club (47,188 employees and 6,615 retirees).

Development

In 2007 the TI Group completed the formalization of the Individual Development Plans meant for a group of key resources including senior managers, middle managers and high-potential young employees. The objective is the implementation of actions aimed at the enhancement, development and retention of these resources at medium term, by promoting their growth. Several training and development initiatives, both individual and group, have been launched to implement the Individual Development Plans. Within the framework of the annual meritocratic policy specific actions are devoted to the enhancement and retention of these resources.

Due to their high level of competence the project is being extended to significant *Knowledge People*, in order to achieve the business objectives. On the basis of the just completed *Knowledge Review* process, a group of resources will be identified, for which relevant Individual Development Plans and targeted initiatives will be defined.

The Management Review process continued in parallel and will be completed within the first months of 2008 ensuring the availability of about 1,700 assessments related to senior and middle managers. This will allow to better orient choices concerning “succession management” and to plan actions for organizational and managerial development planning.

In this sense, also the results of an initiative launched in 2006 and completed this year, the *Individual Leadership Centre*, turned out to be very useful. The process involved a part of the TI Group’s senior managers and has been realized with the support of external professionals. It aimed at an analysis of individual leadership profiles in order to define targeted development and training plans.

Concerning in particular job rotations, in 2007 our policy meant to develop competences through intra-group mobility continued, thus favouring resource development and allowing to cover job positions by using skills available within the TI Group. During the year, 130 announces were posted on the Group Job Posting (same number as in 2006) while 1,500 curricula have been collected (as compared to 1,084 in 2006).

Recruiting

In 2007 Telecom Italia took part in 11 career days, aimed at presenting our company in the main Italian universities and at activating exchange channels to build up a valuable recruitment source.

In 2007 recruiting activities mainly involved people having technical skills, for the Field Services department, new graduates for the Technology departments and high level professionals for the TopClient & ICT Services and Marketing departments. To these purposes 3,000 applicants were screened on the overall through Universities, Schools and on line recruitment.

The year 2007 also featured an intense assessment activity concerning internal staff, the purpose being to cover intermediate roles. Approximately 60 sessions of Assessment Centre were held, aimed in particular at the identification of Supervisors and coordinators/specialists.

Relations with Universities

The Telecom Italia Group is strongly committed to support the University world and training centres for young university graduated. Through a stage mechanism the TI Group supports the technical training of approximately 300 young people every year with a financial commitment equal to about euro 1.9 million, and building at the same time a valuable source of qualified human resources.

In 2007 Telecom Italia started three Technological Master Programs (*Master Innovation* with the Polytechnic of Turin, *Master in Networking* and *Master in Security* with TILS). On the overall 56 young graduates with technical degrees were involved and the 32 best qualified have been recruited.

The year 2007 in particular saw the first edition of a master fully supported by the Group at the Turin Polytechnic Institute. The master aims at favouring training on the innovation of networks and services for 16 young engineering graduates.

In 2007 the Group also financed 40 scholarships supporting the participation in two Masters implemented by TILS on issues related to “Networking for Enterprise & Carrier”, and “Information & Communication Security”. Sixteen students have been recruited after attending stages at corporate structures. These initiatives will be continued in 2008.

The TI 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.

Training

Training activities implemented for the Italian staff of Telecom Italia Group during amount 2007 to about 1.9 million hours (classroom, on line, training on the job) as shown in the table below and to about euro 31 million of outlay costs (excluding labour and transfer/logistics expenses). In the year, 84.3% of the TI Group’s staff took part in at least one of these training initiatives.

	HOURS AND PARTICIPANTS BY PROFESSIONAL CATEGORY											
	CLASSROOM, ON LINE, TRAINING ON THE JOB				CLASSROOM, ON LINE				TRAINING ON THE JOB			
	HOURS		PARTICIPANTS	COVERAGE	HOURS		PARTICIPANTS	COVERAGE	HOURS		PARTICIPANTS	COVERAGE
	TOTALS	PER CAPITA			TOTALS	PER CAPITA			TOTALS	PER CAPITA		
Total	**1,943,121**	**30.0**	**54,629**	**84.3**	**1,084,154**	**16.7**	**42,519**	**65.6**	**858,967**	**13.3**	**36,960**	**57.1**
Senior Managers	36,635	30.8	999	84.1	36,531	30.7	999	84.1	104	0.1	9	0.8
Middle Managers	116,161	27.1	2,957	69.1	115,466	27.0	2,939	68.6	695	0.1	130	3.0
Office staff and specialists/Workers	1,790,325	30.2	50,673	85.4	932,157	15.7	38,581	65.1	858,168	14.5	36,821	62.1

Training activities are related to the overall TI Group projects and to business competences.

Overall Group’s projects
In order to reinforce a shared management culture the TI Group has implemented training interventions dealing with behavioural competences and ICT scenarios both for senior and middle managers, as well as for high-performance level 6 and 7 employees.

In particular, for high-potential managers, the “Bridge the Gap” initiative has been launched. This aims to provide high-level training opportunities (participation in seminars at International Business Schools, Learning Tours, etc.).

Furthermore, the “Creating Value through Customer Satisfaction” initiative was launched and it is targeted at all managers in the TI Group.

Within the framework of the “Environment Project” initiatives have been developed to communicate the TI Group’s environmental policies and plans and to raise awareness through the rationalization of the “Environment Project” website, workshops, dedicated courses and informative articles.

Training as a safeguard of business competences
The purpose of this line of training is providing people directly involved in all business aspects the necessary competences to play their role at best. The training concerned for instance an updating on innovative technologies made necessary by the fast development of the ICT sector and the strengthening of specific competences for front end staff, call centre supervisors and the sales force.

Internal communication

During 2007 a deep reorganisation of the internal communication department took place in order to favour a better integration with the company’s field departments.
The reorganization focused internal communication on:
– feedback activities and projects;
– corporate information and media;
– integration activities and projects;
– employee involvement activities.

Feedback activities and projects
The surveys on staff attitude (Group Photo) periodically involve all corporate employees.
In 2007 the questionnaire on staff attitude has been redesigned in order to make it more appropriate. Four survey areas have been identified: satisfaction, motivation, corporate processes, manager-employee relation. This survey has been postponed to 2008.

Since the end of 2006, in partnership with the Marketing structures, the innovative feedback project *The Lighthouse* has been launched. Its objective is to encourage employees to contribute their ideas and proposals on important topics of interest to the company and to test new company’s products and services.
In 2007 approximately 2,500 members joined *The Lighthouse* club. Tests on innovative services such as *Alice Messenger*, *Wireless Connection Manager*, *Ikids and Dynamic TV* have been launched.

Corporate information and Media
- Group magazine: three issues of the Group magazine (*noi.magazine*) are devoted to Sustainability, as well as to customer satisfaction and solidarity. The magazine is addressed to all the Group’s employees, both in Italy and abroad and to about 30,000 “senior” ex employees of Telecom Italia. It is being printed also in Portuguese for the employees of Tim Brasil; issues in English and Spanish have been printed for other foreign subsidiaries. A survey carried out in the month of March has confirmed the approval of this communication channel.
- *noi.flash*, the emailed newsletter devoted to monographic issues having special corporate impact continues. The issues published in 2007 were devoted to financial communication, Sustainability, top corporate appointments and initiatives in favour of employees.
- The *noi.perloro 2008* project with the related *agenda 2008* has been realized which contains the description of the social solidarity initiatives promoted both by the Group and by the Group’s employees. At the same time the first online Intranet community devoted to the same issue has been launched. This is an interactive and collaborative area, meant for social networking. Employees may access the site, that already has collected and describes over 70 initiatives, and publish documents, photos, videos, comments besides updating information on single solidarity activities.
- Online activities: the two pre-existing Intranet platforms (the Corporate platform and the Operations one) have been integrated in a single internal Group web (noi.portal), which will be accessible since May also by all employees of Tim Brasil. Between January and December 2007 the intranet portal has totalled on the average 22,000 single visitors every day, while over 750 news have been published.

- Videomessages by top management: video-streaming is a standard practice in the event of special occurrences. The videos are translated and retransmitted to foreign subsidiaries.
- Web TV: the experimental diffusion of news, interviews and specials on the internal TV (noi.tv) continued through a channel with transmission on Intranet, mobiles and palmtops.

Integration Projects & Activities

These activities are designed both to reinforce the employees' sense of belonging to the Telecom Italia Group and to favour the integration among Operational departments.

Numerous events were held to support the business including the Top Clients & ICT Services 2007 Kick-off, three editions of Business Appointments by the Mobile Domestic Services Department and the Telecontact Centre Convention. Meeting have also been held to promote the integration among the various Customer Service National Centres of the National Wholesale Services Department.

The team building event *Vita da Sales* (Sales Life) has been organized for the sales force of the Domestic Fixed Services Department, with the participation of 1,400 people.

In order to foster a culture of integration and innovation, the *IntegrArt* and *EmotionArt* projects have been realized. The projects, devoted to professionals and middle managers operating on the territory, involved projecting films followed by an expert-led debate encouraging discussion and exchange.

At Telecom Italia S.A.S., in France, the first e-convention "Expresso" has been realized. Organized in four sessions, and with the support of a chat connection, it has allowed all employees to exchange questions, suggestions and opinions with the managers of Marketing, Sales, Customer Care, Technology and Human Resources departments.

Employee Involvement Activities

In 2007 the involvement activities meant to reinforce the sense of belonging and to improve the staff attitude continued.

Many employees were able to participate in cultural events sponsored by "Progetto Italia" and in sporting events sponsored by the TI Group. Among the most important initiatives held, the Everybody go sailing, organised through a partnership of Progetto Italia and the "The Spirit of Stella" Onlus. Ten employees with motor disabilities were able to attend the races of the America Cup. The experience on the Andrea Stella's catamaran, the first ever built without architectonic barriers, has been repeated at Ostia (Rome) at the beginning of fall.

In December the Travelling Show "Who Loves music? Telecom Tour" has been organized for the Group employees' children in collaboration with the Accademia Nazionale di Santa Cecilia. The show has been held in 7 towns (Milan, Rome, Naples, Palermo, Turin, Bologna, Mestre) where the TI Group's employees are particularly concentrated; on the overall the show involved about 7,000 people, both adults and children.

Remuneration policies

Remuneration policies confirmed in 2007 the tendency to combine market competitiveness with the respect of principles such as internal fairness and consistency.
The management of fixed compensation is based on strong selectivity criteria aimed at rewarding employees with excellent performances.
The variable component of compensation is confirmed as the distinctive element within the compensation package which is characterized by the correlation to company/individual performance.
The main tool is the MBO (Management by Objectives) system, intended for managers and for some professionals, which has become a unique formalized short term incentive tool.
Variable remuneration is also having an ever-increasing significance in the long term, as it steers management actions towards the achievement of strategic objectives. Within this framework the Telecom Italia Shareholders meeting has approved in 2007 a Stock Options plan for the top management, correlated to stock performance in the three-year span 2008-2010.
The Long Term Incentive cash plan 2006-2008, launched in 2006, has been cancelled due to severe discontinuities of the competitive and regulatory framework during 2007, leading to the redefinition of plan and priorities.

Stock options

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 2007 no new stock option plans have been launched. At the end of 2007 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.

With respect to the Telecom Italia stock options please note that in 2007 all the rights related to Stock Option Plan 2000 and to the Stock Option Plan 2001 are expired because of the expiration of the term allowed to exercise the options related to the residual batches of these plans.

The essential components of the Telecom Italian stock option plans (included those allocated in due time by TIM S.p.A. and those required by compliance to the recommendation included in the Consob Communication no. 11508 of February 15, 2000) as well as of Telecom Italia Media are summarized in the Note “Stock Option Plans” respectively of the Telecom Italia S.p.A. Annual Report and of the Telecom Italia Group Annual Report.

Industrial relations

The year 2007 has been quite intense from the industrial relations viewpoint, also considering the opening in the month of May of the confrontation with Trade Unions on integrative bargaining.
After the submission by SLC-CGIL, FISTel-CISL and UILCom-UIL of the bargaining platform for the renewal of the 2nd contractual level, the Company has opened the confrontation with Trade Unions and with the National RSU Coordination (the RSU are the company level unitary union representative bodies) on all the claims included in the platform. The Parties decided to discuss the single subjects by means of joint technical committees. The work of the two committees contributed to make the Parties’ positions closer with regard to most issues, thus enabling delegations to restart the discussion in plenary session on December 18, 2007 at the Industrialists and Corporates Association of Rome.

At the same time the TI Group invited the National RSU Coordination to a confrontation on the subject of welfare in call centres, in order to share an improvement program articulated into four thematic macro-areas: people enhancement and training, work organization, environment and safety, work-life balance. The Parties deemed appropriate to form two joint committees devoted to the organizational environments, of fixed telephony and mobile telephony, respectively. Several meetings have already been held and significant converging issues have been pointed out. The confrontation will then be passed on both within the National RSU coordination and at territorial level with the RLS (Workers Representatives for Safety) for the consultation of all worker’s representatives.

In application of the agreement signed by the TI Group and Trade Unions on May 2, 2005 with respect to the set-up of a new nationwide structure coordinating the RSUs, and after the merger incorporating TIM Italia S.p.A. into Telecom Italia S.p.A., and of the subsequent harmonisation agreement of February 27, 2006 (through which the Company and Trade Unions agreed that the RSUs of TIM Italia S.p.A. should hold their position until the expiration of the Telecom Italia S.p.A. RSU’s mandate), the parties agreed on the set-up of the National Coordination of the Telecom Italia S.p.A. RSUs. The agreement has been signed on March 26, 2007 and provides for the establishment of a single nationwide representative body including 92 RSUs elected among all the worker’s representatives.

On June 5, 2007 an agreement has been signed with trade unions for the year 2007 on the Result-based bonus for all the Telecom Italia SpA employees, except those included in specific incentive plans. In compliance with the protocol of July 23, 1993 the agreement provides the distribution of a bonus correlated to corporate economic trends and to the actual presence on the job of the involved staff.

In compliance with commitments undertaken in the agreement of December 9, 2003, the company and the trade unions have analysed through technical committees the issue related to the Telephone Bar – Single Operator Workstation (system for the management of the technical assistance process for business fixed telephony customers) used at national level in the National Customer Services, within the Field Services Department. The meetings led to the agreement in compliance with art. 4 of the Worker's Statute and signed by the National Coordination of Telecom Italia RSUs and SLC, FISTel and UILCom in June 28, 2007.

Considering the reorganization and reinforcement of corporate security, on July 23, 2007 a meeting was held with Trade Unions to accomplish the return within Telecom Italia S.p.A. since 1st November 2007 of the company branch "Centri Territoriali di Sorveglianza", sold to Tecnosys S.p.A. in 2005. The operation involved 104 workers.

On July 26, 2007 two important agreements have been signed with the National Coordination of Telecom Italia RSUs concerning the start of an experimentation on part-time telework at home and of working-out (involving the possibility for technicians mainly working outside the company to park the company car at their house). The projects, designed by the Technology department and devoted to specific professional jobs, have been thoroughly developed by the Company-Trade Unions joint technical committees and undoubtedly involve advantages both for workers and for the company.

During the meeting of July 26, the Parties also reached an agreement on the project to reorganize the "Directory Assistance 1254" service, within Customer Operations. The company and the trade unions, after analyzing the business dynamics of this special sector, now share a plan for the rationalization and relaunch of the Information Services, aimed at recovering significant market shares.

Furthermore, another significant optimisation plan has been agreed between the Company and Trade Unions by the signature of an agreement on the integration of the Fixed and Mobile Premium Care within Customer Operation Business departments. The agreement establishes the Fixed-Mobile integration in the services for significant customers in order to sinergically improve the management of Large Business customers.

Concerning the other TI Group's companies, significant is the agreement signed with the Trade Unions on 1st August 2007 on the Result-based Bonus for the employees of TeleContact Center S.p.A..

According to an agreement signed with Trade Unions on November 9, 2007 since 1st January 2008 the National Collective Agreement for Telecommunications will be extended also to Matrix S.p.A., including some harmonisation issues with respect to Graphics and Publishing National Collective Contract currently applied.
Following the agreements signed on December 20, 2005 with Trade Unions, in 2007 the TI Group enrolled on mobility lists 1,634 workers resources. For this purpose the priority identification criterion used was 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 for staff reduction purposes has been implemented aiming at mutually agreed employment termination and, whenever possible, through professional re-employment solutions.

On February 7, 2007 the TI Group also signed agreements with the Trade Unions of TI Group's senior managers on supplementary health assistance. The Parties agreed on several amendments to the Statute of ASSIDA (Supplementary Health Assistance Fund for Group companies senior managers), proposed by the Board of Directors of the Association itself. With the same agreement the Parties confirmed their intention to find solutions in order to enable the Fund to keep offering better options as compared to the standard one provided by the category collective contracts.

Health and Safety

In 2007 some specific projects at Group level, have started or continued:

- **Project for well-being in call centres**: the research started in 2004 in collaboration with the University of Turin continued; appropriate Company/Trade Unions joint committees have been set-up in order to identify possible improvement actions.
- **Safe Driving Project**: 14 editions of the theoretical-practical course have been held, involving over 500 technicians continuously using the car in their normal working activity. The videocourse "Safe Driving" has been published on the corporate intranet where it is available to all corporate staff.
  Special awareness-raising initiatives, also concerning safe driving and safety on the road, have been provided by SPPA through collective courses meant for operational staff.
- **Exposure to physical agents**: the assessment of gas radon concentration in some workplaces continues through a scientific collaboration with the Superior Health Institute in order to develop a working methodology and an accredited laboratory.
- **Exposure to biological agents**: in agreement with the Istituto Superiore di Sanità (Superior Health Institute) the assessment of a biological risk (Legionella) in underground plants, operated by Telecom Italia technical staff has been continued and led to the identification of appropriate control measures.
- **Access to poles**: also due to technological evolution, the technical/organisational procedures to access poles during interventions on TLC aerial networks, have been redefined.

Furthermore, in order to ensure and promote health and safety on the job, the following significant activities were carried out:

- updating of the corporate document on Risk Assessment;
- updating and drawing of 12 procedures on health and safety in the workplace;
- training on health and safety in the workplace – about 60,000 hours by SPPA (Prevention, Protection and Environment Service) – devoted in particular to employees exposed to specific risks, employees in charge of emergency management, to newly-hired staff and/or people interested in changing their work;
- health surveillance and 400 inspections of video terminal workstations carried out by competent physicians and by SPPA;
- preparatory activities in view of the application of the Safety Management System compliant with the OHSAS 18001 standard;
- controls and monitoring on buildings, plants, equipment and processes. In particular:
  - 1,685 microclimatic measurements in call centres;
  - 122 noise measurements in call centres;
  - 3,227 measurements of equipment noise;
  - 437 measurements of environmental noise;
  - 378 inspections;
  - 130 measurements of electromagnetic fields;
- 295 evacuation tests to verify the efficiency of the Emergency Plans;
- updating of the 316 First Aid Operative Plans.

Accidents

Data on accidents occurred in Telecom Italia SpA are shown below and compared to 2006 data.

	2007	2006
Total accidents no.	969	973
Accident severity index (*)	0.24	0.25
Frequency rate (*)	10.28	10.97
Average duration in hours	136.01	125.20
Unproductiveness rate (*)	1.40	1.37
Accidents x 100 workers	1.62	1.67

(*) 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.

Focus on Latin America

Several initiatives undertaken by Tim Brasil and Entel Bolivia regarding human rights, the safeguard of labour standards, equal opportunities, welfare and initiatives for employees, remuneration policies and industrial relations are described below.

Human rights and safeguard of labour standards
In TIM Brasil 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). The first corporate Code of Ethics, inspired by the general principles of the Group's code, in line with the Global Compact principles, and which integrates local requirements has been distributed to all 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.

Equal opportunities
TIM Brasil and Entel Bolivia do not practise any form of discrimination, both in recruiting processes and in the internal development opportunities. From 2003 to 2007 in TIM Brasil the women employed increase from 3,263 (54% of the total) to 5,874 (58% of the total). The same applies to women holding management positions who increase from 68 (21.8% of the total) to 84 (22.5% of the total). In Entel Bolivia, over a total of 1,497 employees, approximately 40% are women.
At Entel Bolivia the employer/employee relations are defined by a Collective Labour Contract, approved by the Ministry of Labour and Microenterprise, subject to periodical reviews and mandatory for the parties. The Contract confirms 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 those in the Labour Code.

Welfare and initiatives for employees
In 2006 TIM Brasil started the implementation of the private Social Security Plan for all employees.
At the end of December 2007 81.7% of middle managers had adhered, thus confirming the general approval of the initiative.

TIM Brasil also promotes initiatives in favour of its employees, such as:
- "Open doors at Tim": on Children's Day in Brazil the initiative aims at allowing children to visit the workplace of their parents; recreational activities have been organised for all the employees' children aged 3 to 12;
- Happy Day: all employees enjoy a free day on their birthday and receive a birthday greetings card signed by all colleagues;
- End of the year party: this initiative is intended for all employees and is aimed at promoting integration with musical events, and giving the opportunity to everybody to celebrate the personal and professional achievements of the year.

In financial year 2007, in an effort to constantly improve the work environment and to generate a strong sense of belonging, the Entel Group has increased the headcount by 49%, as compared to financial year 2006, through the incorporation of the external workforce in the company's core activity.

In order to improve the quality of life Entel Bolivia designed and implemented the *Programa Mejora de la Calidad de Vida Laboral*, including several activities such as preventive programs on ergonomics and posture, exercise and other sport activities (tournaments and dedicated days), dance, culture and art events during weekends and holidays, development and diffusion of regulations and industrial safety procedures, services to internal customers (i.e. the management of errands such as certificates, visas, passports, etc.), training on safe driving techniques and self-defence, vaccination campaigns for the control of seasonal disease among employees.

Remuneration policy
TIM Brasil ensures that its staff wages are balanced with respect to internal company seniority levels and to market standards. The remuneration policy includes both a fixed and a variable component, linked to corporate results. Besides the MBO (Management by Objectives) and incentives to the sales force, TIM Brasil has adopted the "Participação nos Lucros e Resultados (PLR)" program, to share a part of the company's profit among employees, as required by a Federal law. All the Group's employees, except those entitled to MBO, participate in the program, which has been confirmed as an effective tool in order to improve the quality of service and productivity.

Entel Bolivia analyses staff remuneration and promotes actions to ensure the balance among levels within the company and consistency with market offers. The remuneration policy takes into account both a fixed and a variable component, this one linked to corporate results.

Industrial relations
Collective bargaining contracts of all operative companies within TIM Brasil have been renewed in 2007.

Entel Bolivia entertains constant and transparent industrial relations with the federation representing workers FESENTEL and national Trade Unions. In financial year 2007 the company has signed a collective bargaining agreement including a remuneration increase exceeding the conditions established by the Decreto Supremo (Highest Decree) 29116 (5% starting from May 1, 2007), extending the benefit to all companies' employees and providing increases exceeding 5%.

Some data concerning Unions:
– TIM Brasil: approximately 4.8% of workers are members of Trade Unions Organizations;
– Bolivia: 63.4% 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.

Shareholders

Strategy

The TI 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 stakeholder relations. 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

In 2007 the most significant financial communication event has been the annual meeting with the Financial Community, held in Milan on March 9. During such meeting the Telecom Italia Group has presented its targets for the three-year span 2007-2009 and the strategies to achieve them.
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, held in three European markets (London, Paris and The Netherlands) has been devoted to SRI investors.

Concerning relations with individual shareholders (retail), today over 660,000 (only ordinary shares), the strategy of Telecom Italia aims at increasing the financial communication channels to efficiently meet the growing demand for information and timely updating on the Group.
The main tool of such strategy is the shareholder Club "TI Alw@ys ON" (http://ticlub.telecomitalia.it). Created in March 2006, the Club is a virtual meeting place between the company and its retail investors and for anyone interested in receiving economic-financial updates, information and news on the TI Group's performance.
Even those not owning shares can subscribe to the "Basic" users club in order to receive the same free services available to shareholders as described in the following:
- SMS alert: a daily update at the close of stock market trading, providing the closing price and the percentage change compared to the day before for the Telecom Italia ordinary and savings shares, as well as the daily percentage change in the S&P/MIB index;
- Weekly Stock Market report: this report is issued every Friday evening, within an hour of the close of the stock market, to provide highlights on the trend of the week;
- Monthly Zoom, including and update on the Group commercial offer both in Italy and abroad and details on the most recent technological issues both national and international;
- Quarterly Newsletter: the quarterly newsletter comments on the most recent economic and financial results and news regarding the Telecom Italia Group, provides updates on technology and marketing, interviews with managers, the results of business abroad and a calendar of the TI Group's future events.

Telecom Italia Shareholders (regardless of the number of held shares) may subscribe to the Club's "Premium" profile. In addition to offering the services included in the "Basic" user profile, it offers new subscribers a welcome gift, a free euro 25 of prepaid TIM traffic or in alternative, a Pago Rosso Alice e-coupon worth euro 20. Furthermore, Premium subscribers are automatically entered in the "TI premia 2nd edition" contest that periodically gives away mobile phones, tickets to sporting events sponsored by the Telecom Italia Group and other gadgets.

To complete its information channels devoted to individual shareholders Telecom Italia provides a Shareholder Guide, available also online to anybody requesting it.

As far as on-line financial communication, the institutional website of Telecom Italia (http://www.telecomitalia.it) has been again updated thus gaining the TI Group also in 2007 an excellent position in the classification of Hallvarsson & Halvarsson, a Swedish company leader in financial communication.
Further information on this significant result is available in paragraph "Results and Acknowledgements/Results" of "Introduction".

Safeguarding privacy and protecting data

The Telecom Italia Group 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").

To this purpose Telecom Italia has established a specific "Privacy" department which is entrusted with the monitoring of correct application of sector regulations at Group level.

Concerning the implementation of law provisions and of the Privacy Guarantor indications, in 2007 the TI Group has reviewed, completed and updated the TI Group regulations and policies, also on the basis of experience and of the occurred organisational changes. First of all the "System of rules for handling personal data within the TI Group" has been completely renewed and updated. These guidelines indicate, for each required duty, the appropriate provisions and operational indications thus ensuring a correct and homogeneous implementation. The TI Group policies for personal data handling by third parties (suppliers, consultants, etc.) have also been reviewed, and new guidelines have been issued, which are related to the handling of personal data through I.T. tools, with special reference to the datawarehouse and business intelligence platforms and to the handling of telephone and telematic traffic data.

Furthermore the spreading of privacy culture at company level has been boosted, also by implementing training initiatives on:
- The protection of personal data for specific professional roles;
- The compliance requirements in the handling of customer data through I.T. systems;
- Sales activities.

The implementation of these regulations is monitored through an audit system based on periodical self-assessment procedures by managers in charge of data handling and on periodical audits by the appropriate central departments, according to criteria and methodologies defined under the guidance of the TI Group's Auditing company. In particular, in 2007, the privacy requirements related to customer and employee data handling, as well as the definition of the privacy roles in the relationship with suppliers were verified. At Group level, some subsidiaries underwent audits on the status of implementation of privacy rules. Audits also involved third parties, with controls concerning customer data handling by dealers and commercial partners. In 2007 controls on the adoption of the required safety measures for the protection of personal data recorded quite significant increases through the building of a dedicated team who carried out several controls involving both internal structures and third parties (i.e. software service suppliers). From the technical standpoint the TI Group has continued to develop the intervention program started in 2006 and involving substantial technical and economic resources, to achieve a stricter control of I.T. systems handling personal data, with reference for instance to the handling of traffic data and to the execution of mandatory actions on behalf of judicial authorities.

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 2007. 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.

Risk Management - 2007

The Telecom Italia Group has adopted over 4 years ago the CRSA (Control & Risk Self Assessment) methodology as a tool for the identification, assessment and management of operational risk, on the basis of risk self-assessment by management. This yearly process, involving several levels of organisational responsibility, is operationally articulated as follows:

- definition of the TI Group's general targets by Top Management;
- definition of specific TI Group's targets for each department with reference to their organisational context;
- identification of risks possibly jeopardising the achievement of targets;
- transmission of risks to corporate top management and consolidation through "transversal portfolios";
- assessment of consolidated risks in terms of impact and probability of occurrence and "weighing" of the same through the assignment of a qualitative/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.

In compliance with the decisions undertaken by the Risk Management Committee in December 2006 – this Committee has been established in 2006 and charged with the responsibility of managing risks and ensure the business operational continuity – the CRSA 2007-2009 cycle has been started and developed, qualifying in detail the reference objectives, to which quantitative parameters have been associated. This in order to favour the establishment of risk portfolios and to improve the organisational risk "allocation" for the following cycle.

The 2007 CRSA cycle led to the identification of 296 Action Plans related to the Consolidated Risk Portfolio at Central Departments /Operations /Business Unit level (763 identified risks, of which 190 high range and 292 medium range).

The management of the various 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 done for action plans deriving from audits. All employees involved in the various CRSA steps, both in Italy and abroad, underwent specific training.

The integrated APM and CRSA systems are currently managing on the overall (since the establishment in 2004) 2,063 users, 3,217 actions from Audit action plans and 1,001 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 table presents the investments held in Telecom Italia S.p.A. and in the companies
which it controls by all the individuals who, during 2007 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..
The data provided in respect of key managers is an aggregate.

Name	Company	Class of shares	Number of shares held at the end of 2006 (or at the date of appointment)	Number of shares purchased in 2007	Number of shares sold in 2007	Number of shares held at the end of 2007 (or as of the date on which the individual left post if before)
BOARD OF DIRECTORS						
Gabriele GALATERI DI GENOLA	=	=	=	=	=	=
Franco BERNABÈ	=	=	=	=	=	=
Cesar Izuel ALIERTA	=	=	=	=	=	=
Paolo BARATTA	=	=	=	=	=	=
Gilberto BENETTON	Telecom Italia S.p.A.	Ordinary Savings	1,946,250 990,000	= =	= =	1,946,250 990,000
Stefano CAO	=	=	=	=	=	=
Renzo CAPRA	Telecom Italia S.p.A.	Ordinary	38,308	=	=	38,308
Domenico DE SOLE	=	=	=	=	=	=
Luigi FAUSTI	Telecom Italia S.p.A.	Ordinary	55,985 (1)	=	=	55,985 (1)
Jean Paul FITOUSSI	=	=	=	=	=	=
Julio LINARES LOPEZ	=	=	=	=	=	=
Gaetano MICCICHÈ	=	=	=	=	=	=
Aldo MINUCCI	Telecom Italia S.p.A.	Ordinary	2,595	=	=	2,595
Gianni MION	Telecom Italia S.p.A.	Ordinary Savings	27,000 (2) 35,000 (2)	= =	= =	27,000 (2) 35,000 (2)
Renato PAGLIARO	Telecom Italia S.p.A.	Savings	60,000	=	=	60,000
Cesare Giovanni VECCHIO	=	=	=	=	=	=
Luigi ZINGALES	=	=	=	=	=	=
John Robert BOAS	=	=	=	=	=	=
Diana BRACCO	Telecom Italia S.p.A. Telecom Italia Media S.p.A.	Savings Ordinary	29,805 594	= =	= =	29,805 594
Carlo Orazio BUORA	=	=	=	=	=	=
Claudio DE CONTO	Telecom Italia S.p.A. Telecom Italia Media S.p.A.	Ordinary Ordinary	3,630 16	= =	= =	3,630 16
Francesco DENOZZA	=	=	=	=	=	=
Guido FERRARINI	Telecom Italia S.p.A.	Ordinary	50,000	=	=	50,000
Luciano GOBBI	=	=	=	=	=	=
Vittorio MERLONI	=	=	=	=	=	=
Massimo MORATTI	=	=	=	=	=	=
Marco ONADO	Telecom Italia S.p.A.	Ordinary Savings	47,000 11,092	= =	= =	47,000 11,092
Pasquale PISTORIO	Telecom Italia S.p.A.	Ordinary	1,549,000 (3)	=	=	1,549,000 (3)
Carlo Alesssandro PURI NEGRI	=	=	=	=	=	=
Guido ROSSI	Telecom Italia S.p.A.	Ordinary	185,000 (2)	=	=	185,000 (2)
Luigi ROTH	Telecom Italia S.p.A. Telecom Italia Media S.p.A.	Ordinary Ordinary	36,292 (1) 726 (1)	= =	= =	36,292 (1) 726 (1)
Riccardo RUGGIERO	=	=	=	=	=	=

Name	Company	Class of shares	Number of shares held at the end of 2006 (or at the date of appointment)	Number of shares purchased in 2007	Number of shares sold in 2007	Number of shares held at the end of 2007 (or as of the date on which the individual left post if before)
BOARD OF STATUTORY AUDITORS						
Paolo GOLIA	Telecom Italia S.p.A.	Ordinary	1,437	=	=	1,437
Enrico Maria BIGNAMI	=	=	=	=	=	=
Salvatore SPINIELLO	=	=	=	=	=	=
Ferdinando SUPERTI FURGA	=	=	=	=	=	=
Gianfranco ZANDA	=	=	=	=	=	=
GENERAL MANAGERS						
Massimo CASTELLI	=	=	=	=	=	=
Luca LUCIANI	Telecom Italia S.p.A.	Savings	55,484	=	=	55,484
Enrico PARAZZINI	Telecom Italia S.p.A.	Ordinary Savings	484 27,700 (4)	= =	484 =	= 27,700
Stefano PILERI	Telecom Italia S.p.A.	Ordinary	10,892	=	=	10,892
KEY MANAGERS						
	Telecom Italia S.p.A. Telecom Italia Media S.p.A.	Ordinary Ordinary	3,292 (5) 687	100,000 =	102,286 (5) =	1,006 687

(1) Of which 50,000 shares are held indirectly.
(2) Shares held indirectly.
(3) Of which 660,000 shares are held indirectly.
(4) Of which 15,000 shares are held indirectly.
(5) Of which 2,761 shares are held indirectly.

Glossary

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).

Backhauling: Infrastructure network connecting sites that host the equipment for user access (xDSL or other systems, also Wireless / Mobile). It can be realized in various ways depending on the band, topology and distance.

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.

CVP (Permanent Virtual Channel): Transparent high-capacity flow of data between the customer premises and the network of the incoming Operator that Telecom Italy is obliged to provide to the licensed operators in all cases where the same Telecom Italy, through its commercial divisions, subsidiaries, parents, or related subsidiaries, intends to provide services to customers using technology xDSL access systems.

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.

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.

DSLAM IP (Digital Subscriber Line Access Multiplexer): Multiple access line (Telephone/Internal lines) allowing a high-speed connection to an internet backbone line using multiplexing techniques. In the DSLAM IP communication channel is based on IP protocol (Internet protocol).

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.

Frame Relay: a data transmission service using fast protocols based on direct use of transmission lines.

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.

HCFC (Hydrochlorofluorocarbons): Chemical molecules mainly used in cooling plants to replace chlorofluorocarbons, which have been banned by the Montreal protocol, thanks to their relatively limited ozone-depleting effect (approximately 10% of the ozone-depleting rating of CFC).

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.

kvar (kilovolt–amperes reactive): Measurement system, expressed in kilovolt, of power losses in an AC electrical system.

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.

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.

LCA (Life Cycle Analysis): Analytic methodology for the evaluation and quantification of environmental impact associated to a product/process/activity along the whole life cycle, from the extraction and acquisition of raw materials up to the end of life.

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.

NGAN (New Generation Access Network): New generation network access that can be realized with different technological solutions, typically fiber optic and VDSL pairs.

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).

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.

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.

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.

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.

RoHS (Restriction of Hazardous Substances): European Directive n° 95 of 2002 regulating the use of hazardous substances in electrical and electronic equipment.

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.

SAR (Specific Absorption Rate): Evaluates the “electromagnetic power absorbed by a tissue mass”. SAR is measured in Watt/kg.
As far as mobile phones, the law now enforces SAR as the reference parameter to define the basic limit: a person exposed to an electromagnetic field inducing a SAR level higher than established may undergo the relevant effects and health damage. To safeguard the population health and the health of people directly exposed, by virtue of their work, to electromagnetic waves, the European legislation has established SAR thresholds than should not be exceeded.

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.

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.

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.

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.

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.

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).

VOD (Video On Demand): TV-programme supply on user's request, with payment of a fee for each purchased programme (a movie, a soccer match, etc). Broadcast in a special method for cable and satellite TV.

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.

Wi-Max (Worldwide Interoperability for Microwave Access): The Wi - MAX - is a technology that allows wireless access to broadband telecommunications networks. It is defined by the Wi - MAX Forum, a global consortium formed by major companies in the field of fixed and mobile telecommunications which has the purpose to develop, test and promote the interoperability of systems based on IEEE 802.16-2004 standards for fixed access and IEEE.802.16e-2005 for fixed and mobile 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

Annual Report on Corporate Governance

Part one

1. Profile of the company

The corporate governance system of Telecom Italia S.p.A. (the Company or Telecom Italia) hinges on the central role of the Board of Directors and the transparency and substantial and procedural correctness of operational decisions.

2. Structure of the paid-up capital

The subscribed and paid-up share capital on December 31, 2007 was equal to euro 10,673,793,335.70, divided into 13,380,776,313 ordinary shares with a par value of euro 0.55 each and into 6,026,120,661 savings shares with a par value of euro 0.55 each (Table 1).
The Company's ordinary and savings shares are listed on the New York Stock Exchange in the form of American Depositary Shares, each of which corresponds to 10 ordinary shares or 10 savings shares as the case may be, represented by American Depositary Receipts issued by JPMorgan Chase Bank.
Table 2 shows the bonds issued by the Company that give holders the right to subscribe for newly issued shares.
For information on Telecom Italia's existing stock option plans and the capital increases for their implementation, see the notes to Telecom Italia's financial statements for the year ended December 31, 2007.

3. Restrictions on the transfer of securities

The bylaws contain no restrictions on shares being freely available, except for what is laid down in Article 22 (consultable in the Governance section of the Company's website www.telecomitalia.it) concerning the special powers of the Ministry for the Economy and Finance under Law 474/1994 (see below).

4. Significant shareholdings

According to the Shareholders' Book, the notifications made to Consob and the Company pursuant to Article 120 of Legislative Decree 58/1998, and other information in the Company's possession, the significant holdings of Telecom Italia's ordinary share capital are:

Declarant	Type of ownership	% of ordinary shares	% of voting shares
Telco S.p.A.	Direct	23.595%	23.595%
Hopa S.p.A.	Direct and indirect	3.721%	3.721%
• Hopa S.p.A.	0.039%	0.039%	
• Holinvest S.p.A.	3.682%	3.682%	
J.P.Morgan Chase & Co.	Indirect	2.045%	2.045
• J.P.Morgan Securities Ltd.	2.045%	2.045	
Findim Group S.A.	Direct	2.008%	2.008%

It should be noted that J.P. Morgan Securities Ltd. holds 1.235% of its total portfolio of shares as a borrower; at the same time J.P. Morgan Chase & Co. has notified Telecom Italia that it is the lender of a holding equal to 0.401% of the Company's share capital.
On May 2, 2007 the US investment advisor Brandes Investment Partners, LP disclosed the availability, in its capacity as an asset manager, of 545,945,668 ordinary shares, equal to 4.08% of Telecom Italia's ordinary share capital.

5. Securities giving special rights

No securities are issued giving special rights with regard to the control of Telecom Italia.
A description follows of the special powers – under Article 2.1 of Decree Law 332/1994, ratified with amendments by Law 474/1994, replaced by Article 4.227 of Law 350/2003

and included in Article 22 of the bylaws – exercisable by the Minister for the Economy and Finance in agreement with the Minister for Productive Activities:

a) to oppose the acquisition of holdings 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 shall be suspended. In the event of the exercise of the right of objection, by means of a measure giving the reasons, the transferee may not exercise the voting rights or any rights other than the property rights 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 pursuant to the procedures established in Article 2359-ter of the Civil Code. The measure exercising the power of 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 special powers. The measure exercising the power of 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 June 10, 2004.

6. Employee share ownership: mechanism for exercising voting rights

At present there is no programme promoting employee share ownership.

7. Restrictions on voting rights

Without prejudice to the Minister for the Economy and Finance's power of objection to the acquisition of shareholdings exceeding 3% of the voting capital (see above), there are no restrictions on exercising the voting rights attaching to Telecom Italia ordinary shares. Savings shares do not carry the right to vote in ordinary shareholders' meetings.

8. Shareholders' agreements

Telco S.p.A. (Telco) is Telecom Italia's main shareholder with an interest of 23.59% in the ordinary share capital. In turn Telco is owned by Intesa San Paolo S.p.A. (10.6%), Mediobanca S.p.A. (10.6%), Sintonia S.A. (8.4%), companies belonging to the Generali Group (28.1%) and Telefónica S.A. (42.3%).

On the basis of information in the public domain (and available in the Investors section of the Company's website www.telecomitalia.it), the shareholders of Telco signed an agreement on April 28, 2007 that, among other things, lays down the criteria for nominating its slate of candidates for the position of director of Telecom Italia. The criteria are set out below:

- Telefónica, if it possesses at least 30% of Telco's share capital, will be entitled to nominate two directors of Telecom Italia; Telefónica will also have the right of nomination in the event of the replacement of directors;
- the other shareholders of Telco, if they possess the absolute majority of its share capital, will be entitled to nominate the other persons on the slate, of whom three candidates chosen unanimously and the others on a pro rata basis.

The shareholders' agreement provides for the Telecom Italia Group and the Telefónica Group to be run autonomously and independently. In particular, the directors nominated by Telefónica in Telco and Telecom Italia will receive instructions from Telefónica not to take part or vote in board meetings that discuss and propose resolutions concerning the policies, management or operations of companies directly or indirectly controlled by Telecom Italia that supply services in countries where there are legal or regulatory restrictions or limitations to Telefónica's exercise of its voting rights.

On November 19, 2007 the agreement was amended to take account of the ruling handed down by the Brazilian regulator for the telecommunications industry (Anatel) on October 23, 2007 and published on November 5, 2007, whereby:

- Telefónica and the directors/officers nominated by Telefónica may not participate, vote or veto resolutions in shareholders' meetings, board meetings or committee meetings of Telco, Telecom Italia or any other company controlled by Telecom Italia whose object is to engage in telecommunications activity in the Brazilian market. In addition, Telefónica may not indicate directors or officers of companies with their registered office in Brazil that are controlled by Telecom Italia and supply telecommunications services in the Brazilian market or of companies with their registered office in Brazil controlling such suppliers of telecommunications services;
- Telefónica must take steps to ensure that its subsidiaries supplying telecommunications services in the Brazilian market do not enter into certain relationships with the companies controlled by Telecom Italia that supply telecommunications services in the Brazilian market, if the terms and conditions of such relationships differ from those envisaged by the provisions of Brazilian law applicable to telecommunications;
- Telefónica may not exercise direct or indirect control over any company controlled by Telecom Italia in Brazil (within the meaning of control applicable according to the provisions of Brazilian law concerning telecommunications), including where Telefónica exercises the right to acquire shares of Telco;
- the Parties must give instructions to the members of the Board of Directors of Telco they have respectively nominated and to the members of the Board of Directors of Telecom Italia nominated by Telco for: (i) separate agendas to be prepared for the meetings of the Boards of Directors of Telco, Telecom Italia and Telecom Italia International N.V. and every other company with its registered office outside Brazil that is controlled by Telecom Italia and has investments in the Brazilian telecommunications sector in which the directors nominated by Telefónica are allowed to attend and for the meetings in which the participation of the directors nominated by Telefónica is not allowed since it is a question of matters concerning the activities of companies controlled by Telecom Italia in supplying telecommunications services in the Brazilian market; and (ii) in compliance with adequate confidentiality obligations for the delivery of a copy of the agendas and minutes of the meetings to the appointed officers of TIM Celular S.A. and Tim Nordeste S.A. with a view to their delivery by the latter to the Brazilian regulator for the telecommunications industry within a time limit of 30 days.

The restrictions and limitations referred to above will apply until the expiration of the time limit or the cessation of the shareholders' agreement.

9. Appointment and replacement of directors and bylaw amendments

The Company's bylaws (Article 9) provide for the Board of Directors to be elected on the basis of slates presented by shareholders who together hold at least 0.5% of the ordinary share capital, filed at the Company's registered office and published in a daily newspaper with national circulation at least fifteen days before that fixed for the shareholders' meeting on the first call. Together with each slate it is necessary to file candidates' acceptances of their candidacy and declarations in which they attest that there are no grounds for ineligibility or incompatibility and that they meet the prescribed requirements, as well as their curricula vitae and any other information required by applicable law.
The Board of Directors is elected as follows:

- four fifths of the directors to be elected are 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 is rounded down to the nearest whole number;
- the remaining directors are chosen from the other slates. To that end, the votes obtained by the various slates are divided successively by whole numbers from one up to the number of directors to be chosen and the quotients obtained are 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 are arranged in a single decreasing ranking. Those who have obtained the highest quotients are elected.

In appointing directors who for any reason have not been appointed pursuant to the procedure specified above, the shareholders' meeting votes using the majorities required by law.
The procedure summarized above is the subject of some amendments that will be submitted to the shareholders' meeting called on April 12, 13 and 14, 2008. In particular, there is a

proposal to relieve shareholders of the obligation to publish slates in daily newspapers at their own expense. In fact the manner of publicizing slates is now governed by Consob Regulation 11971/1999 on issuers, which requires the Company to bear the cost and to make slates and the accompanying documentation available to the public without delay at its registered office, at Borsa Italiana and on its website www.telecomitalia.it.

* * *

As regards the rules governing amendments to the bylaws, without prejudice to the power described above to veto the adoption by the shareholders' meeting of a series of resolutions (including resolutions to change the corporate object and to suppress/alter the special powers referred to in Article 22 of the bylaws), Telecom Italia's bylaws are subject only to the applicable laws and regulations.

10. Mandates to increase the share capital and authorizations to purchase treasury shares

In accordance with Article 5 of the bylaws, for five years starting from May 6, 2004 the Directors may increase the share capital in one or more tranches by means of cash issues of up to a maximum of 1,600,000,000 ordinary shares, all or part of which:

- to be offered with the right of pre-emption to shareholders and holders of convertible bonds; or
- to be offered for subscription to employees of Telecom Italia S.p.A. or its subsidiaries.

The Board of Directors may also 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.

* * *

The shareholders' meeting held on April 16, 2007 authorized the buyback of up to a maximum of 25,000,000 ordinary shares within eighteen months. The purchases must be made on regulated markets, in the manner and within the time limits prescribed by the applicable laws and regulations. The consideration 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 on the last ten trading days prior to the purchase, respectively decreased and increased by 10%.
The buyback authorization is for the implementation of the plan approved by the same shareholders' meeting to award Telecom Italia ordinary shares to the executive directors, managers reporting directly to them, and other persons holding strategic positions with an employment or collaboration relationship with Telecom Italia or its subsidiaries.
At December 31, 2007 the Company, which has not so far used the buyback authorization referred to above, held 1,272,014 Telecom Italia ordinary shares, corresponding to approximately 0.007% of the share capital. In addition, Telecom Italia Finance S.A. holds 124,544,373 Telecom Italia ordinary shares.

11. Change-of-control clauses

IA series of agreements to which Telecom Italia is a party require the Company to notify any change of control.
In the first place this obligation - sometimes formulated according to applicable local law as a request for authorization - is contained in the concessions/licences to provide telecommunications services granted to foreign subsidiaries of the Group (notably in Bolivia and Brazil).
Telecom Italia is also a party to agreements in which change of control entails modification or even termination of the relationship. Some of these cases are subject to confidentiality constraints such that disclosure of the existence of the change-of-control clause would cause serious harm to the Company, which consequently invokes the right not to disclose its existence pursuant to the second part of paragraph 1.I of Article 123-*bis* of the Consolidated Law on Finance. In other cases the agreement is deemed not to be material.
There remain the following cases, all of which concern loan agreements:

– Multi-currency revolving credit facility (euro 8,000,000,000). The loan agreement was concluded by Telecom Italia with a syndicate of banks on August 1, 2005 and subsequently amended. In the event of a change of control Telecom Italia must inform the agent within 5 business days and the agent, acting on behalf of the lending banks, will negotiate in good faith on how to continue the relationship. None of the parties are obliged to continue the negotiation beyond 30 days. If this time limit expires without an understanding, the facility will cease to be effective and Telecom Italia will be required to repay the amounts it has received (currently equal to euro 1,500,000,000). Conventionally, there is not deemed to be a change of control when control, as defined by Article 2359 of the Civil Code, is acquired: (i) by shareholders who at the date the loan agreement was signed held, directly and indirectly, more than 13% of the voting rights in the shareholders' meeting; (ii) by the investors (Telefónica, Assicurazioni Generali, Sintonia, Intesa Sanpaolo and Mediobanca) who on April 28, 2007 signed a shareholders' agreement in relation to Telecom Italia shares; or (iii) by some combination of the two categories referred to above;

– Term Loan facility (euro 1,500,000,000). The loan agreement was concluded by Telecom Italia with a syndicate of banks on December 8, 2004 and subsequently amended. The rules are basically the same as those of the facility referred to above. The total amount actually disbursed under this facility is currently equal to euro 1,500,000,000.
– bond loans. The terms and conditions of the loans issued under the EMTN Programme by Olivetti and Telecom Italia and of the loans denominated in US dollars typically provide that, in the event of a merger or the transfer of all or substantially all of the assets of the issuer or the guarantor, the merging company or the company to which the assets are transferred must assume all the obligations of the merged company or the company whose assets are transferred. Failure to fulfil the obligation, without this being remedied, constitutes an event of default;
– contracts with the European Investment Bank (EIB). The contracts concluded by Telecom Italia with the EIB, for a total maximum amount of approximately euro 2.5 billion, require Telecom Italia to notify the EIB promptly of changes concerning the bylaws and the distribution of the capital among the shareholders capable of leading to a change of control. Provision is made for termination of the contract in the event of failure to make such notifications and when a shareholder who did not hold at least 2% of the capital when the contract was signed comes to hold more than 50% of the voting rights in the ordinary shareholders' meeting or of the share capital if the EIB reasonably considers that this may cause it harm or compromise the implementation of the project financed.

12. Indemnity of directors in the event of resignation, dismissal or termination of the relationship following a takeover bid

As explained in more detail below, the composition of the Board of Directors changed during 2007.

The indemnities received by Carlo Buora (formerly Executive Deputy Chairman) and Riccardo Ruggiero (formerly CEO) following their resignations with effect from December 3, 2007 are described below:

- the terms and conditions applied to the Executive Deputy Chairman were those contained in the agreement concluded on December 5, 2006 whereby:
  – in the event of his being appointed to the Board of Directors for the three years 2007-09 with powers basically analogous to those formerly entrusted to him and of the appointment being interrupted during the three years 2007-09 at the initiative of the Company (except in the case of just cause) or at the initiative of Mr. Buora for just cause (e.g. revocation of all or a significant part of his delegated powers, reasoned disagreement regarding the Company's strategies, the sale of all or a significant part of the reference shareholding, significant changes in the composition of shareholders, etc.), provision was made for the payment of the fixed and additional compensation that would have been due to him from the termination of the relationship to the end of his term of office as a director, supplemented by a penalty payment corresponding to a year's fixed compensation;
  – in the event of his not being appointed to the Board of Directors for the three years 2007-09, or of his not being entrusted with powers basically analogous to those formerly entrusted to him, or of his ceasing to hold the position under Article 2386 of the Civil Code, provision was made for the payment of a gross amount equal to euro 4,400,000 (corresponding to two years' fixed compensation) as recognition of the professional and managerial contribution made to the Group since October 2001 (the start of Mr. Buora's relationship with Telecom Italia).

  Applying the terms and conditions referred to above, the Executive Deputy Chairman was paid euro 4,400,000. A two-year covenant not to compete was also signed with Mr. Buora for the business of the Group and for the whole of Europe against payment of a gross amount equal to euro 4,000,000, to be disbursed in four semi-annual instalments on a deferred basis starting from the termination of the relationship;

- as regards the CEO, who also held the position of General Manager and was linked to the Company by an employee relationship with the rank of manager, a private agreement was concluded at the time of his resignation providing for the consensual termination of the employment relationship against payment of a termination benefit incentive of euro 9,915,000 (comprising compensation for the contract notice period, the maximum penalty provided for by the contract for managers in the event of termination of the relationship without due cause, calculated on the basis of the components of compensation marked by continuousness/repetitiveness: manager's salary, compensation for the position, average of the short-term incentive of the three preceding years, and amount due under the retention plan approved earlier by the Board of Directors). The special circumstances that characterized the life of the Company in the last fiscal year and of the media attention it repeatedly received also suggested concluding an agreement whereby Mr. Ruggiero, against payment of euro 2 million (slightly more than a year's fixed compensation), renounced any future claim regarding his compensation as employee and director and the termination thereof, as well as any claim for damages of any kind whatsoever, including for harm to his image. Mr. Ruggiero is also constrained by a two-year covenant not to compete that was signed in 2002; the consideration due was disbursed in full while the relationship was still in force.

The present executive directors (Gabriele Galateri di Genola and Franco Bernabè) currently receive a fixed amount of compensation.
However, provision has already been made, if they are elected by the shareholders' meeting to be held on April 13 and 14, 2008 and subsequently reappointed as respectively Chairman and CEO and if the appointment is interrupted before the end of the mandate established by the shareholders' meeting (i) for objective reasons (such as the merger of the Company or the termination of the entire Board of Directors pursuant to Article 9.12 of the bylaws), (ii) at the initiative of the Company (except in the case of just cause) or (iii) at the initiative of the interested party for just cause (e.g. change in the position, especially with reference to the delegated powers, significant changes in the composition of the reference shareholders):

- for the Chairman to be paid the fixed compensation that would have been due to him from the termination of the relationship to the end of his term of office as a director, supplemented by an indemnity equal to a year's compensation;
- for the CEO to be paid the compensation that would have been due to him from the termination of the relationship to the end of his term of office as a director (including the variable component calculated as the average of the disbursements already made or, in the absence thereof, of the target value), supplemented by a penalty payment corresponding to a year's compensation calculated as above.

13. Compliance

Telecom Italia complies with Borsa Italiana's Code of Corporate Governance and since 2000 has provided information on the development of its system of corporate governance in its annual and half-yearly reports.

* * *

As regards Telecom Italia's compliance with provisions of foreign law, it should be noted that – as specified in the Company's Self-Regulatory Code (consultable in the Governance section of the Company's website www.telecomitalia.it) – the Board of Statutory Auditors, in addition to performing the duties assigned by Italian law, performs the tasks entrusted to the audit committee under US law, to which Telecom Italia is subject as a foreign issuer registered with the Securities and Exchange Commission and listed on the New York Stock Exchange.
Accordingly, the Board of Statutory Auditors has established a procedure governing the receipt, retention and treatment of reports, complaints and concerns (consultable in the Governance section of the Company's website www.telecomitalia.it).
Telecom Italia's strategic subsidiaries include the companies belonging to the Tim Brasil group, of which Tim Participacoes S.A. (indirectly controlled by Telecom Italia) is a Brazilian company listed in Brazil; this company is also registered with the Securities and Exchange Commission and listed on the New York Stock Exchange.

14. Direction and coordination

Telecom Italia is not subject to direction and coordination as referred to in Article 2497 et seq. of the Civil Code.

15. Composition of the Board of Directors

Tables 3 and 4 show information on the members of the Board of Directors as of March 6, 2008 and on those whose directorships ended during the 2007 fiscal year.

16. Cap on offices held in other companies

In Article 5 of the Company's Self-Regulatory Code, the Board of Directors has established, on a general basis, the maximum number of positions that Telecom Italia directors may hold in management and control bodies of other companies.
The principle is that the position of Telecom Italia director is not compatible with membership of the board of directors or auditors of more than five companies, other than companies that are directed and coordinated by Telecom Italia or are Telecom Italia subsidiaries or affiliates, when such companies:

– are listed and included in the S&P/MIB index; and/or
– operate prevalently in the financial sector on a public basis; and/or
– engage in banking or insurance.

The position is also considered not to be compatible with holding more than three executive positions in companies of the types specified above.
The Board of Directors may nonetheless make different individual evaluations, which must be made public in the annual report on corporate governance. The check on the number of positions held by directors will be made again following the appointment of the new board by the shareholders' meeting called on April 13 and 14, 2008.

17. Role of the Board of Directors

In 2007 the Board of Directors met nine times, with each meeting lasting approximately three hours on average. The attendance rate of all the directors was above 95% and that of the independent directors was 96%.
Apart from the renewal of the Board of Directors at the next shareholders' meeting, a total of five meetings have been scheduled for 2008, without prejudice to the possibility of calling additional meetings if operational requirements make this necessary. In the first three months of 2008 the Board of Directors had already met twice.

* * *

The basic assumption of the Telecom Italia model is that the Board of Directors should play an active role both in the strategic guidance of the Company and in the control of operations, with a power to formulate strategy and responsibility for intervening directly in decisions having the greatest impact on the activity of the Company and the Group.
In particular, as specified in the Self-Regulatory Code, the tasks entrusted to the Board of Directors include:

- examining and approving strategic, business and financial plans and the budget of the Company and the Group;
- examining and approving strategic transactions and establishing general criteria for their identification (see below);
- 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;
- specifying the limits to delegated powers, the manner of exercising them and the frequency with which bodies with such powers must report to the Board of Directors on the activity performed in exercising them;
- nominating the persons who are to hold the offices of Chairman and CEO in strategic subsidiaries;
- assessing the overall performance of operations and periodically comparing the results achieved with those planned.

Pursuant and in addition to these principles, in the third quarter of 2007 the Board of Directors (without altering the duties and powers reserved to it by law, the bylaws, the delegation of powers and internal procedures) adopted and published criteria for identifying strategic transactions to be submitted to the Board for approval (the complete document can be consulted in the Governance section of the Company's website www.telecomitalia.it). These transactions include:

– agreements with competitors of the Group that, owing to the subject, the commitments, the

conditionings and the limits capable of deriving from them, have a lasting influence on the freedom of strategic business choices;
- deeds and transactions that entail: (i) the entry into (or exit from) geographical and/or product markets;
- business investments and disinvestments exceeding euro 250 million; transactions that can lead in carrying them out or upon their completion to commitments and/or purchase and/or sale deeds of this nature and scale;
- purchase and sale deeds referring to companies or business units that are of strategic significance in the overall framework of the business or exceed euro 250 million; transactions that can lead in carrying them out or upon their completion to commitments and/or purchase and/or sale deeds of this nature and scale;
- purchase and sale deeds of controlling or affiliation shareholdings exceeding euro 250 million or (even if less) in companies carrying out activities included in the core business of the Group, and the conclusion of contracts for the exercise of rights attaching to such shareholdings; transactions that can lead in carrying them out or upon their completion to commitments and/or purchase and/or sale deeds of this nature and scale;
- the taking out of loans and the granting of loans and guarantees in favour of non-subsidiary companies for amounts exceeding euro 250 million; transactions that can lead in carrying them out or upon their completion to commitments and/or deeds of this nature and scale;
- transactions referred to above to be carried out by unlisted subsidiaries of the Group, except for subsidiaries of listed subsidiaries;
- the listing on (delisting from) European and non-European regulated markets of financial instruments issued by the Company or companies belonging to the Group;
- the instructions to be given to listed subsidiaries (and their subsidiaries) in the performance of the Parent Company's direction and coordination function in relation to the carrying out of transactions having the characteristics referred to above.

* * *

In accordance with the Self-Regulatory Code, transactions with related parties, including intragroup transactions, except for typical or usual transactions concluded at arm's length conditions, must be examined and approved in advance by the Board of Directors.
Typical or customary transactions are considered to be those that, by their object or nature, are part and parcel of the normal course of business of the Company and those that do not involve particular critical factors due to their characteristics, the risks inherent in the nature of the counterparty or the timing of their execution. Transactions concluded at arm's length conditions means transactions concluded at the same conditions as those applied by the Company in comparable situations.
The internal rules for related party transactions were revised by the Board of Directors in its meeting on March 6, 2008 with the introduction of a more comprehensive set of procedures. These are currently being deployed and will lead to a diversification of the decision-making roles and responsibilities according to the type of activity in question (whether or not deemed to be part of the ordinary course of business) and the manner of determining the relationships with related parties (distinguishing between unalterable "other-directed" conditions, competitive procedures, and benchmarking procedures for ascertaining their "market" comparability). There has been no watering down - rather a strengthening with suitable reporting and oversight mechanisms - of the principles of transparency and verifiability of compliance with the criteria of substantial and procedural correctness.

* * *

In its function of monitoring and guiding the performance of operations, the Board of Directors assesses the adequacy of the organizational, administrative and accounting structure of the Company on the basis of information made available by the management and, with specific reference to the adequacy of the internal control system, in light of the results of the investigations made by the Internal Control and Corporate Governance Committee.
In performing its function as the body primarily responsible for the internal control system, the Board of Directors avails itself of the above-mentioned Committee and:
- the person responsible for internal control, chosen from within the internal auditing function, which is entrusted to the consortium company Telecom Italia Audit & Compliance Services;
- with reference to internal controls in relation to financial reporting, the manager responsible for preparing the Company's financial reports, as appointed in November 2007 in the

person of Enrico Parazzini, General Manager and Head of the Finance Administration and Control Function. The powers and responsibilities of this new position are specified in a special set of rules (consultable in the Governance section of the Company's website www.telecomitalia.it).

As specified in the Self-Regulatory Code, in implementing the guidelines laid down by the Board of Directors, the Director in charge of internal controls (in 2007 the Executive Deputy Chairman, Carlo Buora, and, with effect from December 3, 2007, the Chairman, Gabriele Galateri di Genola) defines the instruments and procedures for the configuration of the internal control system and ensures its adaptation to changes in the operational environment and the applicable laws and regulations. The executive directors, each with reference to the matters falling within the scope of his/her duties and in cooperation with the manager responsible for the preparation of the Company's financial reports for matters for which he/she is competent, must use the instruments and procedures referred to above to ensure the overall adequacy of the system and its practical effectiveness in a risk-based perspective that is also an essential component in the definition of the agenda of the Board of Directors.

In this process 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 ensuring - with the assistance of Telecom Italia Audit & Compliance Services, where the Group Compliance Officer is located - methodological correctness in the management of risk. To ensure the coordination of risk management at the top level, there is a Risk Management Committee, chaired by the CEO and composed of the heads of the Head Office departments concerned.

* * *

The assessment of the performance of operations is based on a continuous flow of information coordinated by the Chairman of the Board of Directors and directed towards the non-executive directors and the members of the Board of Statutory Auditors. Assessments are made at intervals in the various meetings, notably, with a comparison of the results achieved with those budgeted during the examination of the financial reports.

* * *

After the shareholders' meeting held on April 16, 2007, the Board of Directors allocated the total compensation of euro 2.8 million approved by the shareholders for 2007 as follows:

- euro 114,000 to be paid to each director in office;
- an additional euro 70,000 to be paid to each member of the Internal Control and Corporate Governance Committee;
- an additional euro 40,000 to be paid to each member of the Remuneration Committee;
- an additional euro 20,000 to be paid to each member of the Strategy Committee, other than the Chairman and the CEO;
- an additional euro 20,000 to be paid to the director appointed to the Supervision Panel set up under Legislative Decree 231/2001.

Until the renewal of the top management on December 3, 2007 the compensation system for the Chairman (Pasquale Pistorio) and the Executive Deputy Chairman (Carlo Buora) provided for payments for the positions divided into a fixed component and a supplementary component subject on an on/off basis to the achievement of the budget objective for consolidated EBIT with positive Delta EVA. In the same way as for the incentive schemes for managers (including Riccardo Ruggiero, CEO, General Manager and employee of the Company) there was a margin of tolerance of up to 10%, with a corresponding progressive reduction to 10% of the additional amount.

The present Chairman (Gabriele Galateri di Genola) and CEO (Franco Bernabè) currently receive only a fixed amount for their positions. The CEO also benefits from a payment for retirement benefits equal to 10% of his fixed compensation.

For additional information on the compensation paid to the Directors in 2007 (including benefits), see Note 42 to Telecom Italia's annual financial statements.

* * *

In the annual self-assessment exercise the Board of Directors, in view of the imminent end of its term of office and calling of the shareholders' meeting to elect a new Board, preferred not to express an opinion on the latter's size and to leave the decision to the shareholders. Moreover, partly in light of the results of the board evaluation, the shareholders' meeting is

invited to approve an extraordinary resolution to amend the bylaws and reduce the maximum number of directors from 23 to 19.
The recommendations submitted to the shareholders with a view to the election of a new Board included:

– assessing the desirability of the majority of directors being independent;
– assessing the desirability of some directors and possibly some independent directors having had experience of the telecommunications industry.

18. Bodies with delegated powers

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 of Directors 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.
During 2007 and specifically after the shareholders' meeting held on April 16, which renewed the Board of Directors for one fiscal year, delegated powers were assigned. In addition to legal representation of the Company and powers of an organizational nature, the Chairman, Pasquale Pistorio, was entrusted with responsibility for:

– overseeing the process of establishing the strategic guidelines for the Company and the Group, with the assistance of the Executive Deputy Chairman and the CEO;
– submitting the strategic guidelines established in this way to the Board of Directors;
– supervising the preparation and implementation of business plans.

In addition to legal representation of the Company, the Executive Deputy Chairman, Carlo Orazio Buora, was entrusted with responsibility for: the overall governance of the Group, including the establishment, in agreement with the Chairman, of the strategic guidelines and the preparation, in agreement with the CEO, of the business plans implementing the Company and Group strategic guidelines approved by the Board of Directors.
Lastly, in addition to legal representation of the Company, the CEO, Riccardo Ruggiero, was entrusted with responsibility for: the coordination of operations and charged with the management and development of fixed and mobile telecommunications and Internet business.
Following the resignations of Pasquale Pistorio, Carlo Buora and Riccardo Ruggiero on December 3, 2007, the Board of Directors appointed Gabriele Galateri di Genola Chairman of the Board and Franco Bernabè CEO. In the same meeting the Board entrusted them, in conformity with their competences and powers under the law and the bylaws and with the general criteria for requiring authorization by the Board of Directors of transactions that have a major impact on the activity of the Company and the Group, with additional powers, as follows:

• to the Chairman, in addition to legal representation of the Company, as provided for in the bylaws:
  – the responsibilities referred to in point 6.1 of the Company's Self-Regulatory Code and to that end – so that the Board of Directors can exercise, including through the Board committees, the general power of guidance and control on the activity of the Company and the Group – in particular:
    – supervision of the preparation of the strategic, business and financial plans and their development and implementation;
    – supervision of the design of organizational structures;
    – supervision of the economic and financial performance;
    – responsibility for overseeing the examination of the strategic guidelines for the internal control system;
  – organizational responsibility for the coordination of;
    – the following Group Functions: General Counsel and Corporate and Legal Affairs and Public Affairs;
    – Telecom Italia Audit and Compliance Services S.c.a.r.l.;
  – responsibility for disclosure to the market;

- to the CEO, in addition to legal representation of the Company, responsibility for the overall governance of the Company and the Group. In particular, the CEO is entrusted with:
  - responsibility for drawing up, submitting to the Board of Directors and subsequently developing and implementing the strategic, business and financial plans;
  - the definition of the organizational arrangements;
  - all the organizational responsibilities for ensuring the management and development of the business, through the coordination of the organizational aspects not entrusted to the Chairman;
  - “employer” responsibility for workers’ safety and health at the workplace;
  - responsibility for data treatment in accordance with the rules on privacy.

19. Other executive directors

There are no other Telecom Italia directors qualifying as executive directors.

20. Independent directors

Telecom Italia has adopted the criteria established by Borsa Italiana’s Corporate Governance Code for determining whether directors qualify as independent.
On the basis of the information in the Company’s possession, the Board of Directors verified that each of the directors classified as independent in Tables 3 and 4 satisfied the independence requirements at the time of their appointment. It was not considered necessary to repeat the assessment in view of the fact that the Board of Directors’ term of office ends with the next shareholders’ meeting.
The number (initially 9 as a consequence of the appointment of Pasquale Pistorio as Chairman and then 8 following the resignation of Diana Bracco) and professional skills of the independent directors permitted the creation of the board committees referred to in the Self-Regulatory Code.
The assessment of the independence of the members of the Board of Directors, the results of which were communicated to the market, was followed by the Board of Statutory Auditors, which also carried out the checks for which it was competent, finding compliance with the requirements for the composition of the Board of Directors (the presence of at least two directors satisfying the independence requirements established by law for statutory auditors).
In particular, after the renewal of the Board of Directors approved by the shareholders’ meeting held on April 16, 2007, the declarations and curricula presented showed that 6 directors were independent as defined in paragraph 4 of Article 147-*ter* of Legislative Decree 58/1998 (Luigi Zingales, Stefano Cao, Renzo Capra, Jean Paul Fitoussi, Luigi Fausti and Paolo Baratta).

21. Lead Independent Director

As part of the revision of the Company’s corporate governance mechanisms carried out early in 2007, the position of Lead Independent Director was formalized in the Company’s Self-Regulatory Code after being introduced in 2004 in accordance with international best practice and the indications provided by US practice.
At present the position, which is intended to provide a point of reference and coordination for the needs and inputs of the independent directors, is held by Domenico Del Sole, who replaced Guido Ferrarini following the renewal of the Board of Directors on April 16, 2007 and is a member of the Internal Control and Corporate Governance Committee and the Strategy Committee. The Lead Independent Director may use the Company’s structures in performing his tasks and call special meetings of the independent directors (Independent Directors’ Executive Sessions) to discuss issues related to the working of the Board of Directors or the management of the business. In 2007 a total of four such sessions were held.
As laid down in the Self-Regulatory Code, the Chairman of the Board of Directors also avails himself of the collaboration of the Lead Independent Director to improve the working of the Board (including the choice of matters to be discussed in collegial meetings). The aim of this collaboration is to further enhance the value of the contribution and criticism of the Board’s independent members.

22. Treatment of corporate information

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.

For this reason the Board of Directors has adopted a procedure for the internal management and external disclosure of documents and information concerning the Company, with special reference to inside information (consultable in the Governance section of the Company's website www.telecomitalia.it). 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 gives instructions to all subsidiaries for the purpose of promptly obtaining the information needed for timely and correct compliance with public disclosure requirements. The procedure also governs the register of persons with access to inside information referred to in Article 152-*bis* et seq. of Consob Regulation 11971/1999 on issuers.
The Company has adopted special procedures for the classification and handling of information from the standpoint of confidentiality and early in 2007 issued rules governing the activity of a management committee called the Disclosure Committee (consultable in the Governance section of the Company's website www.telecomitalia.it). This body is 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 Statutory Auditors on the one hand and to be disclosed to the market on the other. The regulation governing the committee, as is true more generally for the entire internal regulation of disclosure, is likely to be revised, not least so as to improve the coordination with the position formally introduced in November of manager responsible for the preparation of the Company's financial reports.

23. Board committees

The following committees of the Board of Directors have been established: the Internal Control and Corporate Governance Committee, the Remuneration Committee and the Strategy Committee; their functions are governed by the Company's Self-Regulatory Code.
The evolution of best practices has shown the desirability of having an internal committee, with an advisory function, in addition to the traditional ones concerned with remuneration and internal controls, in order to permit a more effective approach to strategic issues, insofar as these are deemed to be of major importance for the firm.

24. Strategy Committee

The aim of the creation of the Strategy Committee is to increase the involvement of the parent company's Board of Directors – while respecting the management's roles and responsibilities – in making strategic choices, in the light of the evolution of the competitive environment. Owing to the strong stimuli produced by technology and the evolution of consumer needs and behaviour, the sector in which Telecom Italia operates is likely to undergo changes that are as rapid as they are radical. It is therefore a question of exercising close and effective oversight of the processes of repositioning and change imposed by the telecommunications market.
The Strategy Committee assists the Board of Directors in evaluating and addressing the most important decisions regarding:

- identification of possible developments in the structure of the telecommunications sector;
- strategic positioning and business models of the Group, *inter alia* in view of the nature of Telecom Italia as an incumbent;
- organizational developments in relation to possible business models;
- evolution of the corporate and financial structure;
- monitoring progress in the implementation of change.

After the renewal of the Board of Directors, the *pro tempore* executive directors were appointed to the Strategy Committee together with the following directors: Paolo Baratta, Domenico De Sole, Jean Paul Fitoussi and Renato Pagliaro. In this way the aim is to combine the contribution of important professional skills and experiences with the need for full alignment and effective coordination of the activities of the Committee, the Board of Directors and the management.

In performing its activity, the Strategy Committee held four meetings in 2007 (with the proceedings recorded in the minutes) and closely followed – in 2008 as well, during which two meetings have been held – the developments that led to the establishment of the strategic guidelines of the 2008-10 Plan.
The average attendance rate at the Strategy Committee's meetings in 2007 was 96%.

25. Nominations committee

The Company is of the opinion that using the slate voting system meets the needs otherwise served by the creation of a nominations committee.
Moreover, formalizing a practice already in use, since 2007 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 this committee that proposes candidates for the Board of Directors to choose from to make the replacement.

26. Remuneration Committee

As of 2000 there has been a Remuneration Committee charged with putting forward proposals for the remuneration of the directors who hold particular offices and criteria for the remuneration of the Company's senior management. The members of this committee must all be independent directors, of whom at least one must have been chosen from the Minority Slates. For the composition of the Remuneration Committee, see Tables 5 and 6.
The Remuneration Committee met six times in 2007 (and has already met five times in 2008), with an average attendance rate of more than 95%. The proceedings of meetings are recorded in the minutes. Investigatory and preparatory work is carried out before meetings, often by the chairman of the committee, with the assistance of the management and outside consultants made available by the Company.
In addition to the questions connected with the remuneration of the Chairman of the Board of Directors and the directors with delegated powers, analyzed in depth to align the solutions adopted by Telecom Italia with international best practice (which led to the inclusion in the agenda of the next shareholders' meeting of a proposal for a stock option plan reserved to the executive directors), the committee prepared – together with the Human Resources, Organization and Industrial Relations Function and its consultants – the incentive and retention plan consisting in the award of shares to senior managers that the shareholders' meeting held in April 2007 approved. The Remuneration Committee intervened both in the preparation of the proposal to submit to the shareholders' meeting and in the subsequent drawing up of the guidelines on the basis of which a mandate was conferred to the top management for the implementation of the plan.
Again with reference to the remuneration of senior managers, the Remuneration Committee provided assistance to the Board of Directors in its decision to revoke the three-year 2006-08 cash incentive plan and recommended the adoption of suitable mechanisms for aligning manager's interest with that of investors, by means of variable remuneration schemes based on medium-term results that are currently under study.

27. Directors' remuneration

The compensation received in 2007 by directors and general managers is shown in Note 42 to Telecom Italia's annual financial statements.

* * *

For the executive directors in office until December 3, 2007 a part of their remuneration was linked to the economic results of Telecom Italia and the achievement of objectives established in advance by the Board of Directors. The Chairman and the Executive Deputy Chairman (who were not employees and received a fixed amount for the position equal to respectively euro 1,800,000 and euro 2,200,000) received short-term incentives equal to respectively euro 700,000 and euro 1,400,000, related on an on/off basis to the achievement of the budget objective for consolidated EBIT with positive Delta EVA, with the conditions and variability mechanisms referred to earlier. The CEO (who – in addition to the fixed amount for the position equal to euro 770,000 – received a salary in his capacity as General Manager and employee of the Company) participated in the short-term incentives (MBO) and their long-term equivalent (the so-called LTI cash plan) in the same way as the senior managers of the Group. The indemnities received by Mr. Buora (formerly Executive

Deputy Chairman) and Mr. Ruggiero (formerly CEO) following their resignations with effect from December 3, 2007 are described in detail in Section 12.
As already mentioned, the shareholders' meeting held on April 16, 2007 approved an equity-based incentive plan potentially also aimed at the executive directors, although in fact Mr. Pistorio, Mr. Buora and Mr. Ruggiero did not benefit from it.

* * *

The present Chairman and CEO, who are exclusively directors of the Company, receive a fixed amount for the position pursuant to paragraph 3 of Article 2389 of the Civil Code – in addition to that received pursuant to paragraph 1 of Article 2389 of the Civil Code – equal to respectively euro 1,300,000 and euro 1,400,000, as well as a payment for retirement benefits equal to 10% of the fixed compensation for the CEO.
If Gabriele Galateri di Genola and Franco Bernabè are reappointed as respectively Chairman and CEO following the renewal of the Board of Directors by the shareholders' meeting to be held on April 13 and 14, 2008, they will be paid the same fixed compensation for the position (including for the CEO the payment for retirement benefits equal to 10% of his fixed compensation). The CEO will also be entitled to a variable component linked to the economic results and a series of operational objectives. More specifically, it is a form of short-term incentive whose value ranges from 50% to 200% of the fixed component, linked on a linear basis to achievement of objectives set by the Board of Directors for:

- Return on Investment (30% share of the variable compensation);
- Net Cash Flow before Dividends (30% share of the variable compensation);
- Customer Satisfaction (30% share of the variable compensation); and
- Innovative Revenues (VAS Mobile + ICT and Fixed Internet; 30% share of the variable compensation).

Lastly, the shareholders' meeting to be held on April 13 and 14, 2008 will be invited to approve a stock option plan reserved to the present executive directors of the Company, subject to their being reappointed. The plan provides for the assignment of options for the purchase of a total of 11,400,000 Telecom Italia ordinary shares within the time limits and on the conditions described in the report on the plan.

* * *

The remuneration of the non-executive directors is the result of the division of the total amount established for the Board of Directors by the shareholders' meeting held on April 16, 2007, as specified earlier. Accordingly, it is not linked to the Company's economic results.

* * *

The remuneration of managers with strategic responsibilities has a variable component linked to the economic results of the Company and/or to the achievement of objectives set by the executive directors (MBO).
In November 2007 the Board of Directors approved the cancellation of the three-year 2006-08 cash incentive plan with effect from 2007 and with payment of the amounts accrued. Consequently, pending the implementation of the performance-based equity award plan approved by the shareholders' meeting held on April 16, 2007, there is currently no medium to long-term incentive plan in operation for the senior management of the Group.

* * *

After the adoption of a first resolution on March 7, 2006, on February 16, 2007 the Board of Directors named the following Telecom Italia managers as having strategic responsibilities:

– the executive directors;
– the general managers of the Company;
– the pro tempore heads of the following Group Functions: Public Affairs, Finance Administration and Control, General Counsel & Corporate and Legal Affairs, Human Resources Organization and Security (now Human Resources Organization and Industrial Relations), Purchasing, Strategy and International Affairs;
– the head of the Mobile Business Unit.

and delegated the Executive Deputy Chairman (now the CEO) to update the list when necessary in the light of organizational developments and/or managerial turnover and to report to the next meeting of the Board of Directors.

The creation of the Business Strategies & International Development Function in January 2008 required the adjustment of the list of Telecom Italia managers having strategic responsibilities to take account of the new arrangements. The head of the new function has been recognized as having strategic responsibilities, while the Strategy and International Affairs Functions have been merged into the new function and their heads (respectively Filippo Bettini and Giampaolo Zambeletti) are no longer recognized as having strategic responsibilities.
The list of managers with strategic responsibilities in 2007 is given below:

- Massimo Castelli (General Manager and Head of Domestic Fixed Services);
- Luca Luciani (General Manager and Head of Mobile Fixed Services);
- Enrico Parazzini (General Manager and Head of Finance Administration and Control);
- Stefano Pileri (General Manager and Head of Technology, now Technology & Operations);
- Paolo Annunziato (Head of Public Affairs) as of may 25, 2007;
- Filippo Bettini (Head of Strategy) as of February 16, 2007;
- Gustavo Bracco (Head of Human Resources Organization and Security, now Human Resources Organization and Industrial Relations);
- Franco Rosario Brescia (Head of Public Affairs) as of May 24, 2007;
- Antonio Campo Dall'Orto (Head of Business Unit Media) as of March 8, 2007;
- Francesco Chiappetta (Head of General Counsel & Corporate and Legal Affairs);
- Germanio Spreafico (Head of Purchasing);

Giampaolo Zambeletti (Head of International Affairs) as of February 16, 2007.
In 2007 the total remuneration disbursed by Telecom Italia and its subsidiaries, for any reason and in any form, to the managers with strategic responsibilities amounted to euro 8,893,000. This does not include the euro 32,010,000, shown in Note 42 to Telecom Italia's annual financial statements, paid to the executive directors and general managers who held office in 2007, even for only a part of the year.

28. Internal Control and Corporate Governance Committee

In 2007 the Committee met 11 times and increasingly frequently meetings were held jointly with the Board of Statutory Auditors (in eight cases) with the intervention of managers, representatives of the audit company and outside consultants according to the items on the agenda. The attendance rate of the Committee's members (all of whom were independent directors and at least one of whom was drawn from the Minority Slates) was approximately 96%. As for the Strategy Committee and the Remuneration Committee, meetings were often preceded or accompanied by informal technical meetings devoted to preparatory work and/or analysis.
The composition of the Committee is shown in Tables 5 and 6. The inclusion of at least one member with accounting and financial experience is guaranteed - in the form of training and professional experience - by Paolo Baratta (Chairman), Domenico De Sole and Luigi Fausti.
Set up in 2000, the Committee is charged with advisory functions and the formulation of proposals. In accordance with Borsa Italiana's Code of Corporate Governance, on which the Company's own Code is modeled, it assists the Board of Directors in the performance of its tasks in matters concerning internal control and assesses, together with the manager responsible for preparing the Company's financial reports and the external auditor, the correctness of the application of accounting standards and their uniformity for the purpose of preparing consolidated financial statements. Accordingly, 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 (on a quarterly basis);
- 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;

In Telecom Italia the Committee also:

- monitors compliance with the rules of corporate governance and their periodic updating.
- express its opinion on the proposals for appointing, removing and assigning duties to the person responsible for internal control and the manager responsible for preparing the Company's financial reports;
- in cases of substitution of an independent director, proposes the candidates for co-optation to the Board of Directors;
- defines the procedures and time limits for conducting the "board performance evaluation";

– performs the additional tasks that may be assigned to it by the Board of Directors.

With reference to the oversight of internal controls, in addition to systematically monitoring the activity of the person responsible for internal control and receiving his reports and those of the external auditor (which also reported on specific checks that had been agreed), in 2007 the Committee undertook to oversee the implementation by management of the recommendations contained at the end of the report on corporate governance published together with the 2006 financial report. These referred to:

– matters concerning the former head of the Security Function, Giuliano Tavaroli;
– network security and services provided to the judicial authorities;
– traffic data, privacy and information on employees.

An update on these matters is provided in Part Two of this report.

The activity involved careful oversight of initiatives and of compliance with the rules on privacy, later extended to include observance of antitrust and sector regulations, with a thorough analysis of the administrative proceedings and disputes with competitors in which the Company is involved. Again with reference to compliance with the law, the Committee closely followed the work of maintaining and updating the so-called 231 Organizational Model (see below).

Turning to internal controls over financial reporting, the Committee oversaw the evolution of the so-called 404 Project, which allowed the top management to vouch for the effectiveness of the above-mentioned controls at December 31, 2006 in the Company's Form 20-F for the year 2006, published in June 2007. The Committee also agreed with the solution of merging the activities to ensure compliance with Section 404 of the Sarbanes Oxley Act (which as of 2006 requires registered foreign issuers to prepare a management report on internal controls over financial reporting) with the corresponding initiatives serving – as of the 2007 annual financial statements – to guarantee compliance with Article 154-*bis* of the Consolidated Law on Finance (declaration by the CEO and the manager responsible for preparing the Company's financial reports on the adequacy and application of the administrative and accounting procedures for the preparation of the company and consolidated annual financial statements.

As regards the monitoring of the updating of the corporate governance rules, the Committee contributed to the implementation of the instruments with which the Company has equipped itself. In the first half of 2007, the transposition into Italian law of the Market Abuse Directive, the passing of the Law on the Protection of Savings, and the publication of Borsa Italiana's "new" Code of Corporate Governance, led the Company:

- on the self-regulatory front, to adopt a new Self-Regulatory Code, a procedure for the flow of information towards directors and statutory auditors (consultable in the Governance section of the Company's website www.telecomitalia.it), and the new Charter of the Disclosure Committee;
- at the level of the shareholders' meeting, to formulate proposals to amend the bylaws and the Meeting Regulations (consultable in the Governance section of the Company's website www.telecomitalia.it), which were approved by the shareholders' meeting held on April 16, 2007.

In the second half of the year the Committee oversaw further interventions to bring the bylaws into line with the updated version of Consob Regulation 11971/1999 on issuers (amendments approved by the Board of Directors under the authority to revise the bylaws to conform with statutory provisions, recognized – in accordance with the law – by Article 12.2 of the bylaws). It also drafted internal rules on the powers of the manager responsible for preparing the Company's financial reports and the criteria for identifying transactions to be submitted in advance to the Board of Directors for approval. Lastly, under a mandate conferred by the Board of Directors, the Committee drafted the revision of the internal rules on transactions with related parties.

29. Internal control system

The internal control system is a process made up of rules, procedures and organizational structures and designed to pursue substantial and procedural correctness, transparency and accountability, values that are considered fundamental for Telecom Italia's business dealings, as laid down in the Group Code of Ethics (consultable in the Governance section of the Company's website www.telecomitalia.it). 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.
In addition to the Internal Control and Corporate Governance Committee, the Board uses a person endowed with an appropriate degree of independence and adequate means to be responsible for the internal control function, that is the director appointed by Telecom Italia to the board of the consortium company Telecom Italia Audit & Compliance Services).
The functions assigned to this person are to assist in verifying the adequacy and effectiveness of the internal control system and, where anomalies are found, to propose appropriate remedies. The person responsible for internal control reports to the Internal Control and Corporate Governance Committee and to the member of the Board of Directors responsible for the internal control system (in 2007 the Executive Deputy Chairman, Carlo Buora, until the date of his resignation and subsequently the Chairman, Gabriele Galateri di Genola).
In 2005 the position of Group Compliance Officer was created with a view to better coordinating the development and maintenance of the internal control system. The Group Compliance Officer performs a role of liaison and coordination among the 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.
As regards internal controls over financial reporting, reference is made to what was said earlier in describing the activity of the Internal Control and Corporate Governance Committee: thanks to the implementation of the 404 Project, which involves the whole Group, the Company has equipped itself with the instruments and means needed to ensure the exact fulfilment of the requirements concerning attestations "on internal control over financial reporting" for foreign issuers, starting from the Annual Report for 2006, which contains a declaration to the effect that the control system for accounting matters is effective and the external auditor issued an attestation on the basis of the standards laid down by the Public Company Accounting Oversight Board. As indicated above, the Company has drawn on the substantial work done to fulfil the transparency requirements introduced by Article 154-*bis* of the Consolidated Law on Finance, which to a large extent correspond to the US requirements.
The Company's internal control system is completed by the so-called 231 Organizational Model, which Telecom Italia considers to provide a paradigm for the conduct of all those who act in the Company's name and on its behalf and designed to ensure the effective performance of entrepreneurial activity by forestalling – notably, through the application of the principles established by Legislative Decree 231/2001 – situations and behaviour that are potentially harmful to the Company. As explained in earlier annual reports on corporate governance, 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:

- the main stages of every process;
- the offences that may be committed in relation to individual processes;
- the control activities to prevent the related risks from arising.

As reported in more detail below, in 2007 the 231 Organizational Model was updated and upgraded. Some interventions were made necessary by changes in the law, while others were deemed appropriate in the light of the results of the model's application. 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 and manslaughter and serious and very serious culpable injury - committed in violation of accident prevention and job health and safety protection rules.
Monitoring of the functioning and compliance with the model is performed by a Supervisory Panel made up of a member of the Board of Statutory Auditors (Ferdinando Superti Furga, Chairman), an independent director on the Internal Control and Corporate Governance Committee (Paolo Baratta) and the head of the internal control system in the person of the Chairman of Telecom Italia Audit & Compliance Services. The Panel was appointed by the Board of Directors in its meeting on May 8, 2007 following the cessation of the earlier Panel with the termination of the previous Board's term of office at the shareholders' meeting held

on April 16, 2007. The composition described above 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 Statutory Auditors on the checks performed and their results.
In addition, 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.

30. Person responsible for internal control

The Board of Directors has chosen the consortium company Telecom Italia Audit & Compliance Services (of which Telecom Italia Media is also a partner and which performs internal audit functions for the partners and their subsidiaries) to be responsible for assisting with verifying that the internal control system is always adequate and fully operational.
This organizational solution maximizes the independence of the person responsible for internal control from the Company's structures and provides direct access to all the information needed to carry out the engagement and report to the competent director, the Internal Control and Corporate Governance Committee and the Board of Statutory Auditors.

31. Organizational Model pursuant to Legislative Decree 231/2001

The companies of the Telecom Italia Group have adopted a single organizational model ("the Model"). Its deployment has involved the adoption in the Company's internal procedures and organizational systems of the internal control rationale represented at the conceptual level in the Model, which is reviewed periodically in light of feedback from the field and changes in the law since Legislative Decree 231/2001 was first introduced.
The principles of transparency, fairness and loyalty on which the Telecom Italia Group's action is based are embedded in the Model, which was formulated in accordance with the applicable statutory prescriptions as well as on the basis of the guidelines laid down by trade associations, with account also taken, in view of Telecom Italia's listing on the New York Stock Exchange, of best US practice in preparing crime prevention models.
The Model thus goes beyond the prescriptions of Legislative Decree 231/2001 since, by implementing the fundamental principles of the Code of Ethics, it is a paradigm for the conduct of all those who act in the Company's name and on its behalf. The Code of Ethics is the foundation of the Model and is supplemented by sets of rules arranged in the form of a pyramid:

- the General Principles of Internal Control, which establish the rationale of the controls for each corporate process;
- the Rules of Conduct for Dealings with Governmental Bodies, which concern the conduct to be followed in direct relations with representatives of such bodies, framed both positively (things "to be done") and negatively (things "not to be done");
- Internal Checklists, which establish, for each corporate process that is relevant in the context of Legislative Decree 231/2001, the scope of the risk of criminal offences, the control activities to be carried out in the operational sphere and detailed rules of conduct to be complied with. For most corporate processes indicators have been defined that those responsible are required to report on periodically.

An ad hoc disciplinary system, graded according to rank (employees, managers, top management) has been introduced to punish non-compliance with the prescriptions of the Model.
In 2007 the Model was revised, with some interventions made necessary by changes in the law and others in the light of experience with the Model. 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 and to manslaughter and serious and very serious culpable injury caused by violations of accident prevention and job health and safety protection rules.
KPMG Advisory was charged with the task of checking the Model. It conducted a gap analysis on the basis of best market practice and the (few) indications provided by court decisions in this field. In its report KPMG Advisory identified some areas offering scope for improvement, on which the management is now working.

Taking it as given that the effectiveness of organizational models cannot be certified ex ante and that the overall judgment on their adequacy is basically a judgment of the scope for updating and improving them, the Internal Control and Corporate Governance Committee expressed a positive opinion in relation to the response to external stimuli and the organizational changes reflecting the work of KPMG Advisory. In fact, by obtaining the professional opinion of a third party, the Company has equipped itself with an important instrument for verifying the solutions adopted and is now proceeding - under the guidance of the Supervision Panel - to give effect to the recommendations and suggestions that have been put forward.

32. External auditor

Pursuant to the transitional provision contained in Legislative Decree 303/2006 permitting the extension, until the first shareholders' meeting called to approve the annual financial statements, of audit engagements under way at the time of the decree's entry into force whose total duration (taking into account earlier renewals and extensions) would not exceed nine fiscal years, the shareholders' meeting held on April 16, 2007 extended 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 make a limited review of the Telecom Italia company and consolidated half-yearly report for the years 2007, 2008 and 2009.

33. Manager responsible for preparing the Company's financial reports

Following the addition to the bylaws of the position of "Manager responsible for preparing the Company's financial reports" (with the requirements in terms of professionalism and experience in the fields of administration, finance and control), in its meeting on November 8, 2007 the Board of Directors appointed Enrico Parazzini, General Manager and Head of the of the Finance, Administration and Control Function to perform the new role, in addition to that of Chief Financial Officer for the purposes of the US law to which Telecom Italia is subject.
The Board of Directors also adopted a Regulation that supplements Telecom Italia's system of corporate governance from the standpoint of the internal controls over financial reporting.
The role of the manager responsible for preparing the Company's financial reports is governed by inserting it into Telecom Italia's corporate governance arrangements. The adequacy of the manager's powers and resources (for which the Board of Directors is responsible) is ensured in terms of the internal organizational functions vis-à-vis the Company and the Group. The Regulation lists the functional and hierarchical responsibilities of the manager, as well as the endowment of powers and resources for the performance of the duties attaching to the position.
The Regulation governing the manager responsible for preparing the Company's financial reports is consultable in the Governance section of the Company's website www.telecomitalia.it.

34. Interests of directors and related party transactions

In 2002 the Board of Directors adopted rules for related party transactions which in March 2007 were included in the Company's Self-Regulatory Code (Section 11, "Transactions with Related Parties").
According to these rules, it is up to the Board of Directors to approve all transactions carried out with related parties, whether directly or via subsidiaries. However, in view of the need to streamline operations and taking into account the good to be protected (the fairness of transactions), it is not deemed necessary for transactions to be submitted to the Board that can be considered not unfair. Transactions are presumed to be fair when they do not diverge from the normal, on the assumption that - in a routine situation - what is "normal" (in relation to the Company's standard operations and the conditions normally applied) is also fair.
The transactions that are considered "normal" are those of a typical or customary nature to be concluded at arm's length conditions. In the absence of these requirements, the presumption of fairness no longer holds and the Board of Directors as a whole must make a prior assessment on a case-by-case basis regardless of the object and value of the transaction.
When the Board is called upon to examine transactions in which directors have an interest (or rather in the case of transactions with directors or with other parties whose relationship with Telecom Italia is via directors), the rules of conduct require the directors in question to

withdraw once they have provided any clarifications that may be needed and without prejudice to the right of the Board to decide otherwise.
The rules for carrying out related party transactions contained in the Company's Self-Regulatory Code since December 2006 are supplemented by a specific procedure (consultable in the Governance section of the Company's website www.telecomitalia.it) designed to ensure:

- the identification of transactions in which the counterparty is a related party;
- the standardized treatment of concrete situations;
- the identification of the decision-making responsibilities by explicitly stating the related criteria and competences;
- 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. It also serves as the basis for the carrying out of compliance checks by the Group Compliance Officer.
Over and above what is laid down in the Self-Regulatory Code and the ad hoc procedure, it should also be noted that the practice of devolving certain investigatory and/or verification activities to the independent directors has become consolidated, with the latter sometimes operating in executive session and sometimes through the internal control committees with the assistance of separate advisors, chosen directly by the independent directors, with a view to guaranteeing the interests of all the shareholders.
As explained above, the internal rules for carrying out related party transactions have recently been revised under the supervision of the Internal Control and Corporate Governance Committee. The revision (approved by the Board of Directors on March 6, 2008 and now being implemented) is based on the classification of activities, contracts and relationships in the context of the Company's operations that are considered to be in the ordinary course of business. When transactions of these types (which are listed on an exemplary basis) are carried out with related parties, decision-making authority is allocated according to the manner of determining the related conditions and quantity thresholds with the role of providing general oversight and guidance entrusted to the Internal Control and Corporate Governance Committee.

35. Appointment of statutory auditors

The Board of Statutory Auditors is elected in accordance with the applicable laws and regulations on the basis of slates presented by shareholders and filed at the Company's registered office at least fifteen days before that fixed for the shareholders' meeting on the first call.
Only shareholders who alone or together with other shareholders hold a total number of shares representing at least 0.5% of the voting ordinary share capital may submit slates. Together with each slate it is necessary to file candidates' acceptances of their candidacy and declarations in which they attest that there are no grounds for ineligibility or incompatibility and that they meet the prescribed requirements, as well as any other information required by applicable law. Together with the declarations, a curriculum vitae must be filed for each candidate setting out his/her personal and professional data with an indication of the positions held in management and control bodies of other companies.
The slates are divided into two sections: one for candidates to the position of statutory auditor and the other for candidates to the position of alternate. The Board of Statutory Auditors is elected as follows:

- one alternate and three statutory auditors are chosen from the slate that obtains the majority of votes cast (the Majority Slate), in the order in which they are listed on the slate;
- two statutory auditors are chosen from the other slates (the Minority Slates). To that end, the votes obtained by the Minority Slates are divided successively by one and two and the quotients obtained are assigned to the candidates in the corresponding section of each such slate in the order specified thereon. The quotients assigned to the candidates on the various slates are arranged in a single decreasing ranking. The candidates who have obtained the two highest quotients are elected.

- one alternate is chosen from the Minority Slate that obtained the largest number of votes.

In the event of the termination of the appointment of a statutory auditor chosen from the Majority Slate or one of the Minority Slates, the alternate chosen respectively from the Majority Slate or the Minority Slates takes his/her place. Appointments to fill vacancies on the Board of Statutory Auditors pursuant to Article 2401 of the Civil Code are approved by the shareholders' meeting in compliance with the principle of the necessary representation of the minority shareholders, which is deemed to be complied with in the event of the appointment of the alternate chosen from the Minority Slates to take the place of a statutory auditor chosen from the same slates.
The procedure summarized above is the subject of some amendments that will be submitted to the extraordinary shareholders' meeting following the increase in the number of alternates from two to four, of which two chosen from the Majority Slate and two from the Minority Slates.

36. Statutory auditors

Tables 7 and 8 show information on the membership of the Board of Statutory Auditors
In 2007 the Board of Statutory Auditors met 29 times, in numerous cases jointly with the Internal Control and Corporate Governance Committee and with an attendance rate of 96%.
Telecom Italia has determined that the Board of Statutory Auditors meets the requirements laid down by US law to invoke the general exemption from the obligation to establish an Audit Committee within the Board of Directors insofar as the responsibilities and tasks of the Audit Committee are assigned to the Board of Statutory Auditors. This role has been formalized within the Company's new Self-Regulatory Code.
In its Audit Committee capacity, and essentially as now required by Italian law, the Board of Statutory Auditors is at the centre of the mechanism governing the services supplied by the auditing firm within the Group. In addition, in 2005 it adopted a procedure for receiving, retaining and handling the reports it is sent. 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 Statutory Auditors can be found in the Governance section of the Company's website www.telecomitalia.it.
In addition to the tasks performed in its Audit Committee capacity, in 2007 the Board of Statutory 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 compliance with the principles of correct administration and the adequacy of the organizational structure. The Board of Statutory 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. Lastly, the Board of Statutory Auditors monitored the independence of the external auditor, verifying both its compliance with the applicable provisions of law and the nature and amount of non-audit services provided to Telecom Italia and its subsidiaries by Reconta Ernst & Young and entities belonging to the latter's international network.

37. Investor relations

Telecom Italia has created an easily accessible section on its website for information concerning the Company of interest to shareholders, so as to allow them to exercise their rights in an informed manner.

In addition, a member of the Telecom Italia staff (Ms Valeria Leone) has been appointed to handle relations with the Italian and international financial communities and with all the Company's shareholders.

Institutional and retail investors can obtain any other information they may require from the following addresses:

– Institutional investors:
  Telecom Italia S.p.A. -Investor Relations
  Piazza degli Affari, 2
  20123 Milano
  Tel.: +39 02 85954131
  E-mail: investor_relations@telecomitalia.it
– Retail investors:
  Telecom Italia S.p.A. - Investor Relations
  Piazza degli Affari, 2
  20123 Milano
  Tel.: +39 02 85954131
  E-mail: investitori.individuali@telecomitalia.it

38. Shareholders' meetings

Under Article 19 of the bylaws, shareholders may attend shareholders' meetings when the Company has received the communication referred to in the second paragraph of Article 2370 of the Civil Code, at least two days prior to the date set for each meeting.
Telecom Italia does not require shareholders to block their shares to be eligible to attend a meeting, instead they must deposit them, i.e. give the intermediary that keeps the relevant accounts instructions to make the above-mentioned communication to the Company at least two days before the date of the meeting. This does not prevent subsequent withdrawal of the shares; but if they are withdrawn, the earlier deposit ceases to be effective for the purpose of entitlement to attend the meeting. Any requests for advance notice to perform the relevant formalities in good time or unavailability of shares to be deposited as a consequence of intermediaries' market practices may not be imputed in any way to the Company.
Since as early as 1997 the Company has allowed its shareholders to exercise their right to vote by mail. This right is expressly referred to in Article 19 of the bylaws and Article 15 of the Meeting Regulations (consultable in the Governance section of the Company's website www.telecomitalia.it). A first version of the regulations was approved by the shareholders' meeting of the "old" Telecom Italia; in 2003, following the merger of Telecom Italia into Olivetti, they were approved again with some amendments (formally, it was their first approval by the Olivetti shareholders' meeting). Partly as a consequence of the passage of the Law on the Protection of Savings, the regulations were the subject of further amendments, approved by the shareholders' meeting held on April 16, 2007, concerning additions to the agenda requested by shareholders and simplification of the rules on voting by mail.
According to the regulations, 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. The Chairman may provide for several items on the agenda to be discussed together or for the discussion to proceed item by item. 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 calls on Participants to comply with the time limits established in advance for interventions and to keep to the matters specified on the agenda. In the event of an overrun and/or an abuse, the Chairman interrupts the speaker.
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.
The Board of Directors reports on its activity to the shareholders' meeting in the report on operations accompanying the financial statements. It makes every effort to disseminate the documentation concerning the items on the agenda and to ensure that shareholders receive sufficient information to enable them to take informed decisions on the matters for which the shareholders' meeting is competent.

Part two

Introduction

The Annual Report on Corporate Governance for the year 2006 contained the results of the analysis and checking activities that had been conducted by the Internal Control and Corporate Governance Committee pro tempore in connection with the well-known judicial events involving the former head of the Group Security Function, Giuliano Tavaroli, which in turn had raised questions about the security of the network and the handling of traffic data. The above-mentioned results were approved by the entire Board of Directors, which also approved the proposals with which the Internal Control and Corporate Governance Committee concluded its report.
The Committee was of the view that the action already under way at the time of writing (February 2007) needed to "be supplemented and strengthened in order to ensure confidence in the organization and the correctness of the Company's behaviour". To this end, the Committee, followed by the Board of Directors, considered it advisable to begin and/or complete the following initiatives (listed below as formulated verbatim) as soon as practicable:

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 action plan already initiated;
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;
3. ascertaining the reasons that prevented suitable perception of the risks connected to compliance with privacy regulation, and proposal for subsequent measures;
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;
5. assessment of the adequacy of the organization of the Security Function, taking into account the remedies already implemented, with particular attention to operational correctness and the efficiency of controls;
6. evaluation of the efficiency level of the solutions set forth by the 231 Organizational Model on the subject of consultancy;
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, 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
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 unrelated to the professional aptitude of prospective employees; adoption of procedures to ensure respect of applicable security regulations.

The state of implementation of the these recommendations is briefly summarized below.

Recommendation no. 1

The Privacy Authority's measure of June 1, 2006 (the "Measure") required the Company to take a series of steps to protect traffic data within 120 days (on December 7, 2006 the deadline was extended to March 31, 2007), failing which the Company would have had to cease to handle such data.
As regards this matter, a programme for the technological adaptation of the systems handling traffic data was completed, in line with the requirements of the Measure, accompanied by initiatives of an organizational nature involving the revision of internal procedures and the issue and/or updating of policies and procedures regulating activities pertinent to data protection and compliance with the rules on privacy. It was also decided to extend the adjustment activities to systems not formally covered by the Measure in that they were managed by subsidiaries. Obviously, this altered the number of relevant applications. At the same time, to take account of the normal evolution of applications and systems, the Company adopted instruments for the control and updating of the perimeter.

Control of the conformity of the operational management and maintenance of the systems concerned has made the transition from an extraordinary phase, of response to exogenous events, to a phase of ordinary operation. Consistently with this approach, sensitive systems are checked and monitored continuously to ensure the lasting effectiveness of the steps taken.
All of the foregoing ensures that conformity with the Measure is monitored. Nonetheless, the steps taken strictly for compliance were accompanied by other activities aimed at improving the overall level of control in this area. The Privacy Authority received detailed information on these activities.
In particular, since the system-related action (whose technological aspects were completed) showed that the fragmentation of the support IT functions was a critical factor, it was considered necessary to implement an organizational consolidation of all the development/maintenance activities and of applications and systems management, in the context of a model of rigorous separation with respect to operational management.
Starting out from a situation in which the systems were managed by various units, the solution adopted for pursuing the objectives of rationalization was to concentrate:

– development activities in the IT Risk & Security Governance Function (except for so-called implementing systems, responsibility for which has remained with the Technology & Operations Department since they are closely connected with the network systems from which the data are extracted); and
– operational management in the Technology & Operations Department.

The assessment that KPMG Advisory was asked to perform of the actual effectiveness of the measures adopted found possible areas for improvement of some systems, which entailed making a start on appropriate corrective action.

Recommendation no. 2

The Company followed up on the initial indications provided by KPMG Advisory by asking the consultant for support in designing a suitable IT risks governance model. After the model was specified with the assistance of KPMG Advisory, a series of organizational steps in October 2007 revised the management processes for IT security. In brief:

- an IT Risk & Security Governance function was set up within IT Governance and charged with integrated governance of IT risk management and security issues;
- an IT Compliance function was set up within the Compliance Division of Telecom Italia Audit and Compliance Services, with a view to more effective and properly structured integration into the Company’s control system of the checks for legal compliance in the field of IT. The function coordinates with IT Risk & Security Governance on the state of IT security, periodically reporting the main problems found to the Risk Management Committee;
- the Security function was entrusted with data security governance, which it is to provide by setting guidelines and policies for the protection of the data that is in the Company’s possession.

The implementation of operating procedures is proceeding alongside the identification of the organizational safeguards, as the above-mentioned model presupposes appropriate mechanisms for interaction on the part of the functions responsible for operational activities and technological implementation with, on the one hand, IT Risk & Security (which establishes guidelines, methodologies and instruments) and, on the other, IT Compliance (which checks the effectiveness of the solutions adopted). Upon completion of the process the tasks previously assigned to the IT Compliance Steering Committee will be redistributed to the ad hoc Group committees, with the Risk Management Committee entrusted with IT risk assessment and the IT Governance Committee with IT activities guidance.

Recommendation no 3

KPMG Advisory identified insufficient sensitivity to the problems of data security as the main cause of the weaknesses it had found in terms of privacy compliance.
In the light of the analysis performed, the Privacy Function (of Domestic Legal Affairs) was strengthened by making it also responsible for checking compliance on the part of the business units. Two areas of specific responsibility for, respectively, minimum security and monitoring of privacy compliance, were set up within the Function and assigned human

resources having significant experience of Internal Auditing. At the same time, steps were taken to strengthen the role of the Information Technology Governance Function in providing central coordination among the various different IT units, this being essential for better knowledge and governance of IT procedures. The effort by the whole Company to adapt to the different measures of the Privacy Authority has raised the level of attention to compliance, thanks also to the involvement of business as well as IT functions in the IT Compliance Steering Committee.
The goal is to sustain this sensitivity and will be pursued not only by moving ahead with training initiatives, but also by involving the persons responsible for the systems subjected to the IT security measures in defining the level of risk, to ensure their agreement with the choices made and the solutions adopted.
Meanwhile, monitoring and control of compliance with privacy rules is continuing under checking programmes by the competent functions.

Recommendation no. 4

During 2007 the external auditors completed their checks on the way invoices for services received or investments made by the Security Function in the period 2002-06 had been accounted for, reporting the results to the Internal Control and Corporate Governance Committee and to the Board of Statutory Auditors.
As already mentioned by the Board of Statutory Auditors in connection with its Observations on the 2007 half-yearly report, in the light of its assessment the audit firm Reconta Ernst & Young:

- ruled out the need to revise its audit plan; and
- rendered an unqualified opinion on the financial statements for 2006 and issued the attestation on management's assessment of internal controls over financial reporting for the Annual Report of 2006 pursuant to Section 404 of the Sarbanes Oxley Act.

Recommendation no 5

Eleven auditing interventions were carried out on the Security sector in 2007, checking the sector's various ramifications.
In the second half of 2008 there will be follow-up on all of the areas of improvement identified. At the completion of the follow-up, an assessment will be made of the advisability of proceeding with a further evaluation through a due diligence to be conducted, if appropriate, by an independent advisor.

Recommendation no. 6

As already mentioned in Part One of this Governance Report, the evaluation and checking of the 231 Organizational Model entrusted to KPMG Advisory concluded with the drawing up of a report indicating possible areas for improvement of differing importance.
The advisor suggested a master plan that the 231 Steering Committee examined, setting up a working group to identify suitable measures by means of which to update the Organizational Model in the light of the evolution of best practices, regulatory interpretations and court decisions.
Implementation of the master plan is already under way with the advisory assistance of KPMG Advisory.

Recommendation no. 7

The checks performed by Telecom Italia Audit & Compliance Services - whether duties had been conferred on Giuliano Tavaroli, and the characteristics thereof, in the period between June 2005 and September 2006 and Tavaroli's access to Company data after May 2005, apart from the specific consultancy assigned to him - did not find problem areas.

Recommendation no. 8

A new Group personnel recruitment and selection policy was issued on January 15, 2007 expressly prohibiting pre-hiring investigations except for the evaluation of references provided by candidates themselves.

With regard to the years 2004-06, in June 2007 Telecom Italia Audit & Compliance Services carried out a compliance check at the Human Resources Function to ascertain the regularity of recruitment operations by evaluating recruitment procedures and examining a sample of the dossiers in the Company's records. The results confirmed the correctness of conduct in this regard.
In December a second check was carried out on a sample of 50% of the persons selected and of those hired in the years 2004-06 (2,518 dossiers). No irregularities have been found in the course of this activity, which is about 40% complete.

Annexes to the Annual Report on Corporate Governance of Telecom Italia S.p.A.

TABLE 1

SHARE CAPITAL AT DECEMBER 31, 2007

	Number of shares	% of total share capital	Listed (indicate markets) / unlisted	Rights and obligations
Ordinary shares	13,380,776,313	68.95%	Listed on Borsa Italiana S.p.A.	Right to vote in the Company's ordinary and extraordinary shareholders' meetings
Savings shares	6,026,120,661	31.05%	Listed on Borsa Italiana S.p.A.	Right to vote in special meetings of savings shareholders. Preferential rights as specified in Article 6 of the bylaws: 5% preferred dividend; two-year carryover of right to preferred dividend; dividend 2% of par value higher than that on ordinary shares

TABLE 2

CONVERTIBLE BONDS

	Listed (indicate markets) / unlisted	Number of instruments in circulation	Class of underlying shares	Number of underlying shares
Convertible bonds	Listed on Borsa Italiana S.p.A.	484,877,224	Ordinary shares	228,645,309

TABLE 3

MEMBERSHIP OF THE BOARD OF DIRECTORS AT MARCH 6, 2008

Name	Position	Held from	Slate	Exec.	Non exec.	Indep.	Indep. Consolidated Law on Finance	% Board meetings	Other positions
Gabriele Galateri di Genola*	Chairman	12/3/2007		X				100	5
Franco Bernabè*	CEO	12/3/2007		X				100	0
Cesal Izuel Alierta*	Director	11/8/2007			X			100	0
Paolo Baratta	Director	5/6/2004	M		X	X	X	89	0
Gilberto Benetton	Director	11/7/2001	M		X			78	6
Stefano Cao	Director	4/16/2007	m		X	X	X	86	1
Renzo Capra	Director	4/16/2007	m		X	X	X	100	1
Domenico De Sole	Director	5/6/2004	M		X	X		89	0
Luigi Fausti	Director	11/7/2001	M		X	X	X	100	1
Jean Paul Fitoussi	Director	5/6/2004	M		X	X	X	100	0
Julio Linares Lopez*	Director	11/8/2007			X			100	0
Gaetano Micciché*	Director	7/24/2007			X			100	2
Aldo Minucci	Director	4/16/2007	M		X			100	10
Gianni Mion	Director	11/7/2001	M		X			67	3
Renato Pagliaro	Director	5/6/2004	M		X			100	3
Cesare Giovanni Vecchio	Director	4/16/2007	m		X	X		100	0
Luigi Zingales	Director	4/16/2007	m		X	X	X	100	0

* Co-opted by the Board of Directors.

Legend

Slate: "M" indicates that the director was elected from the so-called majority slate; "m" that the director was elected from a minority slate.

Indep.: "X" indicates that the director qualifies as independent according to the criteria laid down in the Company's Self-Regulatory Code, which embodies the criteria established by Borsa Italiana's Corporate Governance Code.

Indep. Consolidated Law on Finance: "X" indicates that the director satisfies the independence requirements laid down by Article 148.3 of the Consolidated Law on Finance.

% Board meetings: director's Board meetings attendance rate during the fiscal year from the time of taking up the position.

Other positions: the total number of positions held in other companies referred to in Article 5 of Telecom Italia's Self-Regulatory Code and detailed below.

Shown below are the positions held by Telecom Italia's present directors in other companies included in the S&P/MIB index or operating primarily in the financial sector on a public basis (entered in the registers referred to in Articles 106 and 107 of Legislative Decree 385/1993) or engaged in banking or insurance and falling within the scope of Article 5 of Telecom Italia's Self-Regulatory Code.

Gabriele Galateri di Genola	Deputy Chairman of Assicurazioni Generali S.p.A. and RCS MediaGroup S.p.A.; Director of Pirelli & C. S.p.A., Banca Esperia S.p.A., and Banca CRS S.p.A.
Franco Bernabè	–
Cesar Izuel Alierta	–
Paolo Baratta	–
Gilberto Benetton	Chairman of Autogrill S.p.A.,; Director of Atlantia S.p.A., Lloyd Adriatico S.p.A., Pirelli & C. S.p.A. and Allianz S.p.A.; member of the supervisory board of Mediobanca S.p.A.
Stefano Cao	General Manager of the Exploration & Production Division of ENI
Renzo Capra	Chairman of the supervisory board of A2A S.p.A.
Domenico De Sole	–
Luigi Fausti	Director of Mediaset S.p.A.
Jean Paul Fitoussi	–
Julio Linares Lopez	–
Gaetano Miccichè	CEO of Banca IMI; Director of Banca Intesa Infrastrutture e Sviluppo S.p.A.
Aldo Minucci	Chairman of Genertel S.p.A. and Simgenia S.p.A.; Director of Alleanza Assicurazioni S.p.A., Banca Generali S.p.A., Intesa Previdenza Sim S.p.A., Intesa Vita S.p.A., , Toro S.p.A., Ina Assitalia S.p.A., Fata Vita S.p.A. and Fata Assicurazioni Danni S.p.A.
Gianni Mion	Director of Autogrill S.p.A., Atlantia S.p.A., and Luxottica Group S.p.A.
Renato Pagliaro	Director of Compass S.p.A., and RCS MediaGroup S.p.A.; Co-General Manager of Mediobanca S.p.A.
Cesare Giovanni Vecchio	–
Luigi Zingales	–

TABLE 4

DIRECTORS WHOSE APPOINTMENTS ENDED IN 2007

Name	Position	Position held from / to	Slate	Exec.	Non exec.	Indep.	% Board meetings	Other positions
John Robert Boas	Director	5/6/2004-4/16/2007	M		X	X	50	0
Daniela Bracco	Director	4/13-12/3/2007	M		X	X	100	0
Carlo Orazio Buora	Executive Deputy Chairman	5/6/2004-12/3/2007	M	X			100	1
Claudio De Conto	Director	4/16-10/25/2007	M		X		100	2
Francesco Denozza	Director	5/6/2004-4/16/2007	m		X	X	100	0
Guido Ferrarini	Director	5/6/2004-4/16/2007	m		X	X	100	1
Luciano Gobbi	Director	4/16-7/6/2007	M				100	0
Vittorio Merloni	Director	4/13/2006-4/16/2007	M		X	X	100	0
Massimo Moratti	Director	5/6/2004-4/16/2007	M		X		100	2
Marco Onado	Director	5/6/2004-4/16/2007	M		X	X	100	1
Pasquale Pistorio	Director Chairman	5/6/2004-4/16/2007 4/17-12/3/2007	m M	 X	X	X	100 100	2 2
Carlo Alessandro Puri Negri	Director	5/6/2004-10/25/2007	M		X		86	1
Guido Rossi*	Presidente	9/15/2006-4/6/2007		X			100	0
Luigi Roth	Director	5/6/2004-4/16/2007	M		X	X	100	2
Riccardo Ruggiero	CEO / General Manager	5/6/2004-12/3/2007	M	X			100	0

* Co-opted by the Board of Directors.

Legend

Slate: "M" indicates that the director was elected from the so-called majority slate; "m" that the director was elected from a minority slate.

Indep.: "X" indicates that the director qualifies as an independent director according to the criteria laid down in the Company's Self-Regulatory Code, which embodies the criteria established by Borsa Italiana's Corporate Governance Code.

Indep. Consolidated Law on Finance: "X" indicates that the director satisfies the independence requirements laid down by Article 148.3 of the Consolidated Law on Finance.

% Board meetings: director's Board meetings attendance rate during the fiscal year from the time of taking up the position until the time of leaving the position or of the year.

Other positions: the total number of positions held in other companies referred to in Article 5 of Telecom Italia's Self-Regulatory Code and detailed below.

Shown below are the positions held by Telecom Italia's directors whose directorships ended during the 2007 fiscal year in other companies included in the S&P/MIB index or operating primarily in the financial sector on a public basis (entered in the registers referred to in Articles 106 and 107 of Legislative Decree 385/1993) or engaged in banking or insurance and falling within the scope of Article 5 of Telecom Italia's Self-Regulatory Code.

John Robert Sotheby Boas	–
Diana Bracco	–
Carlo Buora	Director of Mediobanca S.p.A.
Claudio De Conto	Director of RCS MediaGroup S.p.A. and Efibanca Palladio Finanziaria SGR.
Francesco Denozza	–
Guido Ferrarini	Independent Director of Atlantia S.p.A.
Luciano Gobbi	–
Riccardo Ruggiero	–
Vittorio Merloni	–
Massimo Moratti	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)
Pasquale Pistorio	Honorary Chairman of STMicroelectronics S.p.A. and Independent Director of Fiat S.p.A.
Carlo Alessandro Puri Negri	Deputy Chairman of Pirelli & C. S.p.A.
Guido Rossi	–
Luigi Roth	Chairman of Terna S.p.A.; Deputy Chairman of Cassa Depositi e Prestiti S.p.A.

TABLE 5

MEMBERSHIP OF THE ADVISORY COMMITTEES AT MARCH 6, 2008

Name	Position	R.C.	% R.C. meetings	I.C.C.	% I.C.C. meetings	S.C.	% S.C. meetings
Paolo Baratta	Director			P	100	M	100
Franco Bernabè	CEO					M	= *
Stefano Cao	Director	M	100				
Renzo Capra	Director	M	83				
Domenico De Sole	Director			M	82	M	100
Luigi Fausti	Director	M	100	M	100		
Jean Paul Fitoussi	Director					M	100
Gabriele Galateri di Genola	Chairman					M	= *
Renato Pagliaro	Director					M	100
Cesare Giovanni Vecchio	Director			M	100		
Luigi Zingales	Director	P	100				

* The Strategy Committee did not meet from the date of the appointments of Gabriele Galateri di Genola and Franco Bernabé (December 3, 2007) to the end of the 2007 fiscal year.

Legend
R.C.: Remuneration Committee (“C” stands for chairman “M” for member).
% R.C.: director’s rate of attendance at Remuneration Committee meetings.
I.C.C.: Internal Control Committee (“C” stands for chairman “M” for member).
% I.C.C.: director’s rate of attendance at Internal Control Committee meetings.
S.C.: Strategy Committee (“M” stands for member).
% S.C.: director’s rate of attendance at Strategy Committee meetings.

TABLE 6

DIRECTORS SITTING ON ADVISORY COMMITTEES WHOSE APPOINTMENTS ENDED IN 2007

Name	Position	R.C.	% R.C.	I.C.C.	% I.C.C.	S.C.	% S.C.
Daniela Bracco	Director			M	71		
Carlo Orazio Buora	Executive Deputy Chairman					M	75
Francesco Denozza	Director			M	100		
Guido Ferrarini	Director			P	100		
Marco Onado	Director			M	100	M	100
Pasquale Pistorio	Director Chairman	M	=*			M M	100
Guido Rossi	Chairman					M	100
Riccardo Ruggiero	CEO / General Manager					M	100

* The Remuneration Committee did not meet while Pasquale Pistorio was a member.

Legend
R.C.: Remuneration Committee (“C” stands for chairman “M” for member).
% R.C.: director’s rate of attendance at Remuneration Committee meetings.
I.C.C.: Internal Control Committee (“C” stands for chairman “M” for member).
% I.C.C.: director’s rate of attendance at Internal Control Committee meetings.
S.C.: Strategy Committee (“M” stands for member).
% S.C.: director’s rate of attendance at Strategy Committee meetings.

TABLE 7

MEMBERSHIP OF THE BOARD OF STATUTORY AUDITORS AT MARCH 6, 2008

Name	Position	Position held from	Slate	Independet according to Code	% Board meetings	Other positions
Paolo Golia	Chairman	April 13, 2006	m	X	100	17
Enrico Maria Bignami	Statutory auditor	April 16, 2007	m	X	100	36
Salvatore Spiniello	Statutory auditor	April 16, 2006	M	X	90	30
Ferdinando Superti Furga	Statutory auditor	April 16, 2006	M	X	97	17
Gianfranco Zanda	Statutory auditor	April 16, 2006	M	X	93	4
Enrico Laghi	Alternate auditor	April 13, 2006	M	X	=	=
Luigi Gaspari	Alternate auditor	April 16, 2007	m	X	=	=

Legend

Slate: “M” indicates that the statutory auditor was elected from the so-called majority slate; “m” that the statutory auditor was elected from a minority slate.

Independent according to Code: “X” indicates that the statutory auditor qualifies as independent according to the criteria laid down in Borsa Italiana’s Corporate Governance Code.

% Board meetings: statutory auditor’s rate of attendance at meetings of the Board of Statutory Auditors during the fiscal year from the time of taking up the position.

Other positions: the total number of positions held in companies referred to in Book V, Chapters V, VI and VII of the Civil Code, as shown in the list annexed, pursuant to Article 144-*quinquiesdecies* of Consob Regulation 11971/1999, to the report on supervisory activity drawn up by the Statutory Auditors under Article 153.1 of the Consolidated Law on Finance.

TABLE 8

MEMBERS OF THE BOARD OF STATUTORY AUDITORS WHOSE APPOINTMENTS ENDED IN 2007

NName	Position	Position held from / to	Slate	Independent according to Code	% meetings attendance rate	Other positions
Enrico Maria Bignami*	Statutory Auditor	October 20, 2006	m	X	100	1

* On October 20, 2006 Mr. Bignami replaced the Statutory Auditor Stefano Meroi following the latter’s resignation and held the position until the shareholders’ meeting held on April 16, 2007, which confirmed his appointment as a Statutory Auditor until the end of the term of office of the entire Board of Statutory Auditors (the shareholders’ meeting called to approve the financial statements for the year ended December 31, 2008).

Telecom Italia Group
consolidated financial statements

Contents

Consolidated balance sheets

Assets

(millions of euro)	note	12/31/2007	*of which related parties*	12/31/2006	*of which related parties*
NON-CURRENT ASSETS					
Intangible assets					
– Goodwill	5)	44,420		43,739	
– Intangible assets with a finite useful life	6)	6,985		6,740	
		51,405		50,479	
Tangible assets	7)				
– Property, plant and equipment owned		15,484		15,690	
– Assets held under finance leases		1,450		1,525	
		16,934		17,215	
Other non-current assets					
– Investments in associates and joint ventures accounted for using the equity method	8)	484		488	
– Other investments	8)	57		776	
– Securities, financial receivables and other non-current financial assets	8)	695	*25*	691	*24*
– Miscellaneous receivables and other non-current assets	8)	866	*7*	871	*10*
– Deferred tax assets	9)	247		912	
		2,349		3,738	
TOTAL NON-CURRENT ASSETS (A)		**70,688**		**71,432**	
CURRENT ASSETS					
Inventories	10)	308		291	
Trade and miscellaneous receivables and other current assets	11)	9,088	*534*	8,748	*220*
Current income tax receivables	12)	101		287	
Securities	13)	390	*7*	812	*–*
Financial receivables and other current financial assets	14)	377	*13*	433	*1*
Cash and cash equivalents	15)	6,473	*278*	7,219	*1*
Current assets sub-total		**16,737**		**17,790**	
Discontinued operations/Non-current assets held for sale	16)				
of a financial nature		–		–	
of a non-financial nature		–		235	
		–		**235**	
TOTAL CURRENT ASSETS (B)		**16,737**		**18,025**	
TOTAL ASSETS (A+B)		**87,425**		**89,457**	

Equity and liabilities

(millions of euro)	note	12/31/2007	*of which related parties*	12/31/2006	*of which related parties*
EQUITY	17)				
Share capital issued		10,674		10,674	
Less: treasury shares		(69)		(69)	
Share Capital		**10,605**		**10,605**	
Paid-in capital		1,689		1,689	
Other reserves and retained earnings (accumulated losses), including profit for the year		13,628		13,724	
Equity attributable to equity holders of the Parent		**25,922**		**26,018**	
Equity attributable to Minority Interest		**1,063**		**1,080**	
TOTAL EQUITY (A)		**26,985**		**27,098**	
Non-current liabilities					
Non-current financial liabilities	18)	37,051	*860*	40,803	*239*
Employee benefits	20)	1,151		1,262	
Deferred tax liabilities	9)	586		194	
Provisions	21)	903		775	
Miscellaneous payables and other non-current liabilities	22)	1,587	*24*	1,857	*23*
TOTAL NON-CURRENT LIABILITIES (B)		**41,278**		**44,891**	
Current liabilities					
Current financial liabilities	18)	6,585	*305*	5,653	*148*
Trade and miscellaneous payables and other current liabilities	23)	12,380	*341*	11,596	*204*
Current income tax payables	24)	197		219	
Current liabilities sub-total		**19,162**		**17,468**	
Liabilities directly associated with Discontinued operations/Non-current assets held for sale					
of a financial nature		–		–	
of a non-financial nature		–		–	
		–		–	
TOTAL CURRENT LIABILITIES (C)		**19,162**		**17,468**	
TOTAL LIABILITIES (D=B+C)		**60,440**		**62,359**	
TOTAL EQUITY AND LIABILITIES (A+D)		**87,425**		**89,457**	

Consolidated income statements

(millions of euro)	note	Year 2007	of which related parties	Year 2006	of which related parties
Revenues	29)	31,290	*495*	31,275	*464*
Other income	30)	413	*3*	606	*7*
Total operating revenues and other income		**31,703**		**31,881**	
Acquisition of goods and services	31)	(14,545)	*(287)*	(14,191)	*(257)*
Employee benefits expenses	32)	(3,884)	*(129)*	(3,801)	*(58)*
Other operating expenses	33)	(2,245)	*–*	(1,543)	*(6)*
Changes in inventories		11		8	
Internally generated assets	34)	577		496	
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS (EBITDA)		**11,617**		**12,850**	
of which net impact of non-recurring items	45)	***(43)***		***(28)***	
Depreciation and amortization	35)	(5,811)		(5,487)	
Gains (losses) on disposals of non-current assets (1)	36)	5		95	
Impairment reversals (losses) on non-current assets	37)	(47)		(21)	
OPERATING PROFIT (EBIT)		**5,764**		**7,437**	
of which net impact of non-recurring items	45)	***(39)***		***92***	
Share of profits (losses) of associates and joint ventures accounted for using the equity method		86		51	
Finance income	38)	3,345	*84*	3,041	*1*
Finance expenses	39)	(5,094)	*(84)*	(5,014)	*(27)*
PROFIT BEFORE TAX FROM CONTINUING OPERATIONS		**4,101**		**5,515**	
of which net impact of non-recurring items	45)	***423***		***431***	
Income tax expense	40)	(1,682)		(2,519)	
PROFIT FROM CONTINUING OPERATIONS		**2,419**		**2,996**	
Profit (loss) from Discontinued operations/ Non-current assets held for sale	16)	36		7	
PROFIT FOR THE YEAR		**2,455**		**3,003**	
of which net impact of non-recurring items	45)	***436***		***351***	
of which:					
* **Profit attributable to equity holders of the Parent**		**2,448**		**3,014**	
* Profit (loss) attributable to Minority Interest		7		(11)	

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

(euro)	note	Year 2007	Year 2006
Basic and Diluted Earnings Per Share (EPS)	41)		
Basic and Diluted EPS per:			
· Ordinary Share		0.12	0.15
· Savings Share		0.13	0.16
Of which:			
– *From continuing operations*			
· Ordinary Share		0.12	0.15
· Savings Share		0.13	0.16
– *From Discontinued operations/Non-current assets held for sale*			
· Ordinary Share		–	–
· Savings Share		–	–

Consolidated statements of changes in equity

CHANGES IN EQUITY IN 2006

(millions of euro)	Equity attributable to equity holders of the Parent						
	Share capital	Paid-in capital	Exchange differences on translating foreign operations	Other reserves and retained earnings (accumulated losses) including profit for the year	Total	Equity attributable to Minority Interest	Total equity
Balance at December 31, 2005	**10,599**	**6,465**	**793**	**7,805**	**25,662**	**1,323**	**26,985**
Application of Legislative Decree 38/2005		(4,796)		4,796			
Balance at December 31, 2005 - adjusted	**10,599**	**1,669**	**793**	**12,601**	**25,662**	**1,323**	**26,985**
Changes in equity in 2006:							
Available-for-sale financial assets:							
Valuation gains or losses taken to equity				68	68		68
Cash flow hedges:							
Gains or losses taken to equity				(48)	(48)		(48)
Gains or losses transferred to the income statement				290	290		290
Exchange differences on translating foreign operations			(119)		(119)	(44)	(163)
Tax on items taken directly to or transferred from equity				(83)	(83)		(83)
Net income (loss) recognized directly in equity			**(119)**	**227**	**108**	**(44)**	**64**
Profit for the year				3,014	3,014	(11)	3,003
Total recognized income and expense 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	**10,605**	**1,689**	**686**	**13,038**	**26,018**	**1,080**	**27,098**

CHANGES IN EQUITY IN 2007

	Equity attributable to equity holders of the Parent						
(millions of euro)	Share capital	Paid-in capital	Exchange differences on translating foreign operations	Other reserves and retained earnings (accumulated losses) including profit for the year	Total	Equity attributable to Minority Interest	Total equity
Balance at December 31, 2006	**10,605**	**1,689**	**686**	**13,038**	**26,018**	**1,080**	**27,098**
Changes in equity in 2007:							
Available-for-sale financial assets:							
Valuation gains or losses taken to equity				(57)	(57)		(57)
Gains or losses transferred to the income statement				(138)	(138)		(138)
Cash flow hedges:							
Gains or losses taken to equity				(114)	(114)		(114)
Gains or losses transferred to the income statement				468	468		468
Exchange differences on translating foreign operations			203		203	54	257
Tax on items taken directly to or transferred from equity				(85)	(85)		(85)
Net income (loss) recognized directly in equity			**203**	**74**	**277**	**54**	**331**
Profit for the year				2,448	2,448	7	2,455
Total recognized income and expense for the year			**203**	**2,522**	**2,725**	**61**	**2,786**
Dividends approved				(2,766)	(2,766)	(74)	(2,840)
Conversion of bonds				2	2		2
Exchange differences transferred to the income statement due to disposals of investments			(55)		(55)		(55)
Changes in the scope of consolidation						(2)	(2)
Other changes				(2)	(2)	(2)	(4)
Balance at December 31, 2007	**10,605**	**1,689**	**834**	**12,794**	**25,922**	**1,063**	**26,985**

Consolidated cash flow statements

(millions of euro)	note	Year 2007	Year 2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit from continuing operations		2,419	2,996
Adjustments for:			
Depreciation and amortization		5,811	5,487
Impairment losses (reversals) of non-current assets (including investments)		(31)	1
Net change in deferred tax assets and liabilities		930	1,843
Losses (gains) realized on disposals of non-current assets (including investments)		(467)	(317)
Share of losses (profits) of associates and joint ventures accounted for using the equity method		(86)	(51)
Change in employee benefits		(216)	(114)
Change in inventories		(17)	–
Change in trade receivables and net receivables on construction contracts		101	(461)
Change in trade payables		748	(10)
Net change in miscellaneous receivables/payables and other assets/liabilities		(502)	(180)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES (A)		**8,690**	**9,194**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of intangible assets on an accrual basis	6)	*(2,357)*	*(2,187)*
Purchase of tangible assets on an accrual basis	7)	*(3,163)*	*(2,927)*
Total purchase of intangible and tangible assets on an accrual basis (*)		(5,520)	(5,114)
Change in amounts due to fixed asset suppliers		*269*	*10*
Total purchase of intangible and tangible assets on a cash basis		(5,251)	(5,104)
Acquisition of subsidiaries and businesses, net of cash acquired (I)	3, 5)	(636)	–
Acquisition of other investments (I)	3, 5, 8)	(1)	(206)
Change in financial receivables and other financial assets		475	(264)
Proceeds from sale of subsidiaries, net of cash disposed of (II)		4	345
Proceeds from sale/repayment of intangible, tangible and other non-current assets (II)		1,163	1,038
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B)		**(4,246)**	**(4,191)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Change in current financial liabilities and other		202	(204)
Proceeds from non-current financial liabilities (including current portion)		2,625	5,222
Repayments of non-current financial liabilities (including current portion)		(5,220)	(9,995)
Proceeds from equity instruments		–	2
Dividends paid (*)		(2,831)	(2,997)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C)		**(5,224)**	**(7,972)**
CASH FLOWS FROM (USED IN) DISCONTINUED OPERATIONS/ NON-CURRENT ASSETS HELD FOR SALE (D)	16)	**–**	**(13)**
AGGREGATE CASH FLOWS (E=A+B+C+D)		**(780)**	**(2,982)**
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR (F)		**6,960**	**9,958**
Net foreign exchange differences on net cash and cash equivalents (G)		24	(16)
NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR (H=E+F+G)		**6,204**	**6,960**

(I) Net of change in payables arising from the related acquisition.
(II) Net of change in receivables arising from the related disposal.

(*) OF WHICH RELATED PARTIES		
Total acquisitions of intangible and tangible assets on an accrual basis	413	543
Dividends paid (distribution of reserves included)	383	348

ADDITIONAL CASH FLOW INFORMATION:

(millions of euro)	Year 2007	Year 2006
Income taxes (paid) received	(501)	(566)
Interest expense paid	(3,569)	(3,108)
Interest income received	1,477	1,156
Dividends received	59	63

ANALYSIS OF NET CASH AND CASH EQUIVALENTS:

(millions of euro)	Year 2007	Year 2006
NET CASH AND CASH EQUIVALENTS AT BEGINNING OF THE YEAR:		
Cash and cash equivalents - from continuing operations	7,219	10,323
Bank overdrafts repayable on demand – from continuing operations	(259)	(383)
Cash and cash equivalents - from Discontinued operations/ Non-current assets held for sale	–	37
Bank overdrafts repayable on demand – from Discontinued operations/ Non-current assets held for sale	–	(19)
	6,960	**9,958**
NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR:		
Cash and cash equivalents - from continuing operations	6,473	7,219
Bank overdrafts repayable on demand - from continuing operations	(269)	(259)
	6,204	**6,960**

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 "Telecom Italia Group" or 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 retail customers and other national wholesale providers, 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. 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, 2007 have been prepared in accordance with IFRS issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union ("IFRS''), Consob resolutions 15519 and 15520 dated July 27, 2006, Consob Communication DEM 6064293 dated July 28, 2006, and article 149 duodecies of the Regulation for Issuers. 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").

For comparison purposes and pursuant to IAS 1 (*Presentation of financial statements*), comparative data relating to the year 2006 are also presented.

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 financial instruments which have been measured at fair value. 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 2007.

Publication of the consolidated financial statements of the Telecom Italia Group for the year ended December 31, 2007 was approved by resolution of the board of directors' meeting held on March 6, 2008.

Financial statement formats

The financial statement formats adopted are consistent with those indicated in IAS 1. In particular:
- the consolidated balance sheets have been prepared by classifying assets and liabilities according to "current and non-current" criterion and separately indicating on two lines "Discontinued operations/Non-current assets held for sale" and "Liabilities directly associated with Discontinued operations/Non-current assets held for sale" as required by IFRS 5;
- the consolidated income statements have been prepared by classifying the operating expenses 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 "Profit (loss) from discontinued operations/Non-current assets held for sale" as required by IFRS 5;

- the consolidated cash flow statements have 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/Non-current assets held for sale", as required by IFRS 5.

Furthermore, as required by Consob resolution 15519 dated July 27, 2006, in the income statement 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 the Italian Communications Authority ("**AGCom**"), 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 sheets, income statements and cash flow statements.

Segment information

Starting from the first quarter of 2007, the disclosure of segment information has been modified to reflect the organizational structure in effect from January 22, 2007. The new structure aims to ensure greater operational flexibility and facilitate the convergence among the various areas of business (fixed communications, mobile communications, broadband internet and media content). The accounting representation is the following:
– Domestic
– European BroadBand
– Brazil Mobile
– Media
– Olivetti
– Other operations

In particular:
- Ithe "Domestic" business unit includes fixed and mobile telecommunications of Telecom Italia S.p.A and the Telecom Italia Sparkle S.p.A. group as well as the relative support activities;
- the "European BroadBand" business unit comprises Broadband services in France, Germany and the Netherlands;
- the "Brazil Mobile", "Media" and "Olivetti" business units have remained substantially unchanged in relation to the prior periods under comparison;
- the "Other operations" include the financial companies, the foreign activities that are not included in the other business units and other minor companies not strictly related to the core business of the Telecom Italia Group.

In order to facilitate the comparability of the data, the 2006 segment information has been restated for purposes of comparison with 2007.

Seasonal factors affecting revenues

Domestic

The trend of revenues from basic subscription charges and traffic relating to fixed telecommunications was not significantly affected by seasonal factors in the comparison between 2006 and 2007.
The trend of voice traffic relating to mobile telephony was not influenced by seasonal factors associated with marketing campaigns, which, however have an effect on the level of revenues from sales and marginally also on revenues from Valued-Added Services (VAS). Nevertheless, there are seasonal phenomena relating to changes in 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 was only marginally affected by seasonal factors connected with marketing campaigns but were influenced by seasonal phenomena relating to changes in the number of holidays during the months or periods in the reporting calendar.

Scope of consolidation

Changes in the scope of consolidation at December 31, 2007 compared to December 31, 2006, excluding Discontinued operations/Non-current assets held for sale (analyzed later in the notes) are listed below:

(a) inclusions in the scope of consolidation:
the companies in the AOL group (AOL Service Germany GmbH, AOL Erste Beteiligungsgesellschaft GmbH, AOL Zweite Beteiligungsgesellschaft GmbH and AOL Deutschland GmbH & Co KG) acquired at the end of February 2007, consolidated from March 1, 2007 and merged in the company HanseNet Telekommunikation GmbH in June 2007;
InterNLnet B.V. acquired in July 2007;
MDS S.r.l. (Milano Design Studio S.r.l.) set up in December 2007;
Shared Service Center S.r.l. (as a result of the acquisition of a 50% stake in the company from the other shareholder at the end of the reorganization process in October 2007);
(b) exclusions from the scope of consolidation:
Domus Academy S.p.A. (sold in June 2007);
Liberty Surf Communications Ltd (liquidated and cancelled from the register of companies in August 2007);
Olivetti Systems Technology Corporation (liquidated and cancelled from the register of companies in March 2007);
O&B Costruzioni Generali S.r.l. (liquidated and cancelled from the register of companies in November 2007);
Olivetti Chile S.A. (liquidated and cancelled from the register of companies in July 2007);
Olivetti Tecnost Nederland B.V. (liquidated and cancelled from the register of companies in February 2007);
OMS Holding B.V. (liquidated and cancelled from the register of companies in May 2007);
Trainet S.p.A. (liquidated and cancelled from the register of companies in December 2007);
(c) merged:
the companies in the AOL group merged in HanseNet Telekommunikation GmbH (effective June 2007);
Consorzio Mael merged in Olivetti S.p.A. (effective August 2007);
HMC S.p.A. and HMC Pubblicità S.p.A. merged in Telecom Italia Media S.p.A. (effective July 2007);
Mediterranean Nautilus S.A. merged in Telecom Italia Sparkle Luxembourg S.A. (ex-Latin American Nautilus S.A. - effective February 2007);
Progetto Italia S.p.A. merged in Telecom Italia S.p.A. (effective October 2007).

Changes in the scope of consolidation at December 31, 2006 compared to December 31 2005, excluding Discontinued operations/Non-current assets held for sale (analyzed later in the notes) are listed below:

(a) inclusions in the scope of consolidation:
AdValso S.p.A. (set up in November 2006);
(b) exclusions from the scope of consolidation:
Blah! Inc (wind-up closed in October 2006);
Edotel S.p.A. (wind-up closed in December 2006);
Consorzio Energia (wind-up closed in May 2006);
Consorzio Formazione Area Mediterranea (reclassified to investments in associates);
Emax Trade S.r.l. (wind-up closed in November 2006);
Eustema S.p.A. (sold in April 2006);
Liberty Telecom B.V. (wind-up closed in December 2006);
Olivetti International (Service) S.A. (wind-up closed in April 2006);

Olivetti Tecnost H.K. Ltd (wind-up closed in October 2006);
Olivetti Tecnost Portugal S.A. (wind-up closed in May 2006);
Telecom Italia Learning Services S.p.A. (sold in July 2006);
Ruf Gestion S.a.S. (sold in March 2006);
Telecom Media International Italy-Canada Inc. (wind-up closed in November 2006);
Wirelab S.p.A. (partial sale of investment);

(c) merged:
the companies Blah! - Sociedade Anonima de Serviçõs e Comercio and CRC - Centro de Relacionamento com Clientes merged in the parent Tim Celular S.A. which was later conferred by Tim Brasil S.A. to Tim Participações S.A. (effective March 2006);
La7 Televisioni S.p.A. merged in Telecom Italia Media S.p.A. (effective January 2006);
Nuova Tin.it S.r.l. merged in Telecom Italia S.p.A (effective October 2006);
Tim Italia S.p.A. merged in Telecom Italia S.p.A. (effective March 2006);
Tim Nordeste Telecomunicações S.A. merged in Maxitel S.A. - renamed Tim Nordeste S.A. (effective June 2006);
Tim Sul S.A. merged in Tim Celular S.A. (effective June 2006).

At December 31, 2007 and 2006, subsidiaries, associates and joint ventures of Telecom Italia can be analyzed as follows:

		12/31/2007	
	Italy	**Foreign**	**Total**
Companies:			
• subsidiaries consolidated line-by-line	38	80	118
• joint ventures accounted for using the equity method	2	1	3
• associates accounted for using the equity method	20	8	28
Total companies	**60**	**89**	**149**

		12/31/2006	
	Italy	**Foreign**	**Total**
Companies:			
• subsidiaries consolidated line-by-line	43	85	128
• joint ventures accounted for using the equity method	1	1	2
• associates accounted for using the equity method	26	7	33
Total companies	**70**	**93**	**163**

For further details, see the Note “List of companies of the Telecom Italia Group”.

Discontinued operations/Non-current assets held for sale

As required by IFRS, balance sheet and income statement data relating to Discontinued operations/non-current assets held for sale have been classified in two separate lines on the balance sheet in “Discontinued operations/Non-current assets held for sale” and “Liabilities directly associated with Discontinued operations/Non-current assets held for sale” and in the income statement in “Profit (loss) from discontinued operations/Non-current assets held for sale”.

In particular:

- the income statement for 2007 includes income and expenses relating to sales made in prior years while those of 2006 include the result of Digitel Venezuela up to the date of its sale (May 2006), the effects of the sale itself and accruals to provisions relating to the sales made in 2006 and 2005;
- the balance sheet at December 31, 2006 include the investments held in Solpart Participações S.A. and Brasil Telecom Participações S.A. whereas it shows a nil balance at December 31, 2007 as a result of the sale of the investments.

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 Parent, Telecom Italia S.p.A. 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 interest in the equity and in the profit for the year is disclosed separately under appropriate captions, respectively, in the consolidated balance sheet and in the consolidated income statement.

The carrying amount of the investment in each subsidiary is eliminated against the corresponding share of equity in each subsidiary, after adjustment, if any, to fair value at the acquisition date; any resulting positive difference is treated as goodwill and recognized in intangible assets, as described below, whereas any resulting negative difference is recognized in the income statement.

All intragroup balances and transactions, and any gains and losses arising from intragroup transactions, are eliminated on consolidation.

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. Exchange 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 cash flow statement.

For subsidiaries, associates and joint ventures which adopt inflation accounting to eliminate distorting effects on the result for the year, the income statement 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 exchange 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 exchange 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 interest in a consolidated subsidiary exceed the minority interest in the subsidiary's equity, the excess, and any further losses attributable to the minority interest, are allocated against the equity interest attributable to the equity holders of the Parent except to the extent that the minority interest has a binding obligation, and is 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 interest share of losses previously absorbed by the equity holders of the Parent has been recovered.

In the consolidated financial statements investments in associates and joint ventures are accounted for using 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 of profits (losses) of associates and joint ventures accounted for using 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 or a joint venture, 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.

Gains and losses arising from transactions with associates or joint ventures are eliminated to the extent of the Group's interest in those entities.

In relation to transactions regarding 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:

- *acquisition/sale of interests in companies already controlled*: in the case of acquisitions, the Group pays the minority interest 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 corresponding portion of assets and liabilities acquired. In the case of sales, the difference between the proceeds from the disposal of shares and the corresponding carrying amount in the consolidated financial statements is recognized in the income statement (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 interest which does not directly take part in the transaction is 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 profit or 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 interest) are recorded at fair value at the date of acquisition.
The excess of the cost of acquisition over the Group's interest in the fair value of those assets and liabilities acquired is recognized as goodwill and classified in the balance sheet as an intangible asset with an indefinite useful life. The excess of fair value over cost ("negative goodwill") is recognized in the income statement at the date of acquisition.
Goodwill is initially recorded at cost and is subsequently reduced only for 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 accounting policy *Impairment of assets - Goodwill*, reported below.
When a previously acquired enterprise, or part thereof, is sold, the relative amount of goodwill is taken into account in calculating the gain or loss on disposal.

In the context of IFRS first-time adoption, the Group elected not to apply IFRS 3 (*Business combinations*) retrospectively to those business combinations which had arisen before January 1, 2004. As a consequence, goodwill on acquisitions before the date of transition to IFRS has been retained (except for possible effects arising from the application of the new accounting standards) at the previous Italian GAAP amounts, and was tested for impairment at that date.

Development costs

Costs incurred internally for the development of new products and services represent either 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 to sell or use 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 useful life

Other purchased or internally-generated assets with a finite useful life 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 production cost and amortized on a straight-line basis over their estimated useful lives. Intangible assets with finite useful life are also tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired.

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 income statement prospectively.

For a small portion of bundled offerings of mobile equipment and services, the Group capitalizes directly attributable subscriber acquisition costs (represented by commissions for the sales network and subsidies for the purchase of handsets) when the following conditions are met:

- the capitalized costs can be measured reliably;
- there is a contract binding the customer for a specific period of time;
- it is probable that the amount of the capitalized costs will be recovered through the revenues generated by the service contract, or, where the customer withdraws from the contract in advance, through the collection of the penalty.

Capitalized subscriber acquisition costs are amortized on a straight-line basis over the minimum period of the underlying contract (1 or 2 years).

In all other cases, subscriber acquisition costs are expensed when incurred.

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, construction or production of the asset) are expensed as incurred.

Cost also includes the expected costs of dismantling the asset and restoring the site if a legal or constructive obligation exists. The corresponding liability is recognized in the year in which the obligation arises in the balance sheet under provisions at its present value. These capitalized costs are depreciated and charged to the income statement 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 land pertaining to buildings, is not depreciated.

The depreciation 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 income statement prospectively.
The minimum and maximum depreciation rates used in 2007 and 2006 are the following:

Buildings	3% - 7%
Plant and equipment	3% - 33%
Manufacturing and distribution equipment	12% - 25%
Ships	9%
Other	11% - 33%

Tangible assets - Assets held under finance leases

Assets held under finance leases, in which substantially all the risks and rewards of ownership are transferred to the Group, 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 due to the lessor is included in the balance sheet in financial liabilities.

Furthermore, gains realized on sale and leaseback transactions that are recorded under finance lease contracts 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 income statement 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 generally 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 income statement. 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 useful 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 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) operates.

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 non-current assets held for sale) and includes the goodwill attributable to minority interest.

After conducting the goodwill impairment test for the cash-generating unit (or groups 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 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 useful life

During the year, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful 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 indicators of an impairment exist, the carrying amount of the assets is reduced to the 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.

Impairment losses are recognized in the income statement.

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. The reversal of an impairment loss is recognized as income in the income statement.

Financial instruments

In the context of IFRS first-time adoption, the Group elected to adopt IAS 32 (*Financial instruments: 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 a financial instrument as a financial asset "at fair value through profit or loss" or "available-for-sale" or a financial liability measured at "fair value through profit or loss" has been carried out at January 1, 2004 instead of at the date of initial recognition.

Other investments

Other investments (other than those in subsidiaries, associates and joint ventures) are classified as non-current or current assets if, by decision of the directors, are intended to be kept in the Group's portfolio for a period of more or not more than 12 months, respectively.

Upon the acquisition such investments are classified in the following categories:

- available-for-sale financial assets, as non-current or current assets;
- financial assets at fair value through profit or loss, as current assets held for trading.

Investments classified as "available-for-sale financial assets" are measured at fair value or at cost in the case of unlisted companies whose fair value cannot be determined reliably, adjusted by any impairment losses, as required by IAS 39. Changes in the value of these investments measured at fair value are recognized in a specific equity reserve (Reserve for available-for-sale financial assets) until the financial asset is disposed of or impaired at which time the equity reserve is reversed to the income statement.
The impairment losses on investments classified as "available-for-sale financial assets" are not reversed.
Changes in value of investments "at fair value through profit or loss" are recognized directly in the income statement.

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 stated 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, if any.

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 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 income statement for the year.

Receivables and loans
Receivables and loans classified both as non-current and current assets are initially recognized at fair value and subsequently measured at amortized cost.
Receivables with maturities of more than one year which bear no interest or interest rates 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 their original maturity or the remaining maturity at the date of purchase does not exceed three 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 income statement 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 finance lease obligations.
In accordance with IAS 39, they also include trade and other payables.

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 splitting 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 (*fair value hedge derivatives*) 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 income statement 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 (*cash flow hedge derivatives*) are measured at amortized cost in accordance with the hedge accounting principles of IAS 39.

Derivatives
Derivatives 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, the hedging relationship is formally designated and documented;
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 income statement. 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 income statement.

- *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 cash flow hedges*).
  The cumulative gain or loss is removed from equity and recognized in the income statement at the same time as the hedged transaction affects the income statement.
  The gain or loss associated with the ineffective portion of a hedge is recognized in the income statement immediately. If the hedged transaction is no longer probable, the cumulative gains or losses included in the equity reserve are immediately recognized in the income statement.

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 income statement.

Sales of receivables

Coinciding with the expiry date of the securitization program and with reference to some categories of receivables, already subject to securitization, commencing June 2006 Telecom Italia put into place contracts for the sale of similar receivables under the factoring Law 52/1991. 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 derecognition. Specific servicing contracts, through 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.

Other receivables are sold by the Telecom Italia Group under factoring agreements which, in the majority of cases, meet IFRS requirements for asset derecognition.

Amounts due from customers on construction contracts

Amounts due from customers on construction contracts, regardless of the duration of the contracts, are recognized in accordance with the stage of completion method and classified under current assets.

Losses on such contracts, if any, are recorded in full in the income statement when they become known.

Inventories

Inventories of raw materials, purchased products, semifinished goods, work in progress and finished goods are measured at the lower of purchase or production cost, or estimated realizable value, cost being determined on a weighted average (by single movement) basis. The valuation of inventories includes the direct costs of materials and 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/Non-current assets held for sale

Discontinued operations/Non-current assets held for sale include lines of business and assets (or groups of assets) sold or to be disposed of, whose carrying amount was or will be recovered principally through a sale transaction rather than through continuing use.
Non-current 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 are presented in the financial statements as follows:

- in two lines on the balance sheet: Discontinued operations/Non-current assets held for sale and Liabilities directly associated with Discontinued operations/Non-current assets held for sale;
- in one line on the income statement: Profit (loss) from Discontinued operations/Non-current assets held for sale.

Employee benefits

Provision for employees severance indemnities

Employee severance indemnity, mandatory for Italian companies pursuant to art. 2120 of the Italian Civil Code, is deferred compensation and is based on the employees' years of service and the compensation earned by the employee during the service period.

Under IAS 19 (*Employee benefits*), the employee severance indemnity as calculated is considered a "Defined benefit plan" and the related liability to be recognized in the balance sheet (*Provision for employee severance indemnities*) is determined by actuarial calculations using the Projected Unit Credit Method. As allowed by IFRS 1 and IAS 19, in the context of IFRS first-time adoption and for subsequent years, the Telecom Italia Group has elected to recognize all actuarial gains and losses in the income statement as they arise.

The expenses relative to the increase in the present value of the severance indemnity liability, as the time for payment of the benefit comes closer, are included in the income statement under "Employee benefits expenses".

Starting from January 1, 2007, the 2007 State Budget Law and the decrees implementing this law introduced significant changes to employee severance indemnity regulations, including the choice as to the possible destination of accruing employee severance indemnity either to supplementary pension funds or to the "Treasury fund" managed by INPS.

Consequently, the Group's obligation to INPS and the contributions to supplementary pension funds, take the form, under IAS 19, of "Defined contribution plans", whereas the amounts recorded in the provision for employee severance indemnities, retain the nature of "Defined benefit plans".

These legislative changes introduced starting from 2007 have also led to a revision of the actuarial assumptions and the consequent calculations used for the computation of employee severance indemnities and the related effects have been directly recognized in the income statement.

Equity 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 IFRS 1, paragraph 25B, and thus 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 shares can assume over the life of the option.

The companies of the Group provide additional benefits to certain managers and employees through equity compensation plans (stock options). In accordance with IFRS 2, 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 value of the stock options is allocated pro-rata over the vesting period and recorded in equity under "Other equity instruments", with a contra-entry to the income statement in "Employee benefits expenses". At the end of each year, the previously determined fair value of each option is not adjusted or updated, but maintained at its original value. However, at that date, the Group revises its estimates of the number of options that will vest at expiry based on the number of employees who will have exercise rights. The impact of the change in estimate is deducted from or added to "Other equity instruments" with a contra-entry to the income statement in "Employee benefits expenses".

When the option expires, the amount recorded in "Other equity instruments" is reclassified as follows: the portion relating to exercised options is reclassified to "Paid-in capital" and the portion relating to non-exercised options is reclassified under "Other reserves and retained earnings (accumulated losses), including profit for the year".

Provisions

The Group records provisions for risks and charges when it has a present 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 the amount of the obligation can be estimated reliably.

Changes in estimates are reflected in the income statement 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 cost of acquisition over the nominal amount is presented as a deduction from "Other reserves and retained earnings (accumulated losses), including profit for the year".

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 at the end of the prior year, are recognized in the income statement.

Revenue recognition

Revenues are recognized to the extent that it is probable that economic benefits will flow to the Group and their amount can be measured reliably. Revenues are stated net of discounts, allowances, and returns.

- *Revenues from services rendered*

  Revenues from services rendered are recognized in the income statement according to the stage of completion of the service and only when the outcome of the service rendered can be estimated reliably.

  Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators. Amounts billed to customers for providing information or other content are recognized as revenues when the service is provided either at the gross amount billed to the customer or based on the commission received from the content provider, depending on the nature of the service rendered.

  Revenues from the activation of telephone services (as well as the related costs not in excess of the amount of revenues) are deferred over the expected duration of the relationship with the customer (generally 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 revenues for unused minutes are recorded in "Trade and miscellaneous payables and other current liabilities" in the balance sheet.

- *Revenues from sales and bundled offerings*

  Revenues from sales (telephone equipment and other) are recognized when the significant risks and rewards of ownership are transferred to the buyer.

  When an arrangement contains multiple elements, revenue is allocated to each element based on its relative fair value. For offerings that cannot be separated in identifiable components, revenues are recognized in full over the life of the contract.

  For offerings which include the delivery of mobile handsets and service contracts, the Telecom Italia Group recognizes revenues related to the sale of the handset when it is delivered to the customer whereas traffic revenues are recorded on the basis of the minutes used; the related subscriber acquisition costs, including handset subsidies and sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value.

  A small portion of the bundled offerings in the mobile business are contracts with a minimum contractual period of 12 or 24 months and which include an enforced termination penalty. For these contracts, the subscriber acquisition costs are capitalized under "Intangible assets with a finite useful life" if the conditions for capitalization as described in the related accounting policy are met.

- *Revenues on construction contracts*

  Revenues on construction contracts are recognized using the stage of completion method.

Research costs and advertising expenses

Research costs and advertising expenses are charged directly to the income statement 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 under “Finance expenses”.
Income taxes are recognized in the income statement under “Income tax expense” except to the extent that they relate to items directly charged or credited to equity; in which case the related tax is recognized in the relevant equity reserves.
The income tax expense that could arise on the remittance of a subsidiary’s retained earnings is only recognized where there is the actual intention to remit such earnings. Taxes, other than income taxes, are included either in Other operating expenses or in Finance 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 are recognized to the extent that it is probable that future taxable income 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 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 joint ventures are recognized in the income statement 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 profit 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 profit 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 (for example, the conversion of bonds and the exercise of rights on shares with dilutive effects). The Group profit 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 in conformity with IFRS require 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 allowances, 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 income statement.

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 in order to disclose relevant and reliable information so that the financial statements:
– represent faithfully the financial position, financial performance 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 EU and in force from January 1, 2007

As required by IAS 8 (*Accounting policies, changes in accounting estimates and errors*), paragraph 28, IFRS in force from January 1, 2007 are herewith reported and briefly summarized.

IFRS 7 - Financial instruments: disclosures
This Standard, endorsed by the EU in January 2006 (EC Regulation 108-2006), supersedes IAS 30 (*Disclosures in financial statements of banks and other financial institutions*) and incorporates the section on Disclosures contained in IAS 32 (*Financial instruments: presentation and disclosures*) with amendments and additions; consequently, the title of IAS 32 has changed to *"Financial instruments: presentation"*.

Amendments to IAS 1 - Presentation of financial statements - capital disclosures
Such amendments, endorsed by the EU in January 2006 (EC Regulation 108-2006) provide that an entity presents disclosures which allow users of the financial statements to assess its objectives, policies and processes for managing capital.

IFRIC 8 - Scope of IFRS 2
On September 8, 2006, the European Commission with EC Regulation 1329-2006 endorsed IFRIC 8 (*Scope of IFRS 2*).
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 lower than the fair value of the equity instruments granted (or liability incurred), this typically indicates that additional consideration has been or will be received.
The application of this Interpretation did not have any effect on the consolidated financial statements.

IFRIC 9 - Reassessment of embedded derivatives
On September 8, 2006, the European Commission with EC Regulation 1329-2006 endorsed IFRIC 9 (*Reassessment of embedded derivatives*).
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 a reassessment on the separation of the embedded derivative is required.
The application of this Interpretation did not have any effect on the consolidated financial statements.

IFRIC 10 - Interim financial reporting and impairment
On June 1, 2007, the European Commission with EC Regulation 610-2007 endorsed IFRIC 10 (*Interim financial reporting and impairment*).
This interpretation addresses the interaction between the requirements of IAS 34 (*Interim financial reporting*) and the recognition of impairment losses on goodwill under IAS 36 and some financial assets discussed in IAS 39, as well as the effect of this interaction in subsequent interim financial statements and in the annual financial statements.

IFRIC 10 clarifies the accounting treatment to be adopted in the annual financial statements or in subsequent interim financial statements for the impairment losses of some assets recognized in a previous interim period (for example, quarterly or first-half financial statements) if at the end of the period the conditions which previously gave rise to the recognition of an impairment loss no longer exist.
The application of this Interpretation did not have any effect on the consolidated financial statements.

New Standards and Interpretations endorsed by the EU but not yet in force

As required by IAS 8 (*Accounting policies, changes in accounting estimates and errors*), paragraph 30, IFRS in force from January 1, 2008 or subsequently, are herewith reported and briefly summarized.

IFRIC 11 (IFRS 2 - Group and treasury share transactions)

On June 1, 2007, the European Commission with EC Regulation 611-2007 endorsed IFRIC 11 (*IFRS 2 - Group and treasury share Transactions*).
First of all, this interpretation clarifies that share-based payment transactions in which an entity receives services (for example, from employees) as consideration for its own equity instruments shall be accounted for as equity-settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement.
IFRIC 11 will come into force from the year 2008.
The Group expects that the application of this Interpretation would not result in material effects on the consolidated financial statements.

IFRS 8 (Operating segments)

On November 21, 2007, EC Regulation 1358-2007 was published endorsing IFRS 8 (*Operating segments*) in the EU.
IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. The reportable segments are operating segments for which discrete financial information is available and whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance. Generally, financial information is required to be reported on the basis that is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.
IFRS 8 will come into force for annual financial statements for periods beginning on or after January 1, 2009 and supersedes IAS 14 (*Segment reporting*). Prior years' segment information presented as comparative information in the year of transition must be restated to conform to IFRS 8 requirements, unless the necessary information is unavailable and the cost to develop it would be excessive.

Note 3 - Business combinations and transactions among companies under common control

Business combinations

Year 2007

Acquisition of AOL Germany

On February 28, 2007, the transaction for the acquisition of the AOL internet activities in Germany (broadband and narrowband) by the Telecom Italia Group from the Time Warner AOL group was finalized. The consideration paid amounted to euro 669 million, including euro 6 million of incidental charges.

The assets acquired, which had initially been divided among the four companies of the AOL group (AOL Services Germany GmbH, AOL Erste Beteiligungsgesellschaft GmbH, AOL Zweite Beteiligungsgesellschaft GmbH and AOL Deutschland GmbH & Co KG), following the merger approved by the German authorities on June 22, 2007 (with effect for legal purposes on January 1, 2007 and for accounting purposes on March 1, 2007), were taken over by HanseNet Telekommunikation GmbH, the Telecom Italia Group company which has been operating on the German broadband market with the “Alice” brand since 2003.

The following table presents the analysis of the effect of accounting for the purchase of the investment in those companies which, for this purpose, has been considered as a single group as of the date of acquisition.

The difference between the price paid (euro 669 million) and the net assets acquired (negative for euro 3 million, excluding euro 70 million of goodwill already in the financial statements of the companies acquired), equal to euro 672 million, has been allocated as follows:

- euro 582 million to goodwill
- euro 130 million to intangible assets with a finite useful life (customer relationships euro 115 million and audience agreements euro 15 million)
- euro –40 million to deferred tax liabilities

euro 672 million

The amount of the customer relationships was based on an income method. The main parameters which define the value based on this criterion are:

– the residual life of the customer relationship, which is estimated to be equal to half the reciprocal of the churn rate;
– the net margin per customer, obtained by subtracting the remuneration of the fixed assets which make a contribution to the generation of earnings from the gross margin.

The value of the customer relationships acquired is equal to the present value of the net margin per customer (after tax effect), projected for a period of time equivalent to the residual life of the customer relationship, multiplied by the number of customers acquired.

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 on it (audience agreement contract). The value of the contract with AOL was calculated by discounting the operating result flows (after tax effect) estimated for the duration of the contract. The discount rate used is equal to 9.0%. The customer relationships will be amortized over 5.4 years while the audience agreements will be amortized over 5 years (the amortization charge for 2007 is equal to euro 20 million). The effect on the net financial position is euro 666 million (euro 669 million for the consideration paid net of euro 3 million of cash and cash equivalents acquired).

AOL Group - Data at February 28, 2007

(millions of euro)		Fair value		Carrying value
Goodwill		582		70
Other non-current assets		154		24
Total current assets		14		14
Total assets	**(A)**	**750**		**108**
Deferred tax liabilities		40		–
Total current liabilities		41		41
Total liabilities	**(B)**	**81**		**41**
Net assets acquired	**(A-B)**	**669**	(*)	**67**
* of which:				
Cost of the investment		663		
Incidental cherges (taxes, legal fees and other expenses)		6		
Total acquisition cost		**669**		

Acquisition of InterNLnet B.V.

On July 18, 2007, the transaction for the acquisition of a 100% stake in the company InterNLnet B.V. by BBNed was finalized. The price, set at an amount equal to euro 3.8 million (Enterprise Value) in addition to the net cash position at the closing date, was euro 5.5 million. The aim of this transaction is to facilitate BBNED’s repositioning at the level of retail activities by acquiring greater expertise in the segment of optic fiber services.

The difference between the total price paid and the net assets acquired of euro 4 million was allocated to intangible assets with a finite useful life for euro 1 million and goodwill for euro 3 million.

Acquisition of Shared Service Center - limited liability company (s.r.l.)

Following the dissolution of the partnership with Pirelli in the consortium company Shared Service Center (SSC), on October 1, 2007, the company contributed, to a company of the Pirelli Group, the business segment consisting of the persons and the structures dedicated to the information services activities for the Pirelli group and later sold the shares from the above contribution to the same Pirelli. The process to transform the consortium company into a limited liability company (s.r.l.) was then begun. Once this transformation was completed, Pirelli exited Shared Service Center as a shareholder when Telecom Italia S.p.A. acquired a 50% stake in the company at the price of euro 1 million, with a reduction in net financial debt of euro 35 million, for the cash acquired (euro 36 million) against operating liabilities relating to trade payables and the provision for employee severance indemnities.

Year 2006

In 2006, there were no transactions entered into of the type of business combinations defined in IFRS 3.

Transactions among companies under common control

Year 2007

In 2007, there were no transactions entered into of the type of transactions among companies under common control defined in IFRS 3.

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 Participações S.A., which before held a 100% stake in Tim Celular S.A. and a 19.88% holding (economic interest) in Tim Participações S.A., now has a 69.66% (economic interest) in the new Tim Participações S.A..

The process 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 Participações S.A. contributed the Tim Celular S.A. shares to Tim Participações S.A. in exchange for a reserved capital increase, raising its controlling stake in Tim Participações 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 the equity holders of the Parent of euro 59 million with an increase of the same amount in the equity attributable to Minority Interest.
- 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..

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 in the ordinary course of its business operations:

- market risk: stemming from changes in interest rates and exchange rates in connection with financial assets that have been originated and financial liabilities that have been assumed;
- credit risk: representing 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 obtained;
- the exclusion of the use of financial instruments for speculative purposes.

The management policies and the sensitivity analyses regarding the above financial risks on the part of the Telecom Italia Group are described below.

Identification of risks and analyses

The Telecom Italia Group is exposed to market risks as a result of changes in interest rates and exchange rates in the markets in which it operates or has bond issues, principally Europe, the United States, Great Britain and Latin America.

The risk management policies of the Telecom Italia Group are directed toward diversifying market risks and minimizing interest rate exposure by an appropriate diversification of the portfolio, which is also carried out 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, on the basis of the nominal amount, at 60%-70% for the fixed-rate component and 30%-40% 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.

Derivative financial instruments are designated by the Group 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 credit rating.

The exposure to the various market risks can be measured by sensitivity analyses, as provided by IFRS 7. These analyses illustrate the effects produced by a given and assumed movement in the levels of the relevant variables in the various markets (exchange rates, interest rates and prices) on finance income and expenses and, at times, directly on equity. The sensitivity analysis was performed based on the suppositions and assumptions indicated below:

- the sensitivity analyses were performed by applying reasonably possible movements in the relevant risk variables to the amounts in the financial statements at December 31, 2007 and 2006, assuming that such movements are representative of the entire year;
- the exchange risk of the Group's financial payables denominated in currencies other than the euro is fully hedged and, therefore, any changes in the currency levels do not produce net impacts on items in the balance sheet or income statement; for this reason, the exchange risk is not considered in the sensitivity analysis under IFRS 7;
- the changes in value of fixed-rate financial instruments, other than derivatives, produced by changes in interest rates, produce an impact on profit only when they are accounted for at their fair value, in accordance with IAS 39. All fixed-rate instruments which are accounted for at amortized cost are not subject to interest rate risk as defined by IFRS 7;
- in the case of fair value hedge relationships, fair value changes of the underlying hedged item and the derivative instrument, due to changes in interest rates, are almost entirely offset in the income statement for the year. Therefore, these financial instruments are not exposed to interest rate risk;
- the changes in value of financial instruments designated in a cash flow hedge relationship, due to changes in interest rates, produce an impact on the debt and on equity and are thus taken into consideration in this analysis;
- the changes in value, due to changes in the interest rates of floating-rate financial instruments, other than derivatives, which are not part of a cash flow hedge relationship, produce an impact on the finance income and expenses for the year; accordingly they are taken into consideration in this analysis;
- the changes in fair value of the two call options on 50% of the Sofora Telecomunicaciones share capital (in 2007 for a positive amount of euro 70 million, carrying amount equal to euro 260 million at December 31, 2007) have been determined using an internal valuation model in which the input values, among other things, are the market value of the assets of Sofora, less the share price of its listed investment holdings (Nortel and, through this company, Telecom Argentina). The market prices of these investments are subject to volatility and consequently influence the fair value of the options held by the Telecom Italia Group and thus are included in this analysis.

<u>Call options on Sofora Telecomunicaciones share capital - sensitivity analysis</u>

Assuming an increase (decrease) of 10% in the price of the listed investments of Sofora (Nortel and, through this company, Telecom Argentina) and thus the value of Sofora assets, the change in fair value of the options would be positive for euro 109 million (euro 31 million), bringing the relative carrying amount to euro 299 million (euro 221 million).

<u>Exchange rate risk - Sensitivity analysis</u>

At December 31, 2007 and December 31, 2006, the exchange rate risk originating from the financial payables of the Group denominated in currencies other than the euro was completely hedged. For this reason, a sensitivity analysis has not been performed on the exchange rate risk.

<u>Interest rate risk - Sensitivity analysis</u>

If, at December 31, 2007 the interest rates in the different markets in which the Telecom Italia Group operates had been 100 basis points higher (lower) than that actually recorded, the following would have been recorded:

- in the income statement: higher (lower) finance expenses, gross of the relative tax effect, for euro 95 million (euro 58 million in 2006);
- in equity: excluding the above effect on the profit for the year, higher (lower) for euro 92 million (euro 105 million); similarly, at December 31, 2006, the same change in interest rates would have produced higher (lower) equity of the Group for euro 206 million (euro 233 million).

Allocation of the financial structure between fixed rate and floating rate

As for the allocation of the financial structure between the fixed-rate component and the floating-rate component, for both financial assets and liabilities, the tables presented below should be considered. They show 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 reset on the basis of market parameters, even though the contract does not call for resetting 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)

	12/31/2007			12/31/2006		
(millions of euro)	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
Bonds	21,452	9,260	30,712	23,101	10,018	33,119
Convertible and exchangeable bonds	574	–	574	574	–	574
Loans and other payables	3,953	7,313	11,266	7,167	3,979	11,146
Total	**25,979**	**16,573**	**42,552**	**30,842**	**13,997**	**44,839**

FINANCIAL ASSETS (at the nominal investment amount)

	12/31/2007			12/31/2006		
(millions of euro)	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
Deposits and cash	–	6,250	6,250	–	7,204	7,204
Euro commercial paper	–	196	196	–	20	20
Securities	18	386	404	17	813	830
Other receivables	460	201	661	472	199	671
Total	**478**	**7,033**	**7,511**	**489**	**8,236**	**8,725**

With regard to floating-rate financial instruments, the contracts provide for revisions of the relative parameters to take place within the subsequent 12 months.

Effective interest rate

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 prepayment, deferrals and changes in fair value: therefore, this is the amortized cost, net of accruals and any changes in fair value as a consequence of hedge accounting.

FINANCIAL LIABILITIES

	12/31/2007		12/31/2006	
(millions of euro)	Adjusted carrying amount	Effective interest rate (%)	Adjusted carrying amount	Effective interest rate (%)
Bonds	30,612	5.80	33,037	5.81
Convertible and exchangeable bonds	510	7.42	482	7.43
Loans and other payables	9,127	5.96	10,152	5.24
Total	**40,249**	**5.86**	**43,671**	**5.70**

FINANCIAL ASSETS

	12/31/2007		12/31/2007	
(millions of euro)	Adjusted carrying amount	Effective interest rate (%)	Adjusted carrying amount	Effective interest rate (%)
Deposits and cash	6,249	4.08	7,204	3.82
Euro commercial paper	196	4.79	20	3.65
Securities	404	5.01	830	4.73
Other receivables	556	6.08	617	5.45
Total	**7,405**	**4.30**	**8,671**	**4.02**

Transactions hedging outstanding financial liabilities at December 31, 2007 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 derivatives.

With reference to the concept of market risk, in the broad sense, the Group has interest coupon step-ups and step-downs for certain bonds that change in relating to changes in ratings. 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 derivatives, reference should be made to the Note “Derivatives”.

Credit risk

The management of the Group’s liquidity is guided by prudent criteria and is principally based on the following:

- money market management: 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: the investment of a permanent level of liquidity, the investment of that part of liquidity which is expected to turn around for cash requirement purposes subsequent to a period of 12 months, as well as an improvement in the average yield.

In order to limit the risk of the non-fulfillment of the obligations undertaken by the counterpart, deposits are made with high-credit-quality banking and financial institutions with a minimum of an A rating and generally for periods of less than three months.
As for temporary investments of liquidity in euro commercial paper, the issuers all have A ratings and headquarters in Europe and United States of America. With regard to bond portfolio management, the issuers have a minimum of an A rating.
In order to minimize credit risk, the Group pursues a diversification policy for its investments of 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, 2007, without considering unused committed bank lines, ensure complete coverage of short-term financial commitments (year 2008), guaranteeing a further coverage of the maturities due for the entire first half of 2009.
12.6% of gross financial debt at December 31, 2007 (nominal repayment amount) will become due in the following 12 months.

Fair value of derivatives

In order to determine the fair value of derivatives, the Telecom Italia Group uses various valuation models.
The fair value of IRS and CCIRS 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 IRS 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 CCIRS, 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 CCIRS 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 43,739 million at December 31, 2006 to euro 44,420 million, with an increase of euro 681 million. Details of goodwill by business segment and the changes during 2006 and 2007 are presented in the following tables:

(millions of euro)	12/31/2005	Increase	Decrease	Exchange differences	12/31/2006
Domestic	41,953				41,953
European BroadBand	357				357
Brazil Mobile	1,222			(23)	1,199
Media	230				230
Other operations (*)	218		(184)	(34)	–
Total	**43,980**	**–**	**(184)**	**(57)**	**43,739**

(*) Other operations include Avea I.H.A.S., sold during 2006.

(millions of euro)	12/31/2006	Increase	Decrease	Exchange differences	12/31/2007
Domestic	41,953				41,953
European BroadBand	357	585			942
Brazil Mobile	1,199			96	1,295
Media	230				230
Total	**43,739**	**585**	**–**	**96**	**44,420**

The increase of euro 681 million in 2007 is due to the following transactions:
- euro 582 million for the acquisition of AOL internet activities in Germany;
- euro 3 million for the acquisition of InterNLnet B.V. through the subsidiary BBNed N.V.
- euro 96 million for exchange differences on goodwill relating to the Brazilian companies.

The gross carrying amounts of goodwill and the relative accumulated impairment losses from January 1, 2004 (date of allocation to the Cash-Generating Units - CGU) to December 31, 2007 and 2006 can be summarized as follows:

	12/31/2007			12/31/2006		
(millions of euro)	Gross carrying amount	Accumulated impairment losses	Net carrying amount	Gross carrying amount	Accumulated impairment losses	Net carrying amount
Domestic	(*) 42,245	(*) (292)	41,953	(*) 42,245	(*) (292)	41,953
European BroadBand	942	–	942	357	–	357
Brazil Mobile	1,302	(7)	1,295	1,206	(7)	1,199
Olivetti	6	(6)	–	6	(6)	–
Media	230	–	230	230	–	230
Total	**44,725**	**(305)**	**44,420**	**44,044**	**(305)**	**43,739**

(*) 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 level higher than the business segment determined in accordance with IAS 14. The criterion followed for the allocation of goodwill considers the lowest level at which goodwill is monitored for internal management purposes.

The changes in the disclosure of segment information in 2007 did not have an impact on the allocation of goodwill to the groups of units.

The business units (or groups of units) to which goodwill was allocated are as follows:

Sector	Group of units
Domestic	Fixed Mobile
European BroadBand	Liberty Surf HanseNet BBNed
Brazil Mobile	Tim Brasil
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, 2007 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	Domestic Fixed	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 (2008-2010)
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
			Exchange rate Reais/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 2007 actual results and rely on the best forecasts formulated by management for the period of the 2008/2010 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 2008 was considered, forecasting it in perpetuity.

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	Domestic Fixed	Domestic Mobile	Brazil Mobile
+0.5%	–0.5%	+0.5%	+4.64%

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 2007 results).

The cost of capital was estimated by considering the following:

a) the criteria for the estimate of the cost of capital CAPM - Capital Asset Pricing Model (the same criteria used by the Group to estimate the value in use and referred to in Annex A of IAS 36);
b) the Beta coefficient for business segments arrived at by using the Beta coefficients of the European multibusiness incumbents, including Telecom Italia itself, adjusted to take into account the target financial structure;
c) the Weighted Average Cost of Capital (WACC) used by other operators to test the value of goodwill;
d) the Weighted Average Cost of Capital (WACC) used by the analysts following Telecom Italia stock in the reports published after the announcement of third-quarter 2007 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 post-tax - g) were estimated for each business unit (Brazilian reais are used for Brazil) as follows:

	HanseNet	Domestic Fixed	Domestic Mobile	Brazil Mobile
WACC post-tax	8.1%	7.0%	7.1%	13.1%
WACC post-tax-g	7.6%	7.5%	6.6%	8.5%

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 Brazilian 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 amount of the entire Domestic segment consisting of the Domestic Fixed, Domestic Mobile and Domestic Central Functions business units. Specifically, the recoverable amount of the Domestic Central Functions (corporate) unit was negative since this unit is a cost center. The total recoverable amount of the Domestic segment was compared to the carrying amount of the total operating capital referring to the same group of units. There was no impairment at this second level of testing either.

Finally, a third level of impairment testing was effected by considering the total recoverable amount of all the business units of the Group, including those without any goodwill allocation (Olivetti, Bolivia, Central Functions and Other Operations). The total recoverable amount of all the business units of the Group was compared to the carrying amount of the total operating capital referring to the same units/segments. There was no impairment at this last level of testing either.

Note 6 - Intangible assets with a finite useful life

Intangible assets with a finite useful life increased from euro 6,740 million at December 31, 2006 to euro 6,985 million. Details on the composition and movements during the year are as follows:

(millions of euro)	12/31/2005	Additions	Amorti-zation	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**

(millions of euro)	12/31/2006	Additions	Amorti-zation	Impairment losses/ reversals	Disposals	Exchange differences	Other changes	12/31/2007
Industrial patents and intellectual property rights	2,621	1,387	(1,760)	(7)		36	519	2,796
Concessions, licenses, trademarks and similar rights	3,172	192	(323)		(1)	40	9	3,089
Other intangible assets	176	350	(298)			5	130	363
Work in progress and advance payments	771	428		(16)	(1)	3	(448)	737
Total	**6,740**	**2,357**	**(2,381)**	**(23)**	**(2)**	**84**	**210**	**6,985**

Additions made during 2007 include euro 365 million of internally generated assets (euro 318 million in 2006); other changes include the amount attributed to intangible assets following the allocation of the price paid on the acquisition of the AOL companies in Germany and the company InterNLnet B.V. (for a total of euro 131 million).

Industrial patents and intellectual property rights at December 31, 2007 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 Telecom Italia S.p.A. (euro 2,144 million) and to Brazil Mobile (euro 497 million).

Concessions, licenses, trademarks and similar rights at December 31, 2007 mainly refer to:
- the remaining unamortized cost of UMTS and PCS licenses (euro 1,890 million for Telecom Italia S.p.A. and euro 596 million for the Brazil Mobile business unit);
- Indefeasible Rights of Use-IRU (euro 223 million);
- TV frequencies of the Media business unit (euro 148 million);
- costs incurred by the European BroadBand companies for Local Loop Unbundling (euro 216 million).

The unamortized cost of mobile telephone licenses totaling euro 2,486 million (amortized on a straight-line basis), refers to the following:

- licenses of Telecom Italia S.p.A.:
  - UMTS: euro 1,880 million expiring 2021 (amortized over 18 years);
  - Wireless Local Loop: euro 10 million expiring 2021 (amortized over 15 years);
- licenses of the Tim Brasil group:
  - GSM: euro 485 million (which includes additions in 2007 amounting to euro 11 million as a result of 14 lots of frequencies in the 900/1800 bandwidth being awarded in September 2007 and BRL 9,000 for the acquisition of a license for the marketing of the switched fixed telephone service - SFTS within the Brazilian national territory) expiring between 2008 and 2016 (amortized between 4-15 years);
  - TDMA: euro 111 million expiring 2012 (amortized over approximately 14 years).

The user rights of the frequencies used for broadcasting in Digital Terrestrial technology, including those acquired in 2005 with the Elefante TV network and those used for testing Digital Terrestrial activities, totaling euro 146 million, will be amortized until 2018 since the 12-year period represents the duration of the network operator license for which the request was filed in the first half of 2006.
The frequencies used in analog mode (euro 2 million) will be amortized up to December 31, 2008.

Other intangible assets at December 31, 2007 include:

- euro 239 million mainly for the capitalization of subscriber acquisition costs referring to the new sales campaigns of Telecom Italia S.p.A. (euro 154 million), the Tim Brasil group (euro 68 million) and Liberty Surf Group S.A. (euro 17 million);
- euro 110 million (euro 130 million gross of the amortization charge for the period included in the column Other changes) for the amount allocated to the customer relationship (euro 115 million) and the audience agreement (euro 15 million) following the allocation of the price paid upon the purchase of the AOL companies in Germany;
- euro 7 million (euro 13 million gross of the amortization) for the amount allocated to the customer list and representing a part of the acquisition cost of the controlling interest in Liberty Surf Group S.A..
- euro 1 million for the amount allocated to the customer list and representing a part of the acquisition cost of InterNLnet B.V..

In 2007, the impairment losses of euro 23 million mainly refer to software projects.
In 2006, the impairment losses of euro 15 million mainly referred to the Latin American Nautilus group.
Amortization charges and impairment losses are recorded in the income statement as components of the operating result.

The gross carrying amount, accumulated impairment losses and accumulated amortization at December 31, 2007 and 2006 can be summarized as follows:

	12/31/2007			
(millions of euro)	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	12,496	(15)	(9,685)	2,796
Concessions, licenses, trademarks and similar rights	4,784	(228)	(1,467)	3,089
Other intangible assets	852		(489)	363
Work in progress and advance payments	754	(17)		737
Total	**18,886**	**(260)**	**(11,641)**	**6,985**

	12/31/2006			
(millions of euro)	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	349		(173)	176
Work in progress and advance payments	772	(1)		771
Total	**17,522**	**(271)**	**(10,511)**	**6,740**

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 with respect to the expectations at the 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 15,690 million at December 31, 2006 to euro 15,484 million. Details on the composition and movements during the year are as follows:

(millions of euro)	12/31/2005	Additions	Depreciation	Impairment losses/ reversals	Disposals	Exchange differences	Other changes	12/31/2006
Land	155				(3)	(1)	(17)	134
Buildings (civil and industrial)	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**

(millions of euro)	12/31/2006	Additions	Depreciation	Impairment losses/ reversals	Disposals	Exchange differences	Other changes	12/31/2007
Land	134				(3)			131
Buildings (civil and industrial)	598	1	(44)		(9)	2	3	551
Plant and equipment	12,955	2,352	(2,795)	(5)	(17)	80	387	12,957
Manufacturing and distribution equipment	59	13	(31)	(4)			11	48
Aircrafts and ships	40	2	(7)				6	41
Other	1,016	289	(423)		(14)	24	73	965
Construction in progress and advance payments	888	449		(15)		6	(537)	791
Total	**15,690**	**3,106**	**(3,300)**	**(24)**	**(43)**	**112**	**(57)**	**15,484**

Additions in 2007 include euro 212 million of internally generated assets (euro 178 million in 2006).

In 2007, the impairment losses of euro 24 million (euro 6 million in 2006) refer to manufacturing equipment and telephone equipment in the process of being replaced with new more advanced technological equipment.
Depreciation and impairment losses are recorded in the income statement as components of the operating result.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2007 and 2006 can be summarized as follows:

	12/31/2007			
(millions of euro)	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Land	131			131
Buildings (civil and industrial)	1,322	(1)	(770)	551
Plant and equipment	59,804	(67)	(46,780)	12,957
Manufacturing and distribution equipment	773	(4)	(721)	48
Aircrafts and ships	143	(11)	(91)	41
Other	4,250	(6)	(3,279)	965
Construction in progress and advance payments	813	(22)		791
Total	**67,236**	**(111)**	**(51,641)**	**15,484**

	12/31/2006			
(millions of euro)	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Land	134			134
Buildings (civil and industrial)	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**

Assets held under finance leases

Assets held under finance leases decreased from euro 1,525 million at December 31, 2006 to euro 1,450 million. Details on the composition and changes are as follows:

(millions of euro)	12/31/2005	Additions	Depreciation	Disposals	Exchange differences	Other changes	12/31/2006
Buildings (civil and industrial)	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**

(millions of euro)	12/31/2006	Additions	Depreciation	Disposals	Exchange differences	Other changes	12/31/2007
Buildings (civil and industrial)	1,417	24	(100)			20	1,361
Plant and equipment	1		(1)				–
Aircrafts and ships	10		(4)				6
Other	47	8	(25)				30
Construction in progress and advance payments	50	25				(22)	53
Total	**1,525**	**57**	**(130)**	**–**	**–**	**(2)**	**1,450**

Depreciation and impairment losses are recorded in the income statement as components of the operating result.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2007 and 2006 can be summarized as follows:

	12/31/2007			
(millions of euro)	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Buildings (civil and industrial)	1,971	(27)	(583)	1,361
Plant and equipment	9		(9)	–
Aircrafts and ships	30		(24)	6
Other	167		(137)	30
Construction in progress and advance payments	53			53
Total	**2,230**	**(27)**	**(753)**	**1,450**

	12/31/2006			
(millions of euro)	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Buildings (civil and industrial)	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**

At December 31, 2007 and 2006, minimum lease payments due in future years and their present value are as follows:

(millions of euro)	12/31/2007		12/31/2006	
	Minimums lease payment	Present value of minimum lease payments	Minimums lease payment	Present value of minimum lease payments
Within 1 year	215	205	227	216
From 2 to 5 years	795	645	819	654
Beyond 5 years	1,601	793	1,841	869
Total	**2,611**	**1,643**	**2,887**	**1,739**

(millions of euro)	12/31/2007	12/31/2006
Future lease payments	2,611	2,887
Interest portion	(968)	(1,148)
Present value of lease payments	**1,643**	**1,739**
Finance lease liabilities	2,071	2,116
Financial receivables for lessors' net investments	(428)	(377)
Total net finance lease liabilities	**1,643**	**1,739**

Note 8 - Other non-current assets

Other non-current assets decreased from euro 3,738 million at December 31, 2006, to euro 2,349 million and include:

(millions of euro)	12/31/2007	*Of which Financial Instruments*	12/31/2006	*Of which Financial Instruments*
Investments accounted for using the equity method:				
· Associates	446		471	
· Joint ventures	38		17	
	484		488	
Other investments	57	*57*	776	*776*
Securities, financial receivables and other non-current financial assets:				
· Securities other than investments	9	*9*	12	*12*
· Financial receivables and other non-current financial assets	686	*686*	679	*679*
	695	*695*	691	*691*
Miscellaneous receivables and other non-current assets				
· Miscellaneous receivables	382	*275*	360	*231*
· Medium/long-term prepaid expenses	484		511	
	866	*275*	871	*231*
Deferred tax assets (*)	247		912	
Total	**2.349**	***1.027***	**3.738**	***1.698***

(*) Analyzed in the Note "Deferred tax assets and deferred tax liabilities".

Additional details on Financial Instruments are provided in the Note "Information on other Financial Instruments".

Investments in associates accounted for using the equity method are detailed as follows:

(millions of euro)	12/31/2005	Investments	Sales and capital reimbursements	Valuation using 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**

(millions of euro)	12/31/2006	Investments	Sales and capital reimbursements	Valuation using equity method	Reclassifications and other changes	12/31/2007
ETECSA	311			(14)		297
Italtel Group	43					43
Tiglio I	69		(6)	(3)		60
Tiglio II	4					4
Other	44	1	(1)	2	(4)	42
Total	**471**	**1**	**(7)**	**(15)**	**(4)**	**446**

The investment in Italtel Group S.p.A. is carried 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.

The "Valuation using the equity method" include the share of profits (losses) for the year and exchange differences on translating the financial statements of foreign operations.
The consolidated income statement in 2007 was particularly impacted by ETECSA (euro 49 million), Tiglio I and Tiglio II (euro 11 million) and other companies (euro 1 million) and, in 2006, by ETECSA (euro 47 million) and other companies (euro 1 million).

Aggregate 2007 and 2006 data relating to the major associates, prepared in accordance with IFRS, based on the Telecom Italia Group's share, is reported below. The profit (loss) for the year includes, for consolidated groups, the profit attributable both to the Parent and to Minority Interest:

(millions of euro)	2007	2006
Total assets	950	1.173
Total liabilities	544	740
Revenues	320	498
Profits (losses) for the year	55	34

Investments in joint ventures accounted for using the equity method include the investments in Sofora Telecomunicaciones S.A., Perseo S.r.l. and Consorzio Tema Mobility, in which 50% stakes are held.

The most important aggregate 2007 and 2006 data, prepared in accordance with IFRS, based on the Telecom Italia Group's share, is reported below. The profit (loss) for the year includes, for consolidated groups, the profit attributable both to the Parent and to Minority Interest:

(millions of euro)	2007	2006
Non-current assets	719	825
Current assets	325	307
Total assets	**1,044**	**1,132**
Non-current liabilities	362	500
Current liabilities	454	477
Total liabilities	**816**	**977**
Revenues	1,064	965
EBITDA	345	284
Operating profit (EBIT)	192	113
Income before taxes	127	32
Profits (loss) for the year	**101**	**29**

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)	12/31/2005	Investments	Sales and capital reimbursements	Valuation at fair value	Riclassifications 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**

(millions of euro)	12/31/2006	Investments	Sales and capital reimbursements	Valuation at fair value	Riclassifications and other changes	12/31/2007
Assicurazioni Generali	5			–		5
Capitalia	75		(75)			–
Fin.Priv.	15					15
Mediobanca	267		(267)			–
New Satellite Radio	7					7
Oger Telecom	375		(375)			–
Sia	11					11
Other	21				(2)	19
Total	**776**		**(717)**	**–**	**(2)**	**57**

The decrease from December 31, 2006 is due to the disposals of the investments in Oger Telecom, Capitalia and Mediobanca which took place in 2007.

Oger Telecom

On July 3, 2007, the sale was executed for the divestiture of the stake in Oger Telecom (10.36%) held by the subsidiary Tim International to Saudi Oger. The total price was USD 477 million, for an equivalent amount of euro 351 million.
In September 2007, the term ended for the validity of the commitments undertaken by the Telecom Italia Group to disburse/guarantee a subordinated loan to AVEA I.H.A.S. for an amount of USD 150 million (euro 111 million).

The above-described divestiture led to a reduction in the net financial debt of the Telecom Italia Group of euro 462 million and had a positive effect on the income statement of euro 86 million.

Capitalia

In 2007, the Group sold 10,453,051 Capitalia ordinary shares (equal to 0.403% of share capital) with a carrying amount of euro 75 million (of which euro 36 million is the historical cost and euro 39 million the fair value adjustment at December 31, 2006).
The sales price was euro 74 million with a consequent reduction in net financial debt of the same amount and a positive impact on the profit of the Group of euro 36 million, which is already net of income taxes on the gain (euro 2 million), transferred to the income statement from the "Reserve for fair value adjustments".

Mediobanca

In 2007, the Group sold 15,003,207 Mediobanca ordinary shares (equal to 1.835% of share capital) with a carrying amount of euro 267 million (of which euro 127 million was the historical cost and euro 140 million the fair value adjustment at December 31, 2006).
The sales price of euro 236 million resulted in a reduction in net financial debt of the same amount and a positive impact on the profit of the Group of euro 102 million, which is already net of income taxes on the gain (euro 7 million), transferred to the income statement from the "Reserve for fair value adjustments".

Financial receivables and other non-current financial assets amount to euro 686 million (euro 679 million at December 31, 2006). The composition is as follows:

(millions of euro)	12/31/2007	12/31/2006
Financial receivables for lessors' net investments	279	229
Loans to employees	67	70
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	286	243
Other financial receivables	54	137
Total	**686**	**679**

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 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.

The total amount (non-current and current portion) of these receivables is as follows:

(millions of euro)	12/31/2007	12/31/2006
Non-current portion	279	229
Current portion	149	148
Total	**428**	**377**

Hedging derivatives relating to hedged items classified in non-current assets and liabilities of a financial nature refer to the mark-to-market component relating to the derivatives. Additional information is provided in the Note "Financial instruments".

Miscellaneous receivables and other non-current assets amount to euro 866 million (euro 871 million at December 31, 2006), of which euro 275 million (euro 231 million at December 31, 2006) refers to receivables included in financial assets, disclosed as required by IFRS 7.

They include:

- the fair value of the two call options on 50% of Sofora Telecomunicaciones S.A. share capital for euro 260 million (euro 190 million at December 31, 2006):
- medium/long-term prepaid expenses relating to the deferral of costs in conjunction with the recognition of revenues of euro 484 million (euro 511 million at December 31, 2006).

Note 9 - Deferred tax assets and deferred tax liabilities

The net balance charged from a net asset of euro 718 million at December 31, 2006 to a net liabilities of euro 339 million at December 31, 2007 and includes:

(millions of euro)	12/31/2007	12/31/2006
Deferred tax assets	247	912
Deferred tax liabilities	(586)	(194)
Total	**(339)**	**718**

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)	12/31/2007	12/31/2006
Deferred tax assets	1,076	1,714
Deferred tax liabilities	(1,415)	(996)
Total	**(339)**	**718**

Utiliizations and new tax charges or benefits for deferred tax assets/liabilities gave rise to an income tax expense for the year ended December 31, 2007 of euro 1,681 million (see the Note "Income tax expense" for additional details on the tax expense).
The tax effect taken directly to equity in 2007 is a charge of euro 85 million and principally refers to the fair value adjustment to derivative financial instruments.

Temporary differences which make up this caption at December 31, 2007 and 2006 are the following:

(millions of euro)	12/31/2007	12/31/2006
Deferred tax assets:		
Writedowns for the impairment of investments and other	11	189
Unrealized intragroup gains	16	36
Provision for pension fund integration (Law 58/92)	133	194
Tax loss carryforwards	11	300
Provisions for risks and charges	163	186
Provision for restoration costs	58	59
Provision for bad debts	231	212
Recognition of revenues	81	124
Sale and leaseback transactions on properties	138	150
Derivative financial instruments	38	42
Grants related to assets	32	46
Other deferred tax assets	164	176
Total	**1,076**	**1,714**
Deferred tax liabilities:		
Accelerated depreciation	(1,048)	(601)
Derivative financial instruments	(87)	(9)
Deferred gains	(83)	(136)
Discounting of provision for employee severance indemnities	(45)	(39)
Notes and bonds	(18)	(27)
Business combinations	(64)	(41)
Other deferred tax liabilities	(70)	(143)
Total	**(1,415)**	**(996)**
Total deferred tax assets (liabilities), net	**(339)**	**718**

The reduction in deferred tax assets gross of offsets compared to December 31, 2006 is principally due to the reversal of deferred tax assets on the writedown of investments, 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 gross of offsets compared to December 31, 2006 is mainly the result of the recognition in 2007 of deferred tax liabilities on accelerated depreciation taken by the Parent, Telecom Italia.

At December 31, 2007, the Group has unused tax loss carryforwards mainly referring to some foreign companies (Tim Participações group, Telecom Italia Finance, Liberty Surf group, Telecom Italia Sparkle Luxembourg and Telecom Italia International) for euro 6,487 million, with the following expiration dates:

Year of expiration	(millions of euro)
2008	45
2009	12
2010	234
2011	30
2012	31
Expiration beyond	330
Without expiration	5,805
Total unused tax loss carryforwards	**6,487**

Tax loss carryforwards which are considered in the calculation of deferred tax assets amount to euro 45 million at December 31, 2007 (euro 907 million at December 31, 2006) and mainly refer to the BBNed group and Matrix. Moreover, deferred tax assets have not been recognized for euro 2,040 million (euro 2,124 million at December 31, 2006) on unused tax losses of euro 6,442 million since their recoverability is not considered probable.

At December 31, 2007, deferred taxes have not been recognized on tax suspension reserves and undistributed earnings of subsidiaries and associates, subject to taxation in the event of distribution or utilization, in that their distribution or utilization is not foreseen.

Note 10 - Inventories

Inventories increased from euro 291 million at December 31, 2006 to euro 308 million. The composition of inventories is as follows:

(millions of euro)	**12/31/2007**	**12/31/2006**
Raw materials and supplies	7	5
Work in progress and semifinished products	8	13
Finished goods	293	273
Total	**308**	**291**

Inventories particularly refer to Telecom Italia S.p.A. for euro 98 million (euro 125 million at December 31, 2006) and the companies in the Brazil Mobile business unit for euro 107 million (euro 58 million at December 31, 2006) and they mainly consist of equipment, handsets and relative fixed and mobile telecommunications accessories; another euro 78 million (euro 88 million at December 31, 2006) relates to the Olivetti business unit for office products, specialized printers and gaming terminals.

Writedowns of inventories made in 2007 total euro 27 million (euro 31 million in 2006) and mainly refer to the adjustment to estimated realizable value of mobile handsets of Telecom Italia S.p.A. (euro 19 million) and writedowns of the multifunctional products by the Olivetti business unit (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 increased from euro 8,748 million at December 31, 2006 to euro 9,088 million and consist of the following:

(millions of euro)	12/31/2007	*Of which Financial Instruments*	12/31/2006	*Of which Financial Instruments*
Receivables on construction contracts	23		12	
Trade receivables:				
• Receivables from customers	5,446	*5,446*	5,731	*5,731*
• Receivables from other telecommunication operators	1,864	*1,864*	1,638	*1,638*
	7,310	*7,310*	7,369	*7,369*
Miscellaneous receivables and other current assets:				
• Other receivables	1,294	*557*	972	*222*
• Trade and miscellaneous prepaid expenses	461		395	
	1,755	*557*	1,367	*222*
Total	**9,088**	***7,867***	**8,748**	***7,591***

Additional details on Financial Instruments are provided in the Note "Information on other financial instruments".

The following analysis presents the ageing of trade and miscellaneous receivables and other current assets at December 31, 2007 and December 31, 2006 which have not been written down.

			of wich Overdue			
(millions of euro)	12/31/2007	of wich Not overdue	0-90 days	91-180 days	181-365 days	More than 365 days
Trade and miscellaneous receivables and other current assets	7,867	5,866	761	385	403	452

			of wich Overdue			
(millions of euro)	12/31/2007	of wich Not overdue	0-90 days	91-180 days	181-365 days	More than 365 days
Trade and miscellaneous receivables and other current assets	7,591	5,717	701	480	317	376

Trade receivables amount to euro 7,310 million (euro 7,369 million at December 31, 2006), and are net of the provision for bad debts of euro 1,064 million (euro 791 million at December 31, 2006).
Trade receivables specifically refer to the Parent, Telecom Italia, (euro 5,216 million) and the Brazil Mobile business unit (euro 1,158 million).
The increase in receivables from other telecommunication operators (+euro 226 million) mainly refers to the Parent, Telecom Italia and is related to an increase in payables to the same operators, as a result of the suspension of collections and payments owing to pending disputes.
Trade receivables also include euro 18 million (euro 20 million at December 31, 2006) of medium/long-term trade receivables from customers, principally in respect of Indefeasible Rights of Use - IRU.

Movements in the provision for bad debts are as follows:

(millions of euro)	2007	2006
At January 1	**791**	**773**
Provision charges for bad debts	509	252
Utilization	(239)	(212)
Exchange differences and other movements	3	(22)
At December 31	**1,064**	**791**

The provision for bad debts increased due to the need for higher coverage following the increase in overdue mobile telephone receivables related to post-paid contracts as well as the increase in fixed telephone receivables from customers where contractual relations were terminated (overdue receivables). This refers to individual writedowns for euro 600 million (euro 436 million at December 31, 2006) and overall writedowns for euro 464 million (euro 355 million at December 31, 2006).

Amounts are charged to the provision for bad debts for specific credit positions with special risks. Amounts charged in respect of receivable positions without such features, however, are effected on the basis of the average estimated uncollectibility by customer segment.

Other receivables amount to euro 1,294 million (euro 972 million at December 31, 2006), and are net of a provision for euro 50 million (euro 52 million at December 31, 2006). Details are as follows:

(millions of euro)	12/31/2007	12/31/2006
Advances to suppliers	76	144
Receivables from employees	40	33
Tax receivables	268	223
Sundry receivables	910	572
Total	**1,294**	**972**

Advances to suppliers decreased by euro 68 million mainly as a result of the recovery of advances paid to the supplier Ericsson (euro 61 million) after invoices were recorded for the release of software. The advances referred to a contract for software updates for the GSM/EGPRS/UMTS networks for the Telecom Italia S.p.A. mobile network for the three years 2006-2008.

Sundry receivables mainly include:

- the receivable still due from the Tax Authorities (euro 100 million) for the legal interest earned up to the date of the refund of the principal portion of the TLC operating fee for the year 1999;
- receivables from factoring companies (euro 457 million) largely for the assignment of receivables due from dealers on the sale of mobile telephone equipment;
- the receivable for the Universal Service (euro 56 million).

Sundry receivables rose by euro 341 million mainly as a result of the increase in the above receivables due from factoring companies (+euro 311 million).

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 101 million (euro 287 million at December 31, 2006) and mainly include the advance payment of IRAP taxes made in 2007 by the Parent in excess of the actual current IRAP taxes due (euro 37 million) and the receivables of the Brazilian companies (euro 54 million).

Note 13 - Securities (current assets)

Securities in current assets decreased from euro 812 million at December 31, 2006 to euro 390 million. Details are as follows:

(millions of euro)	12/31/2007	12/31/2006
Held-to-maturity financial assets		
– *Unlisted securities other than investments*	31	–
Available-for-sale financial assets		
– *Listed securities other than investments, due beyond 3 months*	247	259
Financial assets at fair value through profit or loss		
– *Listed securities other than investments held for trading*	112	553
Total	**390**	**812**

Additional details on Financial Instruments are provided in the Note “Information on financial instruments”.

“Unlisted securities other than investments” held-to-maturity mainly refer to bank certificates of deposit held by Tim Brasil and Tim Participações.

“Listed securities other than investments, due beyond 3 months” classified as available-for-sale refer to bonds issued by counterparts with at least an A rating and with different maturity dates but all are actively traded and, therefore, readily convertible into cash.

“Listed securities other than investments held for trading” refer to investments in a Belgian-registered monetary SICAV for euro 111 million (euro 551 million at December 31, 2006).

Note 14 - Financial receivables and other current financial assets

Financial receivables and other current financial assets decreased from euro 433 million at December 31, 2006 to euro 377 million. They consist of the following:

(millions of euro)	12/31/2007	12/31/2006
Deposits for temporary investments of excess liquidity originally due beyond 3 months but less than 12 months	–	17
Financial receivables for lessors’ net investments	149	148
Other short-term financial receivables	30	52
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	186	207
Non-hedging derivatives	12	9
Total	**377**	**433**

Additional details on Financial Instruments are provided in the Note “Information on financial instruments”.

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, under finance leases, of assets to customers which the Group has available under finance leaseback contracts, with the rendering 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 “Derivatives”.

Note 15 - Cash and cash equivalents

Cash and cash equivalents decreased from euro 7,219 million at December 31, 2006 to euro 6,473 million. They consist of the following:

(millions of euro)	12/31/2007	12/31/2006
Liquid assets with banks, financial institutions and post offices	6,267	7,186
Checks, cash and other receivables and deposits for cash flexibility	3	6
Securities other than investments (due within 3 months)	203	27
Total	**6,473**	**7,219**

Additional details on Financial Instruments are provided in the Note "Information on financial instruments".

The decrease in "cash and cash equivalents" from the end of 2006 is mainly due to:
– repayment of liabilities which became due during the course of 2007 which are higher than the refinancing of debt;
– early repayment of euro 1.5 billion on the Term Loan maturing in 2010;
– payment of dividends.

The different technical forms used for the investment of liquidity as of December 31, 2007 can be further analyzed as follows:
– maturities: 76% of deposits have a maximum maturity date of one month;
– counterpart risks: deposits are made with first-rate banks and financial institutions that have a high credit rating of not less than "A";
– Country risk: the geographic location of deposits is principally on major European markets.

Securities other than investments (due within 3 months) include euro 197 million (euro 20 million at December 31, 2006) of euro commercial papers maturing within two month.
The issuers all have A ratings and are located in Europe and in the United States of America.

Note 16 - Discontinued operations/non-current assets held for sale

In the balance sheet at December 31, 2007, "Discontinued operations/Non-current assets held for sale" show a nil balance following the sale of the investments that had been recorded here. The following movements took place during 2006 and 2007:

(millions of euro)	12/31/2005	Riclassi-fications	Disposals/ Capital reim-bursement	12/31/2006	Disposals/ Capital reim-bursement	12/31/2007
Gruppo Buffetti	117		(117)	–		–
Digitel	411		(411)	–		–
Brasil Telecom Participações		22		22	(22)	–
Solpart Participações		216	(3)	213	(213)	–
Total	**528**	**238**	**(531)**	**235**	**(235)**	**–**

In 2007, Profit from Discontinued operations/Non-current assets held for sale is euro 36 million. This refers to the balance between the partial release of the provision set up in prior years as part of the sale of Tim Hellas (euro 40 million), and charges and expenses connected with sales transactions in 2006 and in previous years (euro 4 million).

In 2006, Profit from Discontinued operations/Non-current assets held for sale was euro 7 million and included the profit of Digitel Venezuela, the gain on the sale and charges to provisions referring to sales transactions carried out in previous years.

In the Cash flow statement, the cash flow from Discontinued operations/Non-current assets held for sale in 2006 referred to the operations of Digitel Venezuela up to the time of its sale.
The effect of the sales of Digitel Venezuela and Gruppo Buffetti in 2006 were included in proceeds from the sale of subsidiaries while the proceeds on the sale of Brasil Telecom Participações e Solpart Participações in 2007 are included in proceeds from the sale of non-current assets.

Divestitures in 2007

Brasil Telecom Participações

On November 29, 2007, Telecom Italia International signed a contract to sell 1,319,945 ordinary shares and 2,803,679 preferred shares of Brasil Telecom Participações S.A. with JP Morgan S.A.. These shares were received from Solpart Participações S.A. as a payment in kind for the reimbursement of capital, corresponding to 1.13% of the total shares of the Brazilian company.
The sales amount was euro 48 million, with a consequent reduction in net financial debt and a positive impact on the profit of the Group of euro 22 million, net of taxes on the gain (euro 5 million).

Solpart Participações

On December 5, 2007 Brasilco S.r.l., a company held in trust by Credit Suisse for the exclusive benefit of Telecom Italia International, sold its investment in Solpart Participações S.A. ("Solpart"), equal to a 38% stake in share capital, to Techold Participações S.A. ("Techold"), Brasilco's co-shareholder in Solpart, for consideration of USD 515 million.

The transfer of the shares, set out in the sales agreements signed on July 18, 2007 between the Brazilian pension funds Previ, Petros and Funcef and the company Techold on the one hand, and Brasilco on the other, took place after the same Techold exercised its right of first refusal pursuant to the Solpart shareholders' agreement in effect. This transaction also received approval from the Brazilian National Regulatory Agency (Anatel).

The execution of the transaction and simultaneous collection of the proceeds led to a reduction in net financial debt of the Telecom Italia Group of euro 360 million and a positive impact on the profit of the Group of euro 188 million, net of transaction costs and taxes, and taking into account the positive impact from hedging the exchange risk and the reversal of the "exchange differences on translation" to the income statement.

At the same time, the settlement agreement signed on the same date of July 18, 2007 took effect. This agreement settled the disputes and arbitration proceedings pending between the Telecom Italia Group and the pension funds and entities in which the funds held stakes that are part of the Brasil Telecom chain of companies. Under the settlement agreement, the parties reciprocally renounced any claims, now or in the future, connected with their respective investments in Brasil Telecom or, in any case, arising from the joint venture in Solpart.

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 income statement 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 euro 318 million (including the deconsolidation of the net financial debt of the subsidiary sold).
On January 10, 2008, as part of the contractual commitments provided at the date of sale, Tim International and Telvenco reached a settlement agreement which establishes the payment of euro 10 million which has already been set aside.

The impact on the income statement from Discontinued operations/Non-current assets held for sale can be represented as follows:

(millions of euro)		2007	2006
Economic impact from Discontinued operations/Non-current assets held for sale (Digitel):			
Revenues		–	121
EBITDA		–	31
EBIT		–	15
Net income (loss) of Discontinued operations/Non-current assets held for sale after taxes	**(A)**	**–**	**15**
Economic effect on the selling companies:			
Impairment losses/charges relating to Discontinued operations/ Non-current assets held for sale		(5)	(39)
Release of provisions		40	
Gain (loss) from discontinued operations		–	31
Income tax expense		1	–
	(B)	**36**	**(8)**
Profit (loss) from Discontinued operations/Non-current assets held for sale	**(A+B)**	**36**	**7**

The impact on the income statement refers to the following companies sold:

(millions of euro)	2007	2006
– Tim Hellas	39	(30)
– Gruppo Buffetti	(2)	–
– Digitel Venezuela	(1)	22
Total	**36**	**(8)**

Note 17 - Equity

Equity includes:

(millions of euro)	12/31/2007	12/31/2006
Equity attributable to equity holders of the Parent	25,922	26,018
Equity attributable to Minority Interest	1,063	1,080
Total	**26,985**	**27,098**

The movements in share capital during 2007 are presented in the following tables:

RECONCILIATION BETWEEN THE NUMBER OF SHARES OUTSTANDING AT DECEMBER 31, 2006 AND DECEMBER 31, 2007

Number of shares	At 12/31/2006	Shares issued as a result of bond conversions	At 12/31/2007
Ordinary shares issued	13,380,723,078	53,235	13,380,776,313
Less: treasury shares	(125,816,387)		(125,816,387)
Ordinary shares outstanding	13,254,906,691	53,235	13,254,959,926
Savings shares outstanding	6,026,120,661		6,026,120,661
Total Telecom Italia S.p.A. shares issued	**19,406,843,739**	**53,235**	**19,406,896,974**
Less: treasury shares	(125,816,387)		(125,816,387)
Total Telecom Italia S.p.A. shares outstanding	**19,281,027,352**	**53,235**	**19,281,080,587**

RECONCILIATION BETWEEN THE VALUE OF SHARES OUTSTANDING AT DECEMBER 31, 2006 AND DECEMBER 31, 2007

(millions of euro)	Share capital at 12/31/2006	Changes in share capital as a result of bond conversions	Share capital at 12/31/2007
Ordinary shares issued	7,360	–	7,360
Less: treasury shares	(69)		(69)
Ordinary shares outstanding	7,291	–	7,291
Savings shares outstanding	3,314		3,314
Telecom Italia S.p.A. share capital issued	**10,674**	**–**	**10,674**
Less: treasury shares	(69)		(69)
Telecom Italia S.p.A. share capital	**10,605**	**–**	**10,605**

Share capital structure

The share capital subscribed to and paid-in amounts to euro 10,673,793,335.70, divided into 13,380,776,313 ordinary shares of par value euro 0.55 each, equal to 68.95% of share capital and 6,026,120,661 savings shares of par value euro 0.55 each, equal to 31.05% of share capital. The shares are listed on Borsa Italiana S.p.A. (Italian Stock Exchange).

The ordinary and savings shares of the Company are listed on the NYSE in the form of American Depositary Shares, each of which corresponds to 10 shares of ordinary or savings shares, respectively, represented by ADRs issued by JPMorgan Chase Bank.

The Group sources itself with the capital necessary to fund its requirements for business development and operations; the sources of funds are found in a balanced mix of risk capital, permanently invested by the shareholders, and debt capital, to guarantee a balanced financial structure and minimize the total cost of capital, with a resulting advantage to all the stakeholders.

Debt capital is structured according to different maturities to ensure an equal balance between sources and uses, an efficient access to external sources of financing (taking advantage of the best opportunities offered on the euro, U.S. dollar and Pound sterling financial markets and an efficient process of refinancing at maturity).

The remuneration of the risk capital of the Group companies is proposed by the Board of Directors to the shareholders' meeting, which meets to approve the annual financial statements, based upon market trends and business performance, once all the other obligations are met, including debt servicing. Therefore, in order to guarantee adequate remuneration of capital, safeguarding company continuity and business development, the Group constantly monitors the change in debt levels in relation to equity, the level of net debt and the operating margin of industrial operations.

Rights of savings shares

The rights of savings shares are indicated below:

- the profit shown in the duly approved financial statements, less the amount appropriated to the legal reserve, must be distributed to the holders of savings shares in an amount up to 5% of the par value of the share;
- after assigning preferred dividends to the savings shares, the remaining profit shall be assigned to all the shares so that the savings shares have the right to dividends that are higher overall, than the dividends to which the ordinary shares are entitled, by 2% of the par value of the share;

– if in any one year dividends of below 5% of the par value of the share are paid to the savings shares, the difference is carried over and increases the preferred dividends for the next two successive years.

– in the case of the distribution of reserves, the savings shares have the same rights as the other shares. Moreover, the shareholders' meeting called to approve the separate financial statements for the year can, when there is no profit or insufficient profit reported in those financial statements to satisfy the rights of the savings shares, resolve to satisfy the dividend right and/or the additional right by distributing available reserves;

– the reduction of share capital as a result of losses does not entail a reduction of the par value of savings shares except for the amount of the loss which exceeds the overall par value of the other shares;

– upon the winding of the Company, the savings shares have a preemptive right in the reimbursement of capital for the entire par value;

– under certain conditions, the holder of savings shares may ask the Company to convert its shares into ordinary shares, according to the manner resolved by the extraordinary session of the shareholders' meeting called for that purpose within two months of being excluded from negotiations.

Paid-in capital is equal to euro 1,689 million at December 31, 2007 and unchanged compared to December 31, 2006.

Exchange differences on translating foreign operations shows a positive balance of euro 834 million at December 31, 2007 and increased by euro 148 million compared to December 31, 2006. These mainly refer to exchange differences in euro from the translation of the financial statements of the Brazilian mobile telephone companies.

Retained earnings (accumulated losses), including profit for the year amount to euro 7,424 million at December 31, 2007 and decreased by euro 321 million compared to December 31, 2006 mainly due to the net balance of the following:

- Profit for the year attributable to the equity holders of the Parent, equal to euro 2,448 million (euro 3,014 million in 2006),
- dividends approved for euro 2,766 million (euro 2,766 million in 2006).

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 Interest, equal to euro 1,063 million (euro 1,080 million at December 31, 2006), includes the "Profit for the year attributable to Minority Interest" of euro 7 million (net loss of euro 11 million in 2006). The reduction compared to December 31, 2006 is primarily due to the balance between the dividends approved (euro 74 million) and the increase in the "Exchange differences on translating foreign operations" (euro 54 million). The equity attributable to Minority Interest consists mainly of the equity attributable to the minority interests of the mobile telephone companies in Brazil, Entel Bolivia and the Media business unit.

Future potential changes in share capital

The following table shows the future potential changes in share capital by reason of the conversion of bonds and the exercise of options in the stock option plans still outstanding at December 31, 2007:

	Outstanding bonds/options rights at 12/31/2007	Conversion/ grant ratio	Number of maximum shares issuable	Par value (thousands of euro)	Paid-in capital (thousands of euro)	Subscription price per share (euro)
Additional increases approved (ord. sh.)						
Bonds "Telecom Italia 1.5% 2001-2010"	484,877,224	0.471553	228,645,309	125,755	359,122	
Stock Option Plan 2002 Top	7,280,001.33	3.300871	24,030,331	13,217	53,781	2.788052
Stock Option Plan 2002	15,689,553.93	3.300871	51,788,844	28,484	122,006	
of which						
– grants March 2002	*15,019,553.50*	*3.300871*	*49,577,267*	*27,268*	*117,895*	*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	9,522,324.00	1.73	16,473,531	9,060	52,073	3.710983
Stock Option Plans 2002-2003 - ex-TIM	16,705,000.00	1.73	28,899,650	15,895	78,823	3.277457
Stock Option Plans 2003-2005 - ex-TIM	1,685,900.00	1.73	2,916,605	1,604	6,943	2.930636
Total additional increases approved (ord. sh.)			**352,754,270**	**194,015**	**672,748**	
Additional increases not yet approved (ord. sh.)			**1,600,000,000**	**880,000**		

With regard to the "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium", it should be noted that the number of outstanding bonds at December 31, 2007 includes 10,644 bonds for which the conversion to shares had already been requested. On January 15, 2008, the corresponding 5,017 ordinary shares were issued for a total par value of euro 2.8 thousand in addition to paid-in capital of euro 7.9 thousand.

Additional details on the stock option plans are disclosed in the Note "Stock option plans of the Telecom Italia Group".

Lastly, the shareholders' meeting held on May 6, 2004 also granted the 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 1,600,000,000 ordinary shares, in whole or in part:

(i) to be offered as option rights to the shareholders and convertible bondholders,

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 right, pursuant to the combined provision of art. 2441, last paragraph, of the Italian Civil Code, and art. 134, second paragraph, of Legislative Decree 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 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.

Authorization for the issue of convertible bonds and the purchase of treasury shares

The Board of Directors has the right to issue convertible bonds at one or more times and for five years starting from May 6, 2004 for a maximum amount of euro 880,000,000.

The ordinary Shareholders' Meeting of Telecom Italia S.p.A. held on April 16, 2007 passed a resolution to authorize, for the maximum period allowed by the applicable law starting from the date of the shareholders' resolution, the purchase, at one or more times and at any date, of Telecom Italia S.p.A. ordinary shares for a maximum of 25,000,000 ordinary shares and thus up to 0.129% of share capital. The price for the purchases shall be between a minimum and a maximum corresponding to the weighted average official stock prices of ordinary shares recorded by Borsa Italiana S.p.A. in the last ten days of trading prior to the date of purchase, respectively increased or decreased by 10%. The purchase of treasury shares shall in any case take place within the limits of the unrestricted reserves, as shown in the most recent financial statements approved at the time the purchase is carried out.
The purchases shall be made on regulated markets, according to the manner allowed by the regulations and laws in force.

The above authorization for the purchase of treasury shares is in relation to the implementation – which, to date, has not yet occurred – of the plan for granting free Telecom Italia S.p.A. ordinary shares to the executive directors of the Company, those top managers who report directly to the executive directors and other resources who hold key roles as employees or collaborators of Telecom Italia S.p.A. or subsidiaries, to be identified by the Board of Directors, approved by the same ordinary Shareholders' Meeting held on April 16, 2007.

* * *

On the basis of the motion put forward by the board of directors' meeting held on March 6, 2008, the profit for the year 2007 resulting from the separate financial statements of the Parent, Telecom Italia S.p.A., equal to euro 1,882 million, shall be appropriated as dividends for euro 1,646 million for distribution to the shareholders:

- euro 0.08 for each ordinary share,
- euro 0.091 for each savings share,

gross of withholdings as established by law. Undistributed profit will be appropriated to retained earnings.

Note 18 - Financial liabilities (current and non-current)

Financial liabilities are composed as follows:

(millions of euro)	12/31/2007	12/31/2006
Financial payables (medium/long-term):		
• Bonds	27,048	29,856
• Convertible and exchangeable bonds	511	482
	27,559	30,338
• Amounts due to banks	5,543	6,832
• Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	1,942	1,451
• Other financial payables	197	221
	35,241	38,842
Finance lease liabilities (medium/long-term)	1,809	1,847
Other financial liabilities (medium/long-term)	1	114
Total non-current financial liabilities (A)	**37,051**	**40,803**
Financial payables (short-term):		
• Bonds	4,514	4,050
• Convertible and exchangeable bonds	7	7
	4,521	4,057
• Amounts due to banks	1,049	906
• Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	363	219
• Non-hedging derivatives	9	12
• Other financial payables	373	180
	6,315	5,374
Finance lease liabilities	262	269
Other financial liabilities	8	10
Total current financial liabilities (B)	**6,585**	**5,653**
Total financial liabilities (C) = (A+B)	**43,636**	**46,456**

Additional details on Financial Instruments are provided in the Note "Information on financial instruments".

Bonds are composed as follows:

(millions of euro)	12/31/2007	12/31/2006
Non-current portion	27,048	29,856
Current portion	4,514	4,050
Total carrying amount	**31,562**	**33,906**
Fair value adjustment and measurement at amortized cost	(850)	(787)
Total nominal repayment amount	**30,712**	**33,119**

The nominal repayment amount totals euro 30,712 million and decreased by euro 2,407 million compared to December 31, 2006 (euro 33,119 million), mainly due to the balance between repayments and new insuance made by Telecom Italia S.p.A. and Telecom Italia Finance S.A. during 2007 and the difference in the USD/euro exchange rate.

The following table lists the bonds issued to third parties by companies of the Telecom Italia Group, divided by issuing company, expressed at the nominal repayment amount and at market value:

Currency	Amount (millions)	Nominal repayment amount (millions of euro)	Coupon	Issue date	Maturity date	Issue price (%)	Market price at 12/31/07 (%)	Market value at 12/31/07 (millions of euro)
Bonds issued by Telecom Italia S.p.A.								
Euro	750	750	3-month Euribor + 0.22%	6/9/06	6/9/08	100	99.910	749
Euro	110	110	3-month Euribor + 0.60%	4/8/04	3/30/09	100	100.610	111
Euro	850	850	3-month Euribor + 0.20%	6/7/07	6/7/10	99.915	99.321	844
Euro	750	750	4.500%	1/29/04	1/28/11	99.560	97.595	732
Euro	1,250	1,250	6.250%	2/1/02	2/1/12	98.952	102.414	1,280
Euro	1,000	1,000	3-month Euribor + 0.53%	12/6/05	12/6/12	100	98.668	987
Euro	500	500	3-month Euribor + 0.63%	7/19/07	7/19/13	100	98.256	491
Euro	750	750	4.750%	5/19/06	5/19/14	99.156	94.841	711
Euro	120	120	3-month Euribor + 0.66%	11/23/04	11/23/15	100	104.043	125
GBP	500	682	5.625%	6/29/05	12/29/15	99.878	94.957	647
Euro	400	400	3-month Euribor + 0.79%	6/7/07	6/7/16	100	95.900	384
Euro	1,250	1,250	5.375%	1/29/04	1/29/19	99.070	93.670	1,171
GBP	850	1,159	6.375%	6/24/04	6/24/19	98.850	98.376	1,140
Euro	297	297	6-month Euribor (base 365)	1/1/02	1/1/22	100	100	297
GBP	400	545	5.875%	5/19/06	5/19/23	99.622	93.220	508
Euro	850	850	5.250%	3/17/05	3/17/55	99.667	76.320	649
Subtotal		**11,263**						**10,826**
Bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A.								
Euro	1,659	1,659	5.875%	1/24/03	1/24/08	99.937	100.052	1,660
Euro	499.67	499.67	3-month Euribor + 1.30%	9/14/06	9/14/08	100	101.908	509
Euro	1,500	1,500	5.150% (b)	2/9/99	2/9/09	99.633	99.878	1,498
Euro	2,210	2,210	6.575% (c)	7/30/99	7/30/09	98.649 (*)	101.713	2,248
Euro	2,000	2,000	7.250% (a)	4/20/01	4/20/11	99.214	105.350	2,107
Euro	1,000	1,000	7.250%	4/24/02	4/24/12	101.651 (*)	106.075	1,061
Euro	850	850	6.875%	1/24/03	1/24/13	99.332	105.192	894
JPY	20,000	121	3.550%	4/22/02	5/14/32	99.250	92.495	112
Euro	1,050	1,050	7.750%	1/24/03	1/24/33	109.646 (*)	108.979	1,144
Subtotal		**10,890**						**11,233**
Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A.								
USD	1,000	679	4.000%	10/29/03	11/15/08	99.953	99.245	674
USD	1,250	849	4.000%	10/6/04	1/15/10	99.732	98.222	834
USD	700	476	4.875%	9/28/05	10/1/10	99.898	99.608	474
USD	400	272	US Libor 3 mesi + 0.48%	9/28/05	2/1/11	100	98.089	267
USD	850	577	US Libor 3 mesi + 0.61%	7/18/06	7/18/11	100	97.780	565
USD	750	510	6.200%	7/18/06	7/18/11	99.826	102.889	524
USD	2,000	1,359	5.250%	10/29/03	11/15/13	99.742	98.838	1,343
USD	1,250	849	4.950%	10/6/04	9/30/14	99.651	96.474	819
USD	1,400	951	5.250%	9/28/05	10/1/15	99.370	97.308	925
USD	1,000	679	6.375%	10/29/03	11/15/33	99.558	100.785	685
USD	1,000	679	6.000%	10/6/04	9/30/34	99.081	97.491	662
USD	1,000	679	7.200%	7/18/06	7/18/36	99.440	110.113	748
Subtotal		**8,559**						**8,520**
Total		**30,712**						**30,579**

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.

The regulations and/or Offering Circulars relating to the bonds described above are available on the corporate website http://www.telecomitalia.it.

Mechanism describing how coupons change on step-up/step-down bonds in relation to a change in the rating

(a) Telecom Italia Finance S.A. bonds - "Euro Notes": Euro 2,000 million, 7.250%, 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 (or the spread above the Euribor in the case of floating-rate securities) 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. bonds: Euro 1,500 million, 5.150% interest, maturing February 2009
These bonds 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 5.150%.

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. Bonds: Euro 2,210 million, 6.575% interest, maturing July 2009
These bonds 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 interest 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.

Changes in Telecom Italia's ratings

Ratings at 12/31/2007 of Telecom Italia by the major Rating Agencies are the following:

S&P's		Moody's		Fitch Ratings	
Most recent revision March 13, 2007		Most recent revision March 12, 2007		Most recent revision March 15, 2007	
Rating	Outlook	Rating	Outlook	Rating	Outlook
BBB+	Negative	Baa2	Negative	BBB+	Stable

Convertible and exchangeable bonds amount to euro 518 million (euro 489 million at December 31, 2006) and decreased by euro 29 million. The composition is as follows:

(millions of euro)	12/31/2007	12/31/2006
Non-current portion	511	482
Current portion	7	7
Total carrying amount	**518**	**489**
Measurement at amortized cost	56	85
Total nominal repayment amount	**574**	**574**

In terms of the nominal repayment amount, convertible bonds amount to euro 574 million.

The following table shows the "Telecom Italia S.p.A. 1.5% 2001-2010 convertible bonds with a repayment premium", expressed at the nominal repayment amount and at market value:

Currency	Nominal repayment amount (millions of euro)	Coupon	New shares issue	Issue date	Maturity date	Issue price (%)	Market price at 12/31/07 (%)	Market value at 12/31/07 (millions of euro)
Convertible bonds issued by Telecom Italia S.p.A.								
Euro	574	1.500%	TI S.p.A.	23/11/01	1/1/10	100	118.603	575

Financial covenants / other types of covenants / other features of convertible bonds

The bonds listed do not contain either financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interest, etc.) 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 there are 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 (e.g. the commitment not to use the company's assets as collateral for loans ["negative pledges"]).

Medium/long-term **amounts due to banks** total euro 5,543 million (euro 6,832 million at December 31, 2006) and decreased by euro 1,289 million. The reduction is mainly due to the early repayment of a total nominal value of euro 1.5 billion in July and September 2007 on the Term Loan expiring in 2010.
Short-term amounts due to banks of euro 1,049 million increased by euro 143 million (euro 906 million at December 31, 2006) and include euro 689 million of the current portion of medium/long-term transactions due within 1 year.

Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature amount to euro 1,942 million (euro 1,451 million at December 31, 2006). 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 is basically compensated by a positive change in the underlying amounts. Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature total euro 363 million (euro 219 million at December 31, 2006). Additional details are provided in the Note "Derivatives Instruments".

Medium/long-term **other financial payables** amount to euro 197 million (euro 221 million at December 31, 2006). They include euro 134 million for the Telecom Italia Finance S.A. loan of JPY 20,000 million maturing in 2029 and euro 51 million of payables to the Ministry of Economic Development. Short-term other financial payables amount to euro 373 million (euro 180 million at December 31, 2006).

Medium-long term **finance lease liabilities** total euro 1,809 million (euro 1,847 million at December 31, 2006) and mainly refer to building sale and leaseback transactions recorded in accordance with IAS 17. Short-term finance lease liabilities amount to euro 262 million (euro 269 million at December 31, 2006).

Short-term **non-hedging derivatives** totaling euro 9 million (euro 12 million at December 31, 2006) 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 1 million (euro 114 million at December 31, 2006) and decreased as there is no longer any deferred income (euro 111 million) in respect of the gain deferred on the sale of AVEA I.H.A.S.. The gain was deferred as a result of 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. In effect, following the sale of the Telecom Italia Group's stake in Oger Telecom in July 2007, the buyer, Saudi Oger, agreed to honor the commitment and issued an indemnity letter to that end and, consequently, there is no longer a liability and the gain was released to income without any financial payment.

At December 31, 2007, the unused credit lines of the Telecom Italia Group amount to euro 8,111 million (euro 8,443 million at December 31, 2006) and include euro 6,500 million of the Revolving Credit Facility expiring in August 2012 (euro 8 billion secured, of which euro 1.5 billion is drawn down).
Approximately 99% of the credit lines is denominated in euro and linked to a floating interest rate.

Finally, in August 2007, the terms of the euro 8 billion Revolving Credit Facility expiring in August 2012 were revised as follows:

1) <u>extension of the expiration date</u>: extended by 2 years so that the new maturity date is August 2014;
2) <u>acquisition of control clause</u>: the new clause guarantees that Telecom Italia will retain the credit line even after the change in its shareholders of reference.

The revisions were introduced without changing the advantageous economic conditions of the credit line (Euribor +0.225%) and made it possible to extend the average term of the euro 8 billion committed bank credit line while guaranteeing maximum flexibility in terms of the company's access to the capital market.

The change in the acquisition of control clause was also adopted, at the same time, in the documentation of the Term Loan totaling euro 1.5 billion with a January 2010 expiration date.

Gross financial debt according to the original currency of the transaction is as follows:

	12/31/2007 (millions of foreign currency)	12/31/2007 (millions of euro)	12/31/2006 (millions of foreign currency)	12/31/2006 (millions ofi euro)
USD	12,805	8,699	13,126	9,966
GBP	1,783	2,431	1,782	2,653
BRL	1,946	746	2,177	773
JPY	31,922	193	20,755	132
EURO	–	31,567	–	32,932
		43,636		**46,456**

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)	12/31/2007	12/31/2006
Up to 2.5%	85	120
From 2.5% to 5%	12,305	14,530
From 5% to 7.5%	22,521	22,644
From 7.5% to 10%	4,615	5,635
Over 10%	723	742
Accruals/deferrals, MTM and derivatives	3,387	2,785
	43,636	**46,456**

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)	12/31/2007	12/31/2006
Up to 2.5%	854	867
From 2.5% to 5%	15,463	19,797
From 5% to 7.5%	20,599	19,587
From 7.5% to 10%	2,610	2,656
Over 10%	723	764
Accruals/deferrals, MTM and derivatives	3,387	2,785
	43,636	**46,456**

Gross financial debt by maturity date (divided between medium/long-term and short-term) at December 31, 2007 is as follows (carrying amounts):

	Medium/long term debt	Short-term debt	Total
By December 31, 2008 (*)	5,857 (**)	728	6,585
By December 31, 2009	4,336		4,336
By December 31, 2010	4,792		4,792
By December 31, 2011	4,683		4,683
By December 31, 2012	3,499		3,499
Beyond December 31, 2012	19,741		19,741
	42,908	**728**	**43,636**

(*) The total includes accrued liabilities and deferred income, of which euro 1 million is in non-current financial liabilities, euro 1,232 million in non-current financial liabilities due within 1 year and euro 17 million in other current financial liabilities.

(**) Of which euro 501.1 million matures on September 14, 2008 and refers to Telecom Italia Finance S.A. bonds with the right of the bondholders to extend the maturity date by 21 months; the last maturity date is March 2012.

Note 19 - Net financial debt

As required by Consob Communication DEM/6064293 dated July 28, 2006, the following table presents the net financial debt at December 31, 2007 and December 31, 2006 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 Commission 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 35,831 million at December 31, 2007 (euro 37,520 million at December 31, 2006) and, compared to the corresponding amount determined according to the criteria of the Group, is higher by euro 130 million at December 31, 2007 (higher by euro 219 million at the end of 2006).

The net financial debt determined according to the criteria of the Group amounts to euro 35,701 million at December 31, 2007, with a decrease of euro 1,600 million compared to euro 37,301 million at December 31, 2006.

COMPOSITION OF NET FINANCIAL DEBT (**)

(millions of euro)		12/31/2007 (a)	12/31/2006 (b)
Non-current financial liabilities (*):			
Financial payables		33,299	37,391
Finance lease liabilities		1,809	1,847
Non-current liabilities for hedging derivatives		1,942	1,451
Other financial liabilities		1	114
	(1)	37,051	40,803
Less:			
Non-current financial receivables for lessors' net investments		*(279)*	*(229)*
Non-current assets for hedging derivatives		*(286)*	*(243)*
		(565)	*(472)*
Total mon-current financial liabilities (*)	**(A)**	**36,486**	**40,331**
Current financial liabilities (*):			
Financial payables		5,943	5,143
Finance lease liabilities		262	269
Current liabilities for hedging and non-hedging derivatives		372	231
Other financial liabilities		8	10
	(2)	6,585	5,653
Less:			
Current financial receivables for lessors' net investments		*(149)*	*(148)*
Current assets for hedging derivatives		*(186)*	*(207)*
		(335)	*(355)*
Total current financial liabilities (*)	**(B)**	**6,250**	**5,298**
Financial liabilities relating to Discontinued operations/Non-current assets held for sale	(C) (3)	–	–
Total gross financial debt (*)	**(D=A+B+C)**	**42,736**	**45,629**
Current financial assets (*)			
Securities		(390)	(812)
Financial receivables and other current financial assets		(377)	(433)
Cash and cash equivalents		(6,473)	(7,219)
	(4)	(7,240)	(8,464)
Less:			
Current financial receivables for lessors' net investments		*149*	*148*
Current assets for hedging derivatives		*186*	*207*
		335	*355*
	(E)	**(6,905)**	**(8,109)**
Financial assets relating to Discontinued operations/Non-current assets held for sale	(F) (5)	–	–
Total current financial assets (*)	**(G=E+F)**	**(6,905)**	**(8,109)**
Net financial debt as of CONSOB communucation DEM/6064293/2006	**(H=D+G)**	**35,831**	**37,520**
Non-current financial assets (*)			
Securities other than investments		(9)	(12)
Financial receivables and other non-current financial assets		(686)	(679)
	(6)	(695)	(691)
Less:			
Non-current financial receivables for lessors' net investments		*279*	*229*
Non-current assets for hedging derivatives		*286*	*243*
		565	*472*
Total non-current financial assets (*) (°)	**(I)**	**(130)**	**(219)**
Net financial debt (**)	**(L=H+I)**	**35,701**	**37,301**
Composition of net financial debt:			
Total gross financial debt:			
Non-current financial liabilities	(1)	37,051	40,803
Current financial liabilities	(2) + (3)	6,585	5,653
		43,636	**46,456**
Total gross financial assets:			
Non-current financial assets	(6)	(695)	(691)
Current financial assets	(4) + (5)	(7,240)	(8,464)
		(7,935)	**(9,155)**
		35,701	**37,301**

(*) Net of assets for hedging derivatives and financial receivables for lessors' net investments.
(**) 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.
(°) At December 31, 2007, the item includes: low-rate loans made to employees (euro 67 million), loans made to Aree Urbane S.r.l. (euro 25 million) and securities other than investments (euro 9 million).

Covenants and “Negative pledges” relating to outstanding positions at December 31, 2007

With reference to loans received by Telecom Italia S.p.A. from the European Investment Bank (EIB), the amount of euro 556 million, out of a total of euro 2,114 million at December 31, 2007, is not secured by bank guarantees but 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;
– for the loan nominal amount of euro 350 million, if the company’s rating is lower than BBB+ for S&P’s, Baa1 for Moody’s and BBB+ for Fitch Ratings, and for the loan nominal amount of euro 200 million, if the company’s rating is lower than BBB for S&P’s, Baa2 for Moody’s and BBB for Fitch Ratings, Telecom Italia 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 Company is obliged to promptly advise the bank about changes in the allocation of share capital among the shareholders which could bring about a change in control. Failure to communicate this information would result in the termination of the contract. The contract shall also be terminated when a shareholder, which, at the dating of signing the contract does not hold at least 2% of the share capital, comes to hold more than 50% of voting rights in the shareholders’ meeting or, in any case, a number of shares such that it represents more than 50% of the share capital, whenever, in the bank’s reasonable opinion, this fact could cause a detriment to the bank or could compromise the execution of the Project.

The syndicated bank lines of Telecom Italia do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interest, etc.) which would oblige Telecom Italia to automatically 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 a minimum of 0.0875% and a maximum of 0.2625% for the line expiring in 2014.
The two syndicated bank lines contain the usual other types of covenants, including the commitment not to use the company’s assets as collateral for loans (negative pledges), the commitment not to change the business purpose or sell the assets of the company unless specific conditions exist (e.g. the sale should take place at fair market value). Substantially similar covenants 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 138 million at December 31, 2007) consider the case where a party, other than the current relative majority shareholder or permitted acquiring shareholders, including the shareholders of Telco, acquires 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 the usual negative pledge clauses, under pain of a request for the early repayment of the loan.

The absence of financial covenants on the loan contracts being understood, it is pointed out that at December 31, 2007, no covenant of any other type, negative pledge or other clause, relating to the above-described debt position, has in any way been violated or infringed.

Note 20 - Employee benefits

Employee benefits decreased from euro 1,372 million at December 31, 2006 to euro 1,169 million. Details are as follows:

(millions of euro)		12/31/2005	Increase	Decrease	Exchange differences	12/31/2006
Provision for employee severance indemnities	**(a)**	**1,234**	**146**	**(152)**		**1,228**
Provision for pension plans		34	2	(4)	(1)	31
Provision for termination benefit incentives		226	7	(120)		113
Total other provisions for employee benefits (*)	**(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

(*) The Current portions refers only to Other provisions for employee benefits.

(millions of euro)		12/31/2006	Increase	Decrease	Exchange differences	12/31/2007
Provision for employee severance indemnities	**(a)**	**1,228**	**68**	**(176)**		**1,120**
Provision for pension plans		31	3	(3)		31
Provision for termination benefit incentives		113	2	(97)		18
Total other provisions for employee benefits (*)	**(b)**	**144**	**5**	**(100)**		**49**
Total	**(a+b)**	**1,372**	**73**	**(276)**	**–**	**1,169**
of which:						
Non-current portion		1,262				1,151
Current portion (*)		110				18

(*) The Current portions refers only to Other provisions for employee benefits.

Provision for employee severance indemnities refer only to the Italian companies of the Group. The balance decreased by euro 108 million mainly as a result of the employee severance indemnity expense charged to the income statement (euro 68 million), the actuarial losses resulting from the 2007 social security reform and utilizations for indemnities paid to employees who terminated employment and advances (for a total of euro 176 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 remuneration 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 nor any funding obligation. Consequently, in accordance with IAS 19, this provision has been accounted for as a “Defined benefit plan”.

Under the new regulations introduced by Legislative Decree 252/2005 and Law 296/2006 (the State Budget Law 2007), for companies with at least 50 employees, severance indemnities accruing from 2007 are assigned to either the Treasury Fund managed by INPS (starting from January 1) or to supplementary pension funds (from the month of option) and take the form of a “Defined contribution plan”. However, revaluations of the provision for employee severance indemnities existing up to December 31, 2006, made on the basis of the official cost-of-living index and interest earned, and severance indemnities accruing in companies with less than 50 employees, remain recorded in the provision for employee severance indemnities.
In accordance with IAS 19, employee severance indemnities have been calculated using the Traditional Unit Credit Method, for companies with at least than 50 employees, and the Projected Unit Credit Cost - pro rate service, for the others, according to the following:

- the future possible benefits which could be paid to each employee registered in the program 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 future benefits includes any increases for additional service seniority as well as the estimated increase in the remuneration level at the measurement date only for employees of companies with less than 50 employees;

- 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;
- the liability of each interested company has been determined as the average present value of future benefits that will be generated by the existing provision at the measurement date, without considering any future accruals (for companies with at least than 50 employees) or identifying the amount of the average present value of future benefits which refer to the service already accrued by the employee in the company at the measurement date (for the others).

The following assumptions were made:

Financial assumptions	**Executives**	**Non-executives**
• Cost-of-living increases	2.0% per annum	2.0% per annum
• Discount rate	4.6% per annum	4.6% per annum
• Increases in remuneration:		
– equal to or less than 40 years of age	3.0% per annum	3.0% per annum
– over 40 but equal to or less than 55 years of age	2.5% per annum	2.5% per annum
– over 55 years of age	2.0% per annum	2.0% per annum
Demograpich 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 the 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, 2007 and 2006, respectively, of euro 1,120 million and euro 1,228 million.

The effect on the income statement, included in Employee benefits expenses is as follows:

(millions of euro)	**2007**	**2006**
Current service cost (*)	17	129
Finance expenses	51	49
Net actuarial (gains) losses recognized during the year	–	(32)
Total expenses	**68**	**146**
Actuarial (gains) losses resulting from 2007 social security reform	**(59)**	**–**
Effective return on plan assets	**n/a**	**n/a**

(*) Following the above-described social security reform, the amounts accruing that are assigned to the INPS Treasury Fund or supplementary pension funds (euro 130 million) are recorded in "Employee benefits expense" as "Social security expenses" and no longer as "Employee severance indemnities expenses".

Provision for pension plans principally refer to pension plans operating in foreign companies of the Group.

Provision for termination benefit incentives decreased due to utilizations as a result of the termination of employment during the year 2007.

Note 21 - Provisions

Provisions increased from euro 1,355 million at December 31, 2006 to euro 1,547 million at December 31,2007. The composition and changes in provisions are as follows:

(millions of euro)	12/31/2006	Increase	Used through income statement	Used directly	Exchange differences and other	12/31/2007
Provision for taxation and tax risks	262	100	(34)	(14)	16	330
Provision for restoration costs	387	43		(8)	5	427
Provision for legal disputes	206	285		(112)	6	385
Provision for commercial risks	90	15	(3)	(5)	(2)	95
Provisions for risks and charges on investments and corporate-related transactions	289	6	(51)	(9)	(27)	208
Other provisions	121	44	(4)	(67)	8	102
Total	**1,355**	**493**	**(92)**	**(215)**	**6**	**1,547**
of which:						
Non-current portion	775					903
Current portion	580					644

Provision for restoration and decommissioning costs refers to the charge for the estimated cost to dismantle tangible assets and restore the sites of the Parent (euro 355 million) and the companies of Brazil Mobile business unit (euro 72 million).
This provision increased by euro 40 million compared to December 31, 2006. The increase is mainly a result of the change in the discount rates and the release to income of the effects of discounted cash flow analysis (euro 22 million) in addition to the balance between the charges due to a higher number of sites (euro 21 million) and the uses (euro 8 million).

Provision for legal disputes increased by euro 179 million compared to December 31, 2006. The increase is principally on account of charges by the Parent due to unfavorable developments which occurred at the end of year in relation to disputes of a regulatory nature with other fixed and mobile telecommunications operators (euro 220 million).

Provisions for risks and charges on investments and corporate-related transactions decreased from December 31, 2006. The decrease is chiefly due to the effect of the partial release, for euro 40 million, of the provision regarding the sale in 2005 of Tim Hellas (now Wind Hellas).

Other provisions include the provision for Antitrust fines (euro 24 million), mainly regarding the fine of euro 20 million levied on Telecom Italia by the Antitrust Authority (order A357) in August 2007 for alleged unfair trade practices.

Note 22 - Miscellaneous payables and other non-current liabilities

Miscellaneous payables and other non-current liabilities decreased from euro 1,857 million at December 31, 2006 to euro 1,587 million and consist of the following:

(millions of euro)	12/31/2007	12/31/2006
Payables to social security agencies	528	709
Capital grants	116	146
Medium/long-term deferred income	943	1.002
Total	**1,587**	**1,857**

Payables to social security agencies 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)	12/31/2007	12/31/2006
Non-current payables		
Due from 2 to 5 years after the balance sheet date	485	647
Due beyond 5 years after the balance sheet date	43	62
	528	**709**
Current payables	216	215
Total	**744**	**924**

Medium/long-term deferred income includes euro 658 million (euro 714 million at December 31, 2006) for the deferral of revenues on the activation of Telecom Italia telephone service and euro 268 million (euro 261 million at December 31, 2006) for the deferral of revenues 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 increased from euro 11,596 million at December 31, 2006 to euro 12,380 million. The composition is as follows:

(millions of euro)		12/31/2007	*Of which Financial Instruments*	12/31/2006	*Of which Financial Instruments*
Payables on construction work	**(A)**	**23**		**2**	
Trade payables:					
• Payables to suppliers		6,053	*6,053*	5,487	*5,487*
• Payables to other telecommunication operators		1,822	*1,822*	1,322	*1,322*
	(B)	**7,875**	***7,875***	**6,809**	***6,809***
Tax payables	**(C)**	**549**		**550**	
Miscellaneous payables and other current liabilities:					
• Payables for employee compensation		505	*505*	524	*524*
• Payables to social security agencies		411		381	
• Trade and miscellaneous deferred income		833		832	
• Advances received		28		48	
• Customer-related items		1,148	*241*	1,434	*279*
• Payables for "TLC operating fee"		44		35	
• Dividends approved, but not yet paid to shareholders		25	*25*	24	*24*
• Other current liabilities		276	*167*	267	*189*
• Employee benefits (except for Employee severance indemnities) for current portion expected to be settled within 1 year		19		110	
• Provisions for current portion expected to be settled within 1 year		644		580	
	(D)	**3,933**	***938***	**4,235**	***1,016***
Total	**(A+B+C+D)**	**12,380**	***8,813***	**11,596**	***7,825***

Additional details on Financial Instruments are provided in the Note "Information on other financial instruments".

Trade payables (all due within 1 year) of euro 7,875 million (euro 6,809 million at December 31, 2006) refer to Telecom Italia (euro 5,465 million) and to the Tim Brasil group (euro 1,182 million). The increase in payables to other telecommunications operators, compared to December 31, 2006, is largely due to higher debt positions with mobile telephone operators, in particular H3G – for the arbitration case of a regulatory nature – and fixed telephony operators as a result of recent changes in the termination rates of voice calls on the networks of other operators.

Tax payables particularly refer to the Parent for a total of euro 334 million (including VAT payable for euro 128 million and the government concession tax for euro 104 million) and the Brazilian mobile telephone companies for euro 166 million.

Payables to social security agencies include the current portion of the amount payable to INPS under Law 58/1992 for euro 216 million (euro 215 million at December 31, 2006) as described in the Note “Miscellaneous payables and other non-current liabilities”.

Deferred income mainly refers to the Parent and includes euro 220 million (euro 282 million at December 31, 2006) for the deferral of revenues from the activation of telephone service (current portion).

Note 24 - Current income tax payables

Current income tax payables amount to euro 197 million (euro 219 million at December 31, 2006) and mainly refer to IRES payable on the national consolidated tax return filed by the Telecom Italia Group (euro 102 million), the income tax payable on the profit of the Tim Participações group (euro 40 million), HanseNet (euro 18 million) and Telecom Italia Sparkle (euro 18 million), a company which is not included in the national consolidated tax return filed by the Telecom Italia Group.

Note 25 - 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, 2007 are principally used to manage debt positions. They include interest rate swaps (IRS) and interest rate options (IRO) 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), currency forwards and currency options to convert the loans secured in different foreign currencies to the functional currencies of the various companies of the Group.

IRS and IRO transactions, respectively, involve or can 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 CCIRS transactions 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 on demand.

The following tables show the derivative transactions put into place by the Telecom Italia Group at December 31, 2007 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) in accordance with 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 November 2008 on the USD 1,000 million (equivalent amount of euro 679 million at 12/31/2007) 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	(176)
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 121 million at 12/31/2007) originally issued by Olivetti Finance N.V.S.A. (2002-2032)	172	(83)
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 2,378 million at 12/31/2007) (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	(481)
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 1,698 million at 12/31/2007) (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	(371)
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 1,087 million at 12/31/2007)	1,264	(155)
Total Fair Value Hedge Derivatives	**7,185**	**(1,266)**

- On the tranche maturing in November 2008 for USD 1,000 million (euro 850 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 converting the coupon rate of 4% in USD to the 3-month Euribor.
- For euro 172 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. and now on Telecom Italia Finance S.A., the following transactions were put in place:
  - by Telecom Italia Finance S.A., an IRS contract under 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, under 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 in place CCIRS contracts for euro 2,831 million converting the coupon fixed 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 (euro 1,264 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 converting the coupon rate (respectively, of 6.2% in USD and the USD 3-month Libor +0.61%) to the 6-month Euribor.

The selected method to test the effectiveness, retrospectively and prospectively, of Fair Value Hedge derivatives is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (where the portfolio means the derivative and the item hedged) and the risk of the hedged item taken separately. In short, the portfolio risk must be significantly less than the risk of the item hedged.

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 2 million put into place by Telecom Media News S.p.A. maturing up to December 2008	1	-
USD Call / EUR Put options purchased by Telecom Media News S.p.A. maturing December 2009, December 2010 and February 2011	3	-
Forward purchase transactions of USD 6 million maturing June 2013 and forward sales transactions of USD 3 million (equivalent nominal amount for a total of euro 6 million at 12/31/2007), maturing up to March 2008, put into place by Elettra TLC S.p.A.	6	-
USD/EUR collar options purchased by Elettra TLC S.p.A. to hedge contractual flows of USD 68 million maturing up to June 2013	50	-
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
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 1,359 million at 12/31/2007) on the bonds issued by Telecom Italia Capital S.A. in October 2003 for a total amount of USD 4,000 million	1,709	(329)
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	9
CCIRS transactions put into place by Telecom Italia S.p.A. maturing December 2015 on bonds of GBP 500 million (equivalent amount of euro 682 million at 12/31/2007) issued by Telecom Italia S.p.A. in June 2005	751	(29)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing June 2019 on bonds of GBP 850 million (equivalent amount of euro 1,159 million at 12/31/2007) issued by Telecom Italia S.p.A. in June 2004	1,258	(47)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing May 2023 on bonds of GBP 400 million (equivalent amount of euro 545 million at 12/31/2007) issued by Telecom Italia S.p.A. in May 2006	587	(27)
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	14
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 121 million at 12/31/2007) originally received by Olivetti International Finance N.V. and now on Telecom Italia Finance S.A.	174	(63)
CCIRS transactions put into place by Telecom Italia Capital S.A. maturing November 2033 on the 30-year tranche of USD 1,000 million (equivalent amount of euro 679 million at 12/31/2007) on the bonds issued by Telecom Italia Capital S.A. in October 2003 for a total amount of USD 4,000 million	849	(179)
CCIRS transactions put into place by Telecom Italia Capital S.A. maturing July 2036 on the 30-year tranche of USD 1,000 million (equivalent amount of euro 679 million at (12/31/2007) on the bonds issued by Telecom Italia Capital S.A. in July 2006 for a total amount of USD 2,600 million	791	(12)
Total Cash Flow Hedge Derivatives	**7,409**	**(660)**

- Forward purchase transactions in USD, for an equivalent amount of euro 1 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 originally 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.
- Forward purchase transactions for USD 6 million (maturing June 2013), forward sales transactions for USD 3 million, (monthly maturities up to March 2008), for an equivalent of a total of euro 6 million, put into place by Elettra TLC S.p.A. to hedge the exchange rate risk on its contractual flows from ship charter activities.
- USD/EUR collar options purchased by Elettra TLC S.p.A. to hedge the exchange rate risk of its contractual flows from ship charter activities equal to USD 68 million maturing up to June 2013 (monthly maturities); by virtue of these hedging transactions the equivalent amount is set in range of between euro 44 and 50 million.
- On the bonds 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%.

- On the tranches maturing in November 2013 of USD 2,000 million (euro 1,709 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 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 in 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 (euro 751 million) issued by Telecom Italia S.p.A. in June 2005, Telecom Italia S.p.A. put in place CCIRS contracts 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, maturing June 2019, converting the fixed rate of 6.375% in GBP to a fixed rate of 5.31% in euro.
- On the bonds 2006-2023 of GBP 400 million (euro 587 million) issued by Telecom Italia S.p.A. in May 2006, Telecom Italia S.p.A. put into place CCIRS contracts converting a rate of 5.875% in GBP to a fixed rate of 5.53% in euro.
- On the bonds 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.
- With reference to the Telecom Italia Finance S.A. “Dual Currency” loan with a notional principal of JPY 20 billion /USD 186 million 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., the following was put into place for euro 174 million:
  - 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 (euro 849 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 converting the rate of 6.375% in USD to the fixed rate of 6% in Euro.
- On the tranche of USD 1,000 million (euro 791 million) 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 converting the rate of 7.20% in USD to the fixed rate of 5.88% in Euro.

The hedge of cash flows by derivatives designated as Cash Flow Hedges at December 31, 2007 was considered highly effective and at December 31, 2007 led to:

- recognition of an unrealized gain in equity of euro 354 million;
- the transfer from equity to the income statement of net losses from exchange rate adjustments of euro 540 million.

Furthermore, in 2006, the Reserve for hedging instruments included an unrealized gain of euro 89 million relating to IRS contracts with a total notional amount of euro 3 billion relating to the Term Loan secured in December 2004. During 2007, Telecom Italia S.p.A. closed the IRS derivatives in advance and ended the associated hedging relationship.
At December 31, 2007, the total gain on the hedging instrument that is still recognized in equity amounts to euro 34 million. The positive impact reversed to the income statement in 2007 is euro 55 million.

The transactions hedged by Cash Flow Hedges generate cash flows and will produce economic effects on the income statement in the periods indicated in the following table:

Currency of denomination	Notional amount in currency of denomination (millions)	Start of period	End of period	Rate applied	Interest period
EURO	110	Jan-08	Mar-09	3-month Euribor + 0.60%	Quarterly
USD	2,000	Jan-08	Oct-13	5.25%	Semiannual
EURO	120	Jan-08	Nov-15	3-month Euribor + 0.66%	Quarterly
GBP	500	Jan-08	Jun-15	5.63%	Annually
GBP	850	Jan-08	Jun–19	6.38%	Annually
GBP	400	Jan-08	May-23	5.88	Annually
EURO	1,000	Jan-08	Dec-10	3-month Euribor + 0.53%	Quarterly
USD	186	Jan-08	Oct-29	5.45%	Semiannual
USD	1,000	Jan-08	Nov-33	6.38%	Semiannual
USD	1,000	Jan-08	Jul-36	7.20%	Semiannual

The selected method to test the effectiveness, retrospectively and prospectively, of Cash Flow Hedge derivatives, whenever the main terms do not fully coincide, is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (where the portfolio means the derivative and the item hedged) and the risk of the hedged item taken separately. In short, the portfolio risk must be significantly less than the risk of the item hedged.

The ineffective portion recognized in the income statement from designated Cash Flow Hedges in 2007 is immaterial.

Table 3 - Non-Hedge Accounting Derivatives

Description	Notional Amount (millions of euro)	Mark-to-Market (Clean Price) (millions of euro)
IRS transactions maturing July 2011 on bonds of USD 850 million issued by Telecom Italia Capital S.A. (2006-2011)	100	-
IRS transactions maturing November 2011 put into place by Telecom Italia Finance S.A.	100	-
Interest rate and foreign exchange contracts put into place by Group companies	524	3
Total Non-Hedge Accounting Derivatives	**724**	**3**

- On the 2006-2011 bonds of USD 850 million maturing July 2011 issued by Telecom Italia Capital S.A., Telecom Italia Finance S.A. put into place IRS for a total of euro 100 million under which Telecom Italia Finance S.A. receives the floating rate coupon if the 10-year USD rate is higher than the 2-year USD rate and pays a semiannual floating rate.
- IRS transactions maturing November 2011 put into place by Telecom Italia Finance S.A. for euro 100 million under which Telecom Italia Finance S.A. pays the difference between the 2-year USD swap rate and the 2-year USA government rate and receives an average fixed rate of 0.8225%. The company is not exposed to any foreign currency exchange risk.
- Interest rate and foreign exchange rate contracts amount to a total of euro 524 million and comprise:
  - foreign exchange rate transactions of Telecom Italia S.p.A. for euro 19 million;
  - foreign exchange rate transactions of Telecom Italia Finance S.A. for euro 122 million;
  - foreign exchange rate transactions of Telecom Italia Capital S.A. for euro 5 million;
  - foreign exchange rate transactions of Telecom Italia Sparkle S.p.A. for euro 39 million;
  - foreign exchange rate transactions of Olivetti S.p.A. for euro 1 million;
  - interest rate and foreign exchange rate transactions of Tim Celular S.A. for euro 290 million;
  - interest rate and foreign exchange rate transactions of Tim Nordeste S.A. for euro 48 million.

The following table presents the derivatives of the Telecom Italia Group by type:

Type (millions of euro)	Hedged Risk	Notional Amount at 12/31/2007	Notional Amount at 12/31/2006	Mark-to-Market Spot (Clean Price) at 12/31/2007	Mark-to-Market Spot (Clean Price) at 12/31/2006
Interest Rate Swaps	Interest rate risk	–	–	–	–
Cross Currency and Interest Rate Swaps	Interest rate risk and foreign currency exchange rate risk	7,185	8,623	(1,266)	(787)
Total Fair Value Hedge Derivatives		**7,185**	**8,623**	**(1,266)**	**(787)**
Interest Rate Swaps	Interest rate risk	1,230	4,230	26	102
Cross Currency and Interest Rate Swaps	Interest rate risk and foreign currency exchange rate risk	6,119	6,119	(686)	(538)
Commodity Swap	Commodity risk (energy)	–	89	–	(6)
Forward and FX Options	Foreign currency exchange rate risk	60	5	–	–
Total Cash Flow Hedge Derivatives		**7,409**	**10,443**	**(660)**	**(442)**
Non-Hedge Accounting Derivatives		**724**	**3,186**	**3**	**6**
Total Telecom Italia Group Derivatives		**15,318**	**22,252**	**(1,923)**	**(1,223)**

Note 26 - Information on other financial instruments

Valuation at fair value

The majority of the non-current financial liabilities of the Telecom Italia Group is composed of bonds and their fair market value can be easily determined by reference to financial instruments which, by size and diffusion among investors, are commonly traded on the relative markets (see the Note “Financial liabilities liabilities (current and non-current)”). However, with regard to other types of financing, the following assumptions were made in order to determine fair value:

- for floating-rate loans, the nominal repayment amount;
- for fixed-rate loans, discounted cash flow analysis using market rates at December 31, 2007.

Lastly, for the majority of financial assets, the carrying amount represents a reasonable approximation of their fair value since these are short-term investments that are readily convertible into cash.

The following tables present additional information on financial instruments required by IFRS 7 for assets and liabilities at December 31, 2007 and at December 31, 2006 on the basis of the categories indicated in IAS 39; overall gains and losses are also reported.

FAIR VALUE BY IAS 39 CATEGORY - DECEMBER 31, 2007

(millions of euro)	Categories IAS 39	Carrying amounts in financial statements at 12/31/2007	Amounts recognized in financial statements according to IAS 39				Amounts recognized in financial statements according to IAS 17	Fair Value at 12/31/2007
			Amortized cost	Cost	Fair value taken to equity	Fair value transferred to the income statement		
Assets								
Loans and receivables	LaR	14,506	14,506					14,506
Financial assets held-to-maturity	HtM	32	32					32
Available-for-sale financial assets	AfS	312		51	259	2		312
Financial assets at fair value through profit or loss held for trading)	FAHfT	124				124		124
Hedging derivatives	n.a.	472			342	130		472
Other financial assets at fair value through profit or loss	n.a.	260				260		260
Assets measured according to IAS 17	n.a.	428					428	428
		16,134						**16,134**
Liabilities								
Financial liabilities at amortized cost	FLAC	48,064	48,064					48,090
Financial liabilities at fair value through profit or loss held for trading	FLHfT	9				9		9
Hedging derivatives	n.a.	2,305			920	1,385		2,305
Liabilities measured according to IAS 17	n.a.	2,071					2,071	2,447
		52,449						**52,851**

CARRYING AMOUNTS AND AMOUNTS RECOGNIZED IN THE FINANCIAL STATEMENTS BY IAS 39 CATEGORY - DECEMBER 31, 2007

(millions of euro)	Categories IAS 39	Carrying amounts in financial statements at 12/31/2007	Amounts recognized in financial statements acording to IAS 39: Amortized cost	Cost	Fair value taken to equity	Fair value transferred to the income statement	Amounts recognized in financial statements according to IAS 17
Assets							
Other investments	AfS	57		51	6		
Securities, financial receivables and other non-current financial assets							
of which loans and receivables	LaR	121	121				
of which securities	HtM	1	1				
of which securities	AFS	8			6	2	
of which hedging derivatives	n.a.	286			244	42	
of which receivables for lessors' net investments	n.a.	279					279
Miscellaneous receivables and other non-current assets (*)							
of which loans and receivables	LaR	15	15				
of which other financial assets at fair value through profit and loss	n.a.	260				260	
Trade and miscellaneous receivables and other current assets (*)							
of which loans and receivables	LaR	7,867	7,867				
Securities							
of which held-to-maturity	HtM	31	31				
of which available-for-sale	AFS	247			247		
of which held for trading	FAHfT	112				112	
Financial receivables and other current financial assets							
of which loans and receivables	LaR	30	30				
of which non-hedging derivatives	FAHfT	12				12	
of which hedging derivatives	n.a.	186			98	88	
of which receivables for lessors' net investments	n.a.	149					149
Cash and cash equivalents	LaR	6,473	6,473				
		16,134					
Liabilities							
Non-current financial liabilities							
of which liabilities at amortized cost	FLAC	33,300	33,300				
of which hedging derivatives	n.a.	1,942			855	1,087	
of which financial lease liabilities	n.a.	1,809					1,809
Current financial liabilities							
of which liabilities at amortized cost	FLAC	5,951	5,951				
of which non-hedging derivatives	FLHfT	9				9	
of which hedging derivatives	n.a.	363			65	298	
of which financial lease liabilities	n.a.	262					262
Trade and miscellaneous payables and other current liabilities (*)							
of which liabilities at amortized cost	FLAC	8,813	8,813				
		52,449					

(*) Part of assets or liabilities falling under application of IFRS 7.

FAIR VALUE BY IAS 39 CATEGORY - DECEMBER 31, 2006

(millions of euro)	Categories IAS 39	Carrying amounts in financial statements at 12/31/ 2006	Amounts recognized in financial statements according to IAS 39				Amounts recognized in financial statements according to IAS 17	Fair Value at 12/31/ 2006
			Amortized cost	Cost	Fair value taken to equity	Fair value transferred to the income statement		
Assets								
Loans and receivables	LaR	15,127	15,127					15,127
Financial assets held-to-maturity	HtM							
Available-for-sale financial assets	AfS	1,047		429	616	2		1,047
Financial assets at fair value through profit or loss held for trading)	FAHfT	562				562		562
Hedging derivatives	n.a.	450			297	153		450
Other financial assets at fair value through profit or loss	n.a.	190				190		190
Assets measured according to IAS 17	n.a.	377					377	377
		17,753						**17,753**
Liabilities								
Financial liabilities at amortized cost	FLAC	50,483	50,483					50,923
Financial liabilities at fair value through profit or loss held for trading	FLHfT	12				12		12
Hedging derivatives	n.a.	1,670			773	897		1,670
Liabilities measured according to IAS 17	n.a.	2,116					2,116	2,582
		54,281						**55,187**

CARRYING AMOUNTS AND AMOUNTS RECOGNIZED IN THE FINANCIAL STATEMENTS BY IAS 39 CATEGORY - DECEMBER 31,, 2006

(millions of euro)	Categories IAS 39	Carrying amounts in financial statements at 12/31/ 2006	Amounts recognized in financial statements acording to IAS 39				Amounts recognized in financial statements according to IAS 16
			Amortized cost	Cost	Fair value taken to equity	Fair value transferred to the income statement	
Assets							
Other investments	AfS	776		429	347		
Securities, financial receivables and other non-current financial assets							
of which loans and receivables	LaR	207	207				
of which securities	AFS	12			10	2	
of which hedging derivatives	n.a.	243			231	12	
of which receivables for lessors' net investments	n.a.	229					229
Miscellaneous receivables and other non-current assets (*)							
of which loans and receivables	LaR	41	41				
of which other financial assets at fair value through profit	n.a.	190				190	
Trade and miscellaneous receivables and other current assets (*)							
of which loans and receivables	LaR	7,591	7,591				
Securities							
of which held-to-maturity	HtM						
of which available-for-sale	AFS	259			259		
of which held for trading	FAHfT	553				553	
Financial receivables and other current financial assets							
of which loans and receivables	LaR	69	69				
of which non-hedging derivatives	FAHfT	9				9	
of which hedging derivatives	n.a.	207			66	141	
of which receivables for lessors' net investments	n.a.	148					148
Cash and cash equivalents	LaR	7,219	7,219				
		17,753					
Liabilities							
Non-current financial liabilities							
of which liabilities at amortized cost	FLAC	37,505	37,505				
of which hedging derivatives	n.a.	1,451			666	785	
of which financial lease liabilities	n.a.	1,847					1,847
Current financial liabilities							
of which liabilities at amortized cost	FLAC	5,153	5,153				
of which non-hedging derivatives	FLHfT	12				12	
of which hedging derivatives	n.a.	219			107	112	
of which financial lease liabilities	n.a.	269					269
Trade and miscellaneous payables and other current liabilities (*)							
of which liabilities at amortized cost	FLAC	7,825	7,825				
		54,281					

(*) Part of assets or liabilities falling under application of IFRS 7.

IFRS7

Gains and losses by IAS 39 category - 2007

(millions of euro)	Categories IAS 39	Gains (losses), net 2007 (1)	of which from interest
Loans and Receivables	LaR	(836)	202
Financial assets Held-to-Maturity	HtM	–	
Available-for-Sale Financial assets (2)	AfS	258	
Financial Assets/Liabilities Held for Trading	FAHfT e FLHfT	59	
Financial Liabilities at Amortised Cost	FLAC	(2,233)	(2,211)
Total		**(2,752)**	**(2,009)**

(1) Of which, euro 1 million is from fees and expenses not included in the effective interest rate calculation on financial assets/liabilities other than those at fair value through profit or loss.
(2) They include gains of euro 138 million tranferred to the income statement from equity.

Gains and losses by IAS 39 category - 2006

(millions of euro)	Categories IAS 39	Gains (losses), net 2006 (1)	of which from interesti
Loans and Receivables	LaR	(394)	242
Financial assets Held-to-Maturity	HtM	-	
Available-for-Sale Financial assets	AfS	198	
Financial Assets/Liabilities Held for Trading	FAHfT e FLHfT	9	
Financial Liabilities at Amortised Cost	FLAC	(2,337)	(2,295)
Total		**(2,524)**	**(2,053)**

(1) Of which, euro 5 million is from fees and expenses not included in the effective interest rate calculation on financial assets/liabilities other than those at fair value through profit or loss.

Note 27 - 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 group for a total equivalent amount of euro 410 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 are automatically transferred to accounts on which the company has full access.

Note 28 - Contingent assets and liabilities, commitments and other guarantees

The main legal, arbitration and tax proceedings in which companies of the Telecom Italia Group were involved as of December 31, 2007 are described below. For the disputes considered likely to have an adverse outcome, the Group has made provisions totaling euro 426 million; for those where an adverse outcome is considered unlikely or for which a reliable estimate cannot be made of the amount, no provisions have been made.

In addition to the potential liabilities reported below, this note also describes potential assets, in connection with the restitution of the 1998 licence fee, amounting to euro 529 million plus interest.

a) Potential liabilities

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-oriented, non-discriminatory fees. The consequent request for damages amounts to about euro 79 million.

Telecom Italia filed a counterclaim in the arbitration proceeding, challenging Fastweb's statements.

* * *

In previous financial years, at the conclusion of Case A/351 of the Antitrust Authority, Telecom Italia paid a fine of euro 115 million for alleged abuses of dominant position. In connection with that measure, proceedings are still under way in the action brought by Fastweb in November 2006 before the Milan Court of Appeal to have Telecom Italia ordered to pay damages of euro 644 million.

Telecom Italia has defended the case, arguing that Fastweb's requests are unfounded and inadmissible.

In 2007 the Court of Appeal ordered a technical accounting appraisal on its own authority to determine the exact amount of the damages requested by Fastweb.

During the court-ordered appraisal Telecom Italia will contest Fastweb's quantification of the damages and the existence of any liability for Telecom Italia.

* * *

In October 2007 Fastweb brought an action before the Milan Court of Appeal for damages of euro 970 million in relation to the alleged abusiveness of Telecom Italia's win-back strategy in the markets for the supply of fixed voice telephony services to residential users and non-residential users and retail broadband Internet access.

The action brought by Fastweb on the merits of the case is based on the order issued on May 16, 2006 in which the Milan Court of Appeal, upholding an urgent appeal by Fastweb, had prohibited Telecom Italia from continuing with allegedly abusive conduct consisting in the use of information on former clients by its marketing departments for targeted win-back activities, the encouragement of its sales network through increased commissions with a view to excluding Fastweb from the markets concerned, and the denigration of Fastweb. Telecom Italia has defended the case, contesting Fastweb's claims.

H3G

In August 2007, at the conclusion of Antitrust case A/357, Telecom Italia was ordered to pay an administrative fine of euro 20 million for anti-competitive conduct. In December 2007 H3G initiated proceedings before the Milan Court with reference to the illicit conduct already punished by the Antitrust Authority.

Specifically, H3G alleges that Tim (now Telecom Italia) engaged in illegitimate conduct consisting in applying to its own marketing divisions more favourable technical and/or economic conditions for the termination of fixed/mobile calls on its own network than those applied to competitors. H3G is claiming damages of approximately euro 700 million.

Telecom Italia will defend the case, arguing that H3G's assertions are unfounded.

* * *

In January 2008 Telecom Italia was notified of the initiation of an action by H3G before the Milan Court to have Telecom Italia ordered to pay compensatory and exemplary damages, to be quantified during the trial, for allegedly anti-competitive conduct consisting in illegitimate contacts with users who had applied for mobile number portability (MNP) towards H3G. The plaintiff asserts that a significant percentage of users who had applied for portability of their numbers towards H3G and had signed the related contract were contacted by Telecom Italia for purposes of win-back or retention, to convince them to revoke the applications for portability already addressed to H3G and return to Telecom Italia. According to H3G, such systematic retention and win-back policies are illegitimate inasmuch as they violate the regulatory provisions in force on MNP, which prohibit the recovery of customers using information on those who have migrated, which must be preserved with the utmost confidentiality by the operator giving up customers and used only for activation of the service.

Telecom Italia will defend the case, challenging every argument and claim against the Company.

Wind

Following the above-mentioned Antitrust Authority case A/351, which ended with Telecom Italia being ordered to pay a fine of euro 115 million for alleged abuses of dominant position, Wind initiated an action in November 2007 before the Milan Court of Appeal against Telecom Italia with a view to obtaining damages of euro 545 million for anti-competitive conduct.

Wind alleges that Telecom Italia's abusive conduct prevented Wind from increasing its sales of fixed communication services (voice telephony and value-added services, data transmission, Internet access and services to other operators) and mobile telephony services to business customers.

Telecom Italia is defending the case, arguing that Wind's assertions and claims for damages are unfounded.

* * *

In January 2008 Wind initiated a proceeding under Article 82 of the EC Treaty before the Milan Court for damages of approximately euro 600 million as a result of allegedly abusive conduct by Telecom Italia in the market for the supply of wholesale services and the market for retail services to residential and micro-business customers.

In particular, Wind asserts that Telecom Italia engaged in illegitimate conduct consisting in aggressive retention and win-back campaigns aimed at retaining customers who were about to go over to Wind or recovering former customers who had already switched to Wind, including by means of the use of confidential commercial information, and in systematically preparing irregular commercial offers which often could not be promptly replicated by competitors. Telecom Italia will defend the case, contesting Wind's assertions and claims for damages.

Vodafone

Proceedings are still under way before the Milan Court of Appeal in the action under art.33 - Law 287/1990 brought by Vodafone against Telecom Italia in July 2006 for damages, initially quantified at approximately euro 525 million and subsequently revised to euro 759 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 residential customers and to have also involved violation of the law on the protection of personal data.

Telecom Italia has defended the case, contesting Vodafone's assertions and claims.

Appeals against the licence fees

Some appeals are still pending before the Lazio Regional Administrative Court, in which judgment is not expected in the near future. They were filed by Telecom Italia and Tim and concern the base for calculating the licence fee. In particular:

- the appeal submitted by Telecom Italia in 2003 for the annulment of the letter dated July 9, 2003 (ref. no. 16605) ordering the Company to pay euro 72 million as the balance of the licence fees for the years 1997-98, of which euro 31 million for 1997 and euro 41 million for 1998. The date for hearing the merits of the case has still to be fixed;
- the appeal submitted by Tim in 2003 for the annulment of the letter dated May 23, 2002, in which the Ministry of Communications had requested payment of the balance of the licence fees for the years 1996-98 amounting to euro 14 million.

Tax diaputes

- Between October and November 2007 Telecom Italia S.p.A. received four reports from the Finance Police for the tax periods from 2002 to 2006 concerning Telecom Italia and the companies merged into it (Telecom Italia; TIM and Tim Italia). The most important objections concerned the write-down of the Telecom Italia shares held by Olivetti (2002 financial statements), the criteria for deduction of the levy on telephony (2002 financial statements of Telecom Italia and TIM) and for the taxation of the prior-year profit stated in the 2004 financial statements after the Lazio Regional Administrative Court ruled that such levy was not due for the year 1999, and the tax treatment applied in 2003 to the disposal of the equity interest in the so-called “new Seat”, fruit of the spin-off of Seat Pagine Gialle (now Telecom Italia Media).

The competent offices of the tax authorities have decided not to pursue the objection concerning the deduction of the levy on mobile telephony in 2002 and is still examining the others.
The objections set out in the reports, except for that concerning the deduction of the levy on mobile telephony in 2002, would involve additional income taxes of euro 2.5 billion.
At all events, the Company considers that it can prove that it interpreted and applied the rules correctly.

- As already stated in the financial report for 2006, on January 26, 2007 the Company received the report containing the Revenue Agency's conclusions with regard to the tax audit of the 2002 merger of Blu into Tim.
  In this matter, on December 12, 2007 the Company received the consequent notice of assessment for corporate income tax and the regional tax on productive activities for 2002.
  The assessment notice calls for the payment of euro 436 million additional corporate income tax and regional tax on productive activities, plus fines and interest amounting to about euro 492 million. The Company, considering that its arguments are well-founded and sustainable, has filed an appeal before the Turin Provincial Tax Commission.
- In 2007 Telecom Italia Sparkle received various requests for information from the judicial authorities in connection with an investigation of one of its suppliers for an alleged value-added-tax fraud perpetrated in complicity with other (Italian and foreign) persons operating in the market for "Premium" telecommunications services. In brief, Telecom Italia Sparkle had concluded standard Virtual Transit Service contracts under which it collected traffic generated by Premium services and aggregated by its EU customers abroad and then routed it towards the terminal destinations managed by the supplier.
  As a precaution, Telecom Italia Sparkle has interrupted business relationships with the persons under investigation.
  The Company, among other things taking account of the opinions of outside advisors, considers that its has acted in compliance with the legislation in force.

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 requested the court to find Telecom Italia in 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, which is still in its initial phase.
In June 2007 TCS filed an amended complaint specifying some of its claims more precisely.
Lastly, in August 2007 Telecom Italia filed a motion to dismiss with a view to being excluded from the trial. The judge has not yet decided on the applications by the parties.

* * *

Other liabilities connected with disposals of assets and equity interests
As part of the major disposals of assets and companies in 2007 and prior years, the Telecom Italia Group undertook to indemnify the buyers, normally up to a percentage of the purchase price, in respect of contingent liabilities arising from guarantees contained in the contracts and disputes in the legal, tax, social security and labour law fields.

At December 31, 2007, in respect of these potential liabilities totaling about euro 800 million, provisions have been set aside only for the cases where a disbursement is deemed likely and amount to euro 120 million.

The Telecom Italia Group also undertook to indemnify buyers in other cases for which no maximum amount was fixed, and in these cases it is not possible to estimate the amount that the Telecom Italia Group might be called upon to pay.

b) Potential assets

Licence fee for 1998

On February 21, 2008 the European Court of Justice issued a ruling in favour of the Telecom Italia Group on the question of the incompatibility with Community law of the provisions of Italian law (Article 20 of Law 488/1998) that, in an already liberalized market, had extended the obligation to pay the licence fee to 1998.

As is known, in May 2006 the Lazio Regional Administrative Court, acting on appeals submitted by Telecom Italia and Tim regarding their right to restitution of the licence fee they paid for 1998 (euro 386 million for Telecom Italia and euro 143 million for Tim, plus interest) had suspended the national proceeding and applied to the European Court of Justice for a ruling on the preliminary question, considering the above-mentioned provisions of Italian law to be potentially in conflict with Directive 97/13 regarding rights and charges for individual licences.

It is now expected that the Lazio Regional Administrative Court, upon resuming the administrative proceeding, will rule – in the sense indicated by the European Court of Justice – on the incompatibility of the provisions of national law challenged by the Telecom Italia Group with the provisions of Community law referred to above.

c) Commitments and other guarantees

Guarantees provided amounted to euro 287 million, net of euro 169 million of counter-guarantees received, and consisted mainly of sureties provided by Telecom Italia on behalf of affiliates (euro 95 million) and others for medium and long-term loans.
In addition, the 47.80% interest in Tiglio I has been pledged to the banks that financed the company.

Purchase and sale commitments at December 31, 2007 amounted to euro 672 million and euro 2 million respectively and referred to the part still to be fulfilled of commitments not falling within the Group's normal "operating cycle".

The purchase commitments consisted mainly of:
- euro 268 million of orders to suppliers of Telenergia in relation to the electricity supply agreements reached with Endesa for the three-year period 2006-2008, with Edison Energia for the three-year period 2007-2009 and with Eni for the year 2008;
- euro 375 million of DVB-H contracts concluded by Telecom Italia with the main domestic television operators, in particular the Mediaset Group and Sky Italia, in order to provide the "Tim-TV" service;
- euro 13 million for the subscription of shares of Fondo Clessidra.

It should also be noted that in December 2007 the Tim Brasil Group was awarded the licence for 3G services throughout Brazil for euro 1.3 billion Real (about euro 520 million), with an average premium of 95% to the auction floor price. The contract is expected to be signed in early 2008.

Companies included in the scope of the consolidation issued "weak" letters of patronage for a total of euro 129 million, mainly on behalf of affiliates to guarantee insurance policies, credit lines and facilities.

Guarantees provided by third parties for obligations of Group companies referred to loans (euro 1,944 million) and the performance of contracts (euro 772 million).
The total includes sureties issued by BBVA for euro 867 million, by Intesa Sanpaolo for

euro 420 million (of which euro 263 million for a loan that expired in December 2007 for which the guarantee expired in February 2008), by Sumitomo for euro 129 million, by Bank of Tokyo - Mitsubishi UFJ for euro 200 million, by Banco Santander for euro 86 million and by Banca Nazionale del Lavoro for euro 242 million in respect of EIB loans for the following projects: Tim Rete Mobile, Telecom Italia Breitband Infrastruktur Deutschland, Telecom Italia Media Digital Network, Telecom Italia Broadband France and Telecom Italia Banda Larga Mezzogiorno.

Note 29 - Revenues

Revenues amount to euro 31,290 million, an increase of euro 15 million compared to 2006 (+ 0.05%). Details are as follows:

(millions of euro)		2007	2006
Sales:			
– telephone equipment		1,902	2,002
– other sales		373	429
	(A)	**2,275**	**2,431**
Services:			
– traffic		16,233	16,607
– subscription charges		8,698	8,111
– fees		494	400
– Value-Added Services (VAS) - mobile telecommunications		2,409	1,967
– fixed fee for recharging prepaid cards		162	738
– other services		1,008	1,028
	(B)	**29,004**	**28,851**
Revenues on construction contracts	(C)	**11**	**(7)**
Total	(A+B+C)	**31,290**	**31,275**

Revenues from telecommunications services are presented gross of amounts due to other TLC operators, equal to euro 5,274 million (euro 5,721 million in 2006, + 7.8%). The reduction of euro 447 million is due, among other things, to the change relating to Non-Geographical Numbering and the end of certain international wholesale contracts, countered by the increase connected with the changes in the termination rates of voice calls on the networks of other fixed and mobile operators.

For a breakdown of revenues by segment/geographical area, reference should be made to the Note “Segment information”.

Note 30 - Other income

Other income amounts to euro 413 million, a decrease of euro 193 million compared to 2006 and consists of the following:

(millions of euro)	2007	2006
Compensation for late payment of regulated telephone services	90	91
Release of provisions and other liabilities	74	179
Recovery of employee benefits expenses and services rendered	54	60
Grants related to assets and grants related to income	34	42
Damage compensation and penalties	50	52
Sundry income	111	182
Total	**413**	**606**

Note 31 - Acquisition of goods and services

Acquisition of goods and services amount to euro 14,545 million, an increase of 2.5% compared to 2006 (euro 14,191 million). Details are as follows:

(millions of euro)		2007	2006
Acquisitions of goods and merchandise for resale	**(A)**	**2,638**	**2,578**
Costs of services:			
Revenues due to other TLC operators		5,274	5,721
Interconnection costs		451	125
Commissions, sales commissions and other selling expenses		1,618	1,511
Advertising and promotion expenses		630	584
Professional consulting and services		485	480
Utilities		422	421
Maintenance		354	350
Outsourcing costs for other services		365	267
Mailing and delivery expenses for telephone bills, directories and other materials to customers		120	106
Other service expenses		1,022	1,005
	(B)	**10,741**	**10,570**
Lease and rental costs:			
Property lease costs		602	560
TLC circuit lease rents and rents for use of satellite systems		288	271
Other lease and rental costs		276	212
	(C)	**1,166**	**1,043**
Total	**(A+B+C)**	**14,545**	**14,191**

Note 32 - Employee benefits expenses

Employee benefits expenses amount to euro 3,884 million, an increase of euro 83 million (+2.2%) compared to 2006 (euro 3,801 million). The increase mainly refers to higher expenses of euro 81 million relating to employees outside Italy (due to the inclusion of the AOL internet activities in Germany).

Employee benefits expenses consist of the following:

(millions of euro)		2007	2006
Employee benefits expenses at payroll			
Wages and salaries		2,693	2,625
Social security expenses		951	796
Employee severance indemnities		68	146
Other employee expenses		76	71
	(A)	**3,788**	**3,638**
Temp work costs	**(B)**	**57**	**55**
Miscellaneous expenses for personnel and for other labor-related services rendered			
Remuneration of personnel other than employees		16	18
Charges for termination benefit plans		161	76
Other		(138)	14
	(C)	**39**	**108**
Total	**(A+B+C)**	**3,884**	**3,801**

Wages and salaries, social security expenses and employee severance indemnities in 2007 of the Parent and other Italian companies in the Group were affected by the application of the TLC national labor contract as a result of the increases in the new minimum contract terms (from October 2006 as established by the December 3, 2005 Agreement for the two-year economic period 2005-2006 and from October 2007 as established in the July 31, 2007 Agreement for two-year economic period 2007-2008).
Moreover, social security expenses increased by euro 155 million partly as a result of recording the amounts destined to the INPS Treasury Fund and the Supplementary Pension Funds in this caption (equal to euro 130 million) owing to the new laws on supplementary social security benefits.
“Miscellaneous expenses for personnel and for other labor-related services rendered - other” (– euro 138 million in 2007) include the profit bonus (– euro 79 million) accrued in the second half of 2006 and no longer due as a result of the agreements reached with the unions in June 2007. Such agreements authorized the alignment of the profit bonus of the Parent, Telecom Italia, and other Italian Group companies with the payment criteria established for ex-TIM Italia. This line also includes the positive impact of the actuarial calculation of the provision for employee severance indemnities as a result of applying the new law dealing with supplementary benefits (– euro 59 million).

The average equivalent number of salaried employees, including those with temp work contracts and excluding those of Discontinued operations/Non-current assets held for sale, in 2007, is 79,628 (79,993 in 2006). A breakdown by category is as follows:

(number)	2007	2006
Executives	1,315	1,384
Middle Management	5,234	5,065
White collars	70,519	70,748
Blu collars	341	417
Total employees at payroll	**77,409**	**77,614**
Personnel with temp work contracts	2,219	2,379
Total employees (*)	**79,628**	**79,993**

(*) Excluding employees relating to Discontinued operations/Non-current assets held for sale (no one in 2007, 279 in 2006).

The number of employees at December 31, 2007 is 83,429 (83,209 at December 31, 2006), with an increase of 220.

Note 33 - Other operating expenses

Other operating expenses amount to euro 2,245 million, an increase of euro 702 million compared to 2006. Details are as follows:

(millions of euro)	2007	2006
Impairments for bad debts and charges for non-financial credit management	960	564
Provision charges	323	107
TLC operating fees	283	236
Taxes on revenues of South American companies	266	222
Duties and indirect taxes	158	159
Penalties, compensations and administrative fines	60	49
Association fees, donations, scholarships and trainingships	27	25
Other expenses	168	181
Total	**2,245**	**1,543**
Of which, included in the additional information on Financial Instruments	*960*	*564*

Additional details on Financial Instruments are provided in the Note "Information on financial instruments".
The increase is mainly due to the Parent company and is related to higher accruals to the provision for bad debts and to provisions recorded in respect of the negative development on disputes of a regulatory nature with other telephone operators.

Note 34 - Internally generated assets

Internally generated assets amount to euro 577 million, an increase of euro 81 million compared to 2006, and consist of the following:

(millions of euro)	2007	2006
Intangible assets with a finite useful life	365	318
Property, plant and equipment owned	212	178
Total	**577**	**496**

Note 35 - Depreciation and amortization

Depreciation and amortization charges amount to euro 5,811 million, an increase of euro 324 million compared to 2006. Details are as follows:

(millions of euro)		2007	2006
Amortization of intangible assets with a finite useful life:			
Industrial patents and intellectual property rights		1,760	1,760
Concessions, licenses, trademarks and similar rights		323	310
Other intangible assets		298	110
	(A)	**2,381**	**2,180**
Depreciation of tangible assets owned:			
Buildings (civil and industrial)		44	48
Plant and equipment		2,795	2,644
Manufacturing and distribution equipments		31	33
Aircrafts and ships		7	7
Other assets		423	446
	(B)	**3,300**	**3,178**
Depreciation of tangible assets held under finance leases:			
Buildings (civil and industrial)		100	99
Plant and equipment		1	1
Aircrafts and ships		4	4
Other assets		25	25
	(C)	**130**	**129**
Total	**(A+B+C)**	**5,811**	**5,487**

An analysis of depreciation and amortization by segment is presented in the Note "Segment information".

The **amortization charge for Other intangible assets with a finite useful life** increased by euro 188 million. The increase is principally due to higher amortization charges of euro 176 million on capitalized SAC (Subscriber Acquisition Costs) and the positive effect of changes in the exchange rates.

The **depreciation charge for tangible assets (owned and held under finance leases)** increased by euro 123 million mainly in connection with domestic mobile telephone installations and the development of European Broadband.

Note 36 - Gains (losses) on disposals of non-current assets

Gains (losses) on disposals of non-current assets amount to euro 5 million, a decrease of 90 million compared to 2006. Details are as follows:

(millions of euro)		2007	2006
Gains on disposals of non-current assets:			
Gains on the retirement/disposal of intangible and tangible assets		32	165
Gains on the disposal of investments in subsidiaries		1	27
	(A)	**33**	**192**
Losses on disposals of non-current assets:			
Losses on the retirement/disposal of intangible and tangible assets		28	54
Losses on the disposal of business segments		–	9
Losses on the disposal of investments in subsidiaries		–	34
	(B)	**28**	**97**
Total	**(A-B)**	**5**	**95**

Gains (losses) on disposals non-current assets, total euro 5 million, mainly refer to the disposal of intangible and tangible assets and include the gain released to income that had been deferred at the time of the sale of properties to Tiglio II (euro 10 million).

In 2006, this line had included euro 135 million for gains, net of transaction costs, relating to the sale of properties to the closed-end real estate investment funds Raissa and Spazio Industriale, 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 euro 25 million for other net capital losses.

Note 37 - Impairment reversals (losses) on non-current assets

Impairment losses on non-current assets total euro 47 million, an increase of euro 26 million compared to 2006. Details are as follows:

(millions of euro)	2007	2006
Impairment losses on non-current assets:		
– on intangible assets	23	15
– on tangible assets	24	6
Total	**47**	**21**

Impairment losses on non-current assets total euro 47 million (euro 21 million in 2006). Of this amount, euro 23 million refers to the impairment losses of intangible assets taken by the Domestic business unit after abandoning activities for the development of some software projects and euro 24 million to tangible assets largely in reference to the Domestic and Olivetti business units due to the writedown of telephone materials and manufacturing equipment.

Impairment losses in 2006 mainly referred to the Latin American Nautilus group following a revision of the prospects for the South American wholesale market.

Note 38 - Finance income

Finance income amounts to euro 3,345 million, an increase of euro 304 million compared to 2006. Details are as follows:

(millions of euro)		2007	2006
Income from investments	**(A)**	**469**	**240**
Other finance income:			
Income from financial receivables classified as non-current assets		8	9
Income from securities other than investments, classified as non-current assets		4	14
Income from securities other than investments, classified as current assets		17	19
Income other than the above:			
Interest income		209	243
Foreign exchange gains		556	559
Income from fair value hedge derivatives		421	474
Reversal of the Reserve for cash flow hedge derivatives (interest rate component) to the income statement		491	327
Income from non-hedging derivatives		39	34
Miscellaneous finance income		78	177
	(B)	**1,823**	**1,856**
Positive fair value adjustments to:			
Fair value hedge derivatives		241	34
Underlying financial assets and liabilities of fair value hedg derivatives		720	767
Non-hedging derivatives		91	143
	(C)	**1,052**	**944**
Impairment reversals on financial assets	**(D)**	**1**	**1**
Total	**(A+B+C+D)**	**3,345**	**3,041**
Of which included in the additional information on Financial Instruments		*618*	*640*

Additional details on Financial Instruments are provided in the Note “Information on financial instruments”.

Income from investments particularly include gains, net of transaction costs, on the sale of the entire stake held in Oger Telecom (euro 86 million), Capitalia (euro 38 million), Mediobanca (euro 109 million), Solpart Participações (euro 201 million) and Brasil Telecom Participações (euro 27 million); in 2006, this line included gains realized on the sale of the entire holding in Neuf Télécom (euro 148 million) and the sale of AVEA I.H.A.S. (euro 72 million).

Foreign exchange gains (euro 556 million) decreased by euro 3 million compared to 2006 (euro 559 million). This amount was reduced by euro 540 million for the foreign exchange losses originating from the Reversal of the Reserve for cash flow hedge derivatives to the income statement (euro 313 million in 2006). The counterpart of foreign exchange gains is represented by foreign exchange losses (euro 561 million in 2007; euro 586 million in 2006). Additional information is provided in the Note “Finance expenses”.

Income from fair value hedge derivatives (euro 421 million) decreased by euro 53 million compared to 2006 (euro 474 million) and mainly refers to CCIRS contracts.

The positive effect of the Reversal of the Reserve for cash flow hedge derivatives (interest rate component) to the income statement (euro 491 million) increased by euro 164 million compared to 2006 (euro 327 million). It refers to CCIRS contracts for euro 313 million and IRS contracts for euro 178 million which include euro 55 million for the positive effect of the early closing of cash flow hedge derivatives on euro 1,500 million of underlying debt relating to the term loan totaling euro 3,000 million expiring in 2010.

Income from non-hedging derivatives (euro 39 million) increased by euro 5 million compared to 2006 (euro 34 million) and refers to IRS contracts for euro 29 million, CCIRS contracts for euro 1 million and other derivative contracts for euro 9 million.
Miscellaneous finance income (euro 78 million) decreased by euro 99 million compared to 2006 (euro 177 million) mainly as there are no longer any AVEA provisions to be released to income (euro 121 million).

Positive fair value adjustments to fair value hedge derivatives of euro 241 million increased by euro 207 million compared to 2006 (euro 34 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 269 million (euro 70 million in 2006).

Positive fair value adjustments to the underlying financial assets and liabilities of fair value hedge derivatives of euro 720 million, decreased by euro 47 million compared to 2006 (euro 767 million). The counterpart of this amount is represented by negative fair value adjustments to the corresponding fair value hedge derivatives equal to euro 722 million (euro 758 million in 2006).

Positive fair value adjustments to non-hedging derivatives of euro 91 million (including euro 70 million relating to the Sofora Telecomunicaçiones option), decreased by euro 52 million compared to 2006 (euro 143 million).

Note 39 - Finance expenses

Finance expenses amount to euro 5,094 million, an increase of euro 80 million compared to 2006. Details are as follows:

(millions of euro)		2007	2006
Charges from investments	**(A)**	–	–
Interest expenses and other finance expenses:			
Interest expenses and other costs relating to bonds		1,824	1,889
Interest expenses to banks		360	363
Interest expenses to others		235	237
		2,419	2,489
Commissions		14	27
Foreign exchange losses		561	586
Charges from fair value hedge derivatives		435	364
Reversal of the Reserve for cash flow hedge derivatives (interest rate component) to the income statement		421	326
Charges from non-hedging derivatives		44	69
Miscellaneous finance expenses		179	216
	(B)	**4,073**	**4,077**
Negative fair value adjustments to:			
Fair value hedge derivatives		722	758
Underlying financial assets and liabilities of fair value hedge derivatives		269	70
Non-hedging derivatives		28	100
	(C)	**1,019**	**928**
Impairment losses on financial assets	**(D)**	**2**	**9**
Total	**(A+B+C+D)**	**5,094**	**5,014**
Of which included in the additional information on Financial Instruments		*3,370*	*3,164*

Additional details on Financial Instruments are provided in the Note "Information on financial instruments".

Interest expenses and other finance expenses (euro 2,419 million) decreased by euro 70 million compared to 2006 (euro 2,489 million) mainly as a result of a reduction in the average net debt exposure, which compensated the negative effect of a rise in interest rates on a portion of floating-rate debt.

Foreign exchange losses (euro 561 million) decreased by euro 25 million compared to 2006 (euro 586 million). The counterpart of this amount is represented by foreign exchange gains (euro 556 million in 2007, euro 559 million in 2006).

Charges from fair value hedge derivatives (euro 435 million) increased by euro 71 million compared to 2006 (euro 364 million) and refer to CCIRS contracts for euro 379 million and IRS contracts for euro 56 million.

The negative effect of the Reversal of the Reserve for cash flow hedge derivatives to the income statement for the interest rate component (euro 421 million) increased by euro 95 million compared to 2006 (euro 326 million), refers to CCIRS contracts for euro 290 million and IRS contracts for euro 131 million.

Charges from non-hedging derivatives (euro 44 million) decreased by euro 25 million compared to 2006 (euro 69 million), refer to IRS contracts for euro 28 million, CCIRS contracts for euro 5 million and other derivative contracts for euro 11 million.

Negative fair value adjustments to fair value hedge derivatives (euro 722 million) decreased by euro 36 million compared to 2006 (euro 758 million). The counterpart of this amount is represented by the positive fair value adjustments to the underlying financial assets and liabilities of fair value hedge derivatives (euro 720 million in 2007; euro 767 million in 2006).

Negative fair value adjustments to underlying financial assets and liabilities of fair value hedge derivatives (euro 269 million) increased by euro 199 million compared to 2006 (euro 70 million). The counterpart of this amount is represented by the positive fair value adjustments to the corresponding fair value hedge derivatives (euro 241 million in 2007, euro 34 million in 2006).

Negative fair value adjustments to non-hedging derivatives (euro 28 million) decreased by euro 72 million compared to 2006 (euro 100 million).

Note 40 - Income tax expense

Income taxes for the year ended December 31, 2007 and 2006 are detailed as follows:

(millions of euro)		2007	2006
Current tax for the year		892	760
Reversal of current tax for prior years		(144)	(78)
Total current tax		**748**	**682**
Deferred tax		934	1,837
Total income tax expense on continuing operations	**(A)**	**1,682**	**2,519**
Taxes on Discontinued operations/Non-current assets held for sale	**(B)**	**(1)**	**–**
Total income tax expense for the year	**(A+B)**	**1,681**	**2,519**

Taxes on "Discontinued operations/Non-current assets held for sale" are classified in the income statement in "Profit (loss) from discontinued operations/Non-current assets held for sale".

The profit before tax and the income tax expense for the years ended December 31, 2007 and 2006 are summarized as follows:

(millions of euro)	2007	2006
Profit before tax:		
– from continuing operations	4,101	5,515
– from Discontinued operations/Non-current assets held for sale	35	7
Total profit before tax	**4,136**	**5,522**
Current tax	747	682
Deferred tax	934	1,837
Total income tax expense	**1,681**	**2,519**

(millions of euro)	2007	2006
Income tax expense:		
– on continuing operations	1,682	2,519
– on Discontinued operations/Non-current assets held for sale	(1)	–
Total income tax expense	**1,681**	**2,519**

The reconciliation of the income taxes on the pretax profit of the Group at the tax rate in force and the effective tax rate for the years ended December 31, 2007 and 2006 is the following:

(millions of euro)	2007		2006	
Profit before tax				
– on continuing operations	4,101		5,515	
– on Discontinued operations/Non-current assets held for sale	35		7	
Total profit before tax	**4,136**		**5,522**	
Tax calculated at the 33% tax rate in force	**1,365**	**33%**	**1,822**	**33%**
Tax losses for the year not considered recoverable	73	2%	127	2%
Tax losses not considered recoverable in previous years and recovered during the year	(91)	(2%)	(39)	(1%)
Non-deductible costs	69	2%	57	1%
Effect of change in IRES tax rate	(37)	(1%)	–	
Withholding tax	(96)	(2%)	–	
Other net differences	(29)	(1%)	24	1%
IRAP and other taxes calculated on a different basis other than profit before tax	427	10%	528	10%
Total effective taxes recognised in the income statement	**1,681**	**41%**	**2,519**	**46%**

Income tax expense is euro 1,681 million and decreased by euro 838 million compared to the year ended December 31, 2006.

This decrease can be ascribed to a lower taxable profit, the effects stemming from the "State Budget Law 2008" and the recovery of withholding taxes on interest earned prior to January 1, 2004 in favor of the subsidiaries residing in the European Union.
The recovery was rendered possible by the issue of Decree Law 10 dated February 15, 2007; there is a net positive impact of euro 96 million resulting from a gross amount of euro 143 million on which taxes were calculated for euro 47 million.

In particular, the application of the new tax rates for IRES (27.5%) and IRAP (3.9%), established by Law 244/07 (State Budget Law 2008), led to a lower tax charge in the calculation of deferred taxes of euro 46 million.

The company is also evaluating whether to take advantage of the regulations allowing the company to pay the differences between the book and tax amounts pursuant to the State Budget Law 2008.

Note 41 - Earnings per share

The potential shares from the conversion of stock options and convertible bonds have an anti-dilutive effect and therefore have not been considered in the calculation of earnings per share.

The additional dividends due conventionally to the savings shares (at an invariable amount of euro 0.011) were entirely allocated to the profit from continuing operations.

		2007	2006
Basic and diluted earnings per share			
Profit attributable to the Parent		2,448	3,014
Less: additional dividends for savings shares (euro 0.011 per share)		(66)	(66)
	(millions of euro)	2,382	2,948
Average number of ordinary and savings shares	(millions)	19,281	19,281
Basic and diluted earnings per share - ordinary shares		0.12	0.15
Plus: additional dividends per savings share		0.01	0.01
Basic and diluted earnings per share - savings shares	(euro)	0.13	0.16
Basic and diluted earnings per share from continuing operations			
Profit from continuing operations		2,412	3,007
Less: additional dividends for savings shares		(66)	(66)
	(millions of euro)	2,346	2,941
Average number of ordinary and savings shares	(millions)	19,281	19,281
Basic and diluted earnings per share from continuing operations - ordinary shares		0.12	0.15
Plus: additional dividend per savings share		0.01	0.01
Basic and diluted earnings per share from continuing operations - savings shares	(euro)	0.13	0.16
Basic and diluted earnings per share from Discontinued operations/Non-current assets held for sale			
Profit from Discontinued operations/Non-current assets held for sale	(millions of euro)	36	7
Average number of ordinary and savings shares	(millions)	19,281	19,281
Basic and diluted earnings per share from Discontinued operations/Non-current assets held for sale - ordinary shares	(euro)	0.00	0.00
Basic and diluted earnings) per share from Discontinued operations/Non-current assets held for sale - savings shares	(euro)	0.00	0.00

	2007	2006
Average number of ordinary shares	13,254,934,303	13,254,860,233
Average number of savings shares	6,026,120,661	6,026,120,661
Total	**19,281,054,964**	**19,280,980,894**

Note 42 - Segment information

a) Information by business segment

Starting from the first quarter of 2007, the disclosure of segment information has been modified to reflect the organizational structure in effect from January 22, 2007.
The new structure aims to ensure greater operational flexibility and facilitate the convergence among the various areas of business (fixed communications, mobile communications, broadband internet and media content).
The accounting representation is the following:
- Domestic
- European BroadBand
- Brazil Mobile
- Media
- Olivetti
- Other operations

In order to facilitate the comparability of the data, the segment information of 2006 has been restated.

CONSOLIDATED INCOME STATEMENTS BY BUSINESS SEGMENT

(millions of euro)	Domestic		European BroadBand		Brazil Mobile		Media		Olivetti		Other operations		Adjustments and eliminations		Consolidated total	
	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006	2007	2006
Third-party revenues	23,992	25,635	1,515	896	4,982	3,959	240	197	352	385	209	203	–	–	31,290	31,275
Intragroup revenues	228	150	30	19	8	5	23	10	56	55	42	31	(387)	(270)	–	–
Revenues by segment	24,220	25,785	1,545	915	4,990	3,964	263	207	408	440	251	234	(387)	(270)	31,290	31,275
Other income	325	468	38	38	28	65	13	13	18	27	13	7	(22)	(12)	413	606
Total operating revenues and other income	**24,545**	**26,253**	**1,583**	**953**	**5,018**	**4,029**	**276**	**220**	**426**	**467**	**264**	**241**	**(409)**	**(282)**	**31,703**	**31,881**
Acquisition of goods and services	(10,215)	(10,748)	(1,146)	(741)	(2,810)	(2,210)	(240)	(213)	(357)	(397)	(125)	(135)	348	253	(14,545)	(14,191)
Employee benefits expenses	(3,282)	(3,276)	(191)	(124)	(223)	(208)	(79)	(76)	(81)	(91)	(34)	(34)	6	8	(3,884)	(3,801)
of which accrual for employee severance indemnities	*(66)*	*(138)*	–	–	–	–	*(1)*	*(3)*	*(1)*	*(4)*	–	*(1)*	–	–	*(68)*	*(146)*
Other operating expenses	(1,337)	(822)	(40)	(30)	(821)	(642)	(14)	(14)	(23)	(11)	(12)	(22)	2	(2)	(2,245)	(1,543)
of which bad debts expenses and charges to risk provisions	*(939)*	*(451)*	*(34)*	*(25)*	*(285)*	*(174)*	*(4)*	*(3)*	*(19)*	*(9)*	*(2)*	*(9)*	–	–	*(1,283)*	*(671)*
Changes in inventories	(24)	30	–	–	43	(19)	1	(1)	(9)	(1)	1	(1)	(1)	–	11	8
Internally generated assets	487	456	40	23	–	–	1	1	–	–	–	–	49	16	577	496
EBITDA	**10,174**	**11,893**	**246**	**81**	**1,207**	**950**	**(55)**	**(83)**	**(44)**	**(33)**	**94**	**49**	**(5)**	**(7)**	**11,617**	**12,850**
Depreciation and amortization	(4,397)	(4,304)	(312)	(197)	(1,048)	(930)	(62)	(55)	(16)	(18)	(31)	(41)	55	58	(5,811)	(5,487)
Gains (losses) on disposals of non-current assets	12	108	–	(9)	(9)	1	–	1	–	1	–	29	2	(36)	5	95
Impairment reversals (losses) on non-current assets	(38)	(21)	(3)	–	–	–	–	–	(6)	–	–	–	–	–	(47)	(21)
EBIT	**5,751**	**7,676**	**(69)**	**(125)**	**150**	**21**	**(117)**	**(137)**	**(66)**	**(50)**	**63**	**37**	**52**	**15**	**5,764**	**7,437**
Share of profits (losses) of associates and joint ventures accounted for using the equity method	10	(2)	–	–	–	–	–	–	–	–	76	53	–	–	86	51
Finance income															3,345	3,041
Finance expenses															(5,094)	(5,014)
Profit before tax from continuing operations															**4,101**	**5,515**
Income tax expense															(1,682)	(2,519)
Profit from continuing operations															**2,419**	**2,996**
Profit from Discontinued operations/Non-curent assets held for sale															36	7
Profit for the year															**2,455**	**3,003**
of which:																
– **Profit attributable to equity holders of the Parent**															**2,448**	**3,014**
– Profit (loss) attributable to Minority Interest															7	(11)

CAPITAL EXPENDITURES BY BUSINESS SEGMENT

(millions of euro)	Domestic		European BroadBand		Brazil Mobile		Media		Olivetti		Other operations		Adjustments and eliminations		Consolidated total	
	2007	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**	**2007**	**2006**
– Purchase of intangible assets	1,597	1,592	243	242	477	357	48	56	1	–	–	–	(9)	(60)	2,357	2,187
– Purchase of tangible assets	2,467	2,302	265	225	388	342	21	29	7	10	16	21	(1)	(2)	3,163	2,927
Total capital expenditures	**4,064**	**3,894**	**508**	**467**	**865**	**699**	**69**	**85**	**8**	**10**	**16**	**21**	**(10)**	**(62)**	**5,520**	**5,114**

EMPLOYEES AT YEAR-END BY BUSINESS SEGMENT

(number)	Domestic		European BroadBand		Brazil Mobile		Media		Olivetti		Other operations		Consolidated total	
	12/31/07	**12/31/06**	**12/31/07**	**12/31/06**	**12/31/07**	**12/31/06**	**12/31/07**	**12/31/06**	**12/31/07**	**12/31/06**	**12/31/07**	**12/31/06**	**12/31/07**	**12/31/06**
Employees (*)	64,362	66,835	4,551	3,066	10,030	9,531	1,016	919	1,279	1,428	2,191	1,430	83,429	83,209

(*) Employees at year-end do not take into account the number of employees relating to Discontinued operations/Non-current assets held for sale.

OTHER INFORMATION BY BUSINESS SEGMENT

(millions of euro)	Domestic		European BroadBand		Brazil Mobile		Media		Olivetti		Other operations		Adjustments and eliminations		Consolidated total	
	12/31/07	**12/31/06**	**12/31/07**	**12/31/06**	**12/31/07**	**12/31/06**	**12/31/07**	**12/31/06**	**12/31/07**	**12/31/06**	**12/31/07**	**12/31/06**	**12/31/07**	**12/31/06**	**12/31/07**	**12/31/06**
Operating assets by segment	69,056	69,559	2,430	1,462	5,919	5,379	653	646	249	323	595	513	(302)	(280)	78,600	77,602
Investments accounted for using the equity method	129	141	1	1	–	–	–	–	1	1	353	345	–	–	484	488
Discontinued operations/Non-current assets															–	235
Unallocated assets															8,341	11,132
Total Assets															**87,425**	**89,457**
Operating liabilities by segment	13,041	13,019	625	449	1,648	1,277	194	189	225	257	157	98	(253)	(179)	15,637	15,110
Liabilities directly associated with Discontinued operations/Noncurrent assets held for sale															–	–
Unallocated liabilities															44,803	47,249
Equity															26,985	27,098
Total Equity and Liabilities															**87,425**	**89,457**

b) Information by geographical segment

Revenues by geographical segment (by geographical location of the Group's customers):

(millions of euro)	2007	2006
Italy	22,126	23,306
Europe (excluding Italy)	3,083	2,946
Latin America	5,223	4,220
Other countries	858	803
Total	**31,290**	**31,275**

Operating assets by geographical segment:

(millions of euro)	12/31/2007	12/31/2006
Italy	70,081	69,903
Europe (excluding Italy)	2,351	2,029
Latin America	6,167	5,650
Other countries	1	20
Total	**78,600**	**77,602**

Capital expenditures in tangible and intangible assets by geographical segment:

(millions of euro)	2007	2006
Italy	4,076	3,918
Europe (excluding Italy)	551	467
Latin America	881	719
Other countries	12	10
Total	**5,520**	**5,114**

Employees by geographical segment:

(number)	Executives	Middle management	Clerical staff	Technicians	People with temp contracts	Total 12/31/2007	Total 12/31/2006
Italy	1,211	4,591	59,438	351	1,360	66,951	68,823
Europe (excluding Italy)	43	528	3,663		612	4,846	3,371
Latin America	39	363	11,152			11,554	10,936
Other countries	8	36	34			78	79
Total	**1,301**	**5,518**	**74,287**	**351**	**1,972**	**83,429**	**83,209**

Note 43 - 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 income statements, the balance sheets and the cash flow statements for the years ended December 31, 2007 and 2006 are presented in the following tables.

	Transactions with related parties (amount)		Corresponding caption in consolidated financial statements (amount)		% impact of related parties	
(millions of euro)	2007	2006	2007	2006	2007	2006
Revenues						
Of which attributable to transactions with:						
– associates and joint ventures	269	270				
– subsidiaries of associates and joint ventures	20	176				
– other related parties through directors, statutory auditors and key managers	206	18				
– pension funds						
	495	**464**	**31,290**	**31,275**	**1.6**	**1.5**
Other income						
Of which attributable to transactions with:						
– associates and joint ventures	3	6				
– subsidiaries of associates and joint ventures		1				
– other related parties through directors, statutory auditors and key managers						
– pension funds						
	3	**7**	**413**	**606**	**0.7**	**1.2**
Acquisition of goods and services						
Of which attributable to transactions with:						
– associates and joint ventures	89	103				
– subsidiaries of associates and joint ventures	24	61				
– other related parties through directors, statutory auditors and key managers	174	93				
– pension funds						
	287	**257**	**14,545**	**14,191**	**2.0**	**1.8**
Employees benefits expenses						
Of which attributable to transactions with:						
– associates and joint ventures						
– subsidiaries of associates and joint ventures						
– other related parties through directors, statutory auditors and key managers	2					
– pension funds	84	25				
– compensi a dirigenti con responsabilità strategica dell'impresa	43	33				
	129	**58**	**3,884**	**3,801**	**3.3**	**1.5**
Other operating expenses						
Of which attributable to transactions with:						
– associates and joint ventures						
– subsidiaries of associates and joint ventures						
– other related parties through directors, statutory auditors and key managers		6				
– pension funds						
	–	**6**	**2,245**	**1,543**	**...**	**0.4**
Finance income						
Of which attributable to transactions with:						
– associates and joint ventures	1	1				
– subsidiaries of associates and joint ventures						
– other related parties through directors, statutory auditors and key managers	83					
– pension funds						
	84	**1**	**3,345**	**3,041**	**2.5**	**...**
Finance expenses						
Of which attributable to transactions with:						
– associates and joint ventures	38	27				
– subsidiaries of associates and joint ventures						
– other related parties through directors, statutory auditors and key managers	46					
– pension funds						
	84	**27**	**5,094**	**5,014**	**1.6**	**0.5**
Capital expenditures for intangible and tangible assets (on an accrual basis)						
Of which attributable to transactions with:						
– associates and joint ventures	57	144				
– subsidiaries of associates and joint ventures	274	338				
– other related parties through directors, statutory auditors and key managers	82	61				
– pension funds						
	413	**543**	**5,520**	**5,114**	**7.5**	**10.6**
Dividends paid						
Of which attributable to transactions with:						
– associates and joint ventures						
– subsidiaries of associates and joint ventures						
– other related parties through directors, statutory auditors and key managers	383	348				
– pension funds						
	383	**348**	**2,831**	**2,997**	**13.5**	**11.6**

(millions of euro)	Transactions with related parties (amount) 12/31/2007	12/31/2006	Corresponding caption in consolidated financial statements (amount) 12/31/2007	12/31/2006	% impact of related parties 12/31/2007	12/31/2006
NET FINANCIAL DEBT:						
Securities, financial receivables and other non-current financial assets						
Of which attributable to transactions with:						
– associates and joint ventures	25	24				
– subsidiaries of associates and joint ventures						
– other related parties through directors, statutory auditors and key managers						
– pension funds						
	25	**24**	**695**	**691**	**3.6**	**3.5**
Securities (Current assets)						
Of which attributable to transactions with:						
– associates and joint ventures						
– subsidiaries of associates and joint ventures						
– other related parties through directors, statutory auditors and key managers	7					
– pension funds						
	7		**390**	**812**	**1.8**	**…**
Financial receivables and other current financial assets						
Of which attributable to transactions with:						
– associates and joint ventures		1				
– subsidiaries of associates and joint ventures						
– other related parties through directors, statutory auditors and key managers	13					
– pension funds						
	13	**1**	**377**	**433**	**3.4**	**0.2**
Cash and cash equivalents						
Of which attributable to transactions with:						
– associates and joint ventures	1	1				
– subsidiaries of associates and joint ventures						
– other related parties through directors, statutory auditors and key managers	277					
– pension funds						
	278	**1**	**6,473**	**7,219**	**4.3**	**…**
Non-current financial liabilities						
Of which attributable to transactions with:						
– associates and joint ventures	279	239				
– subsidiaries of associates and joint ventures						
– other related parties through directors, statutory auditors and key managers	581					
– pension funds						
	860	**239**	**37,051**	**40,803**	**2.3**	**0.6**
Current financial liabilities						
Of which attributable to transactions with:						
– associates and joint ventures	141	148				
– subsidiaries of associates and joint ventures						
– other related parties through directors, statutory auditors and key managers	164					
– pension funds						
	305	**148**	**6,585**	**5,653**	**4.6**	**2.6**
Total net financial debt						
Of which attributable to transactions with:						
– associates and joint ventures	394	361				
– subsidiaries of associates and joint ventures						
– other related parties through directors, statutory auditors and key managers	448					
– pension funds						
	842	**361**	**35,701**	**37,301**	**2.4**	**1.0**

(millions of euro)	Transactions with related parties (amount) 12/31/2007	Transactions with related parties (amount) 12/31/2006	Corresponding caption in consolidated financial statements (amount) 12/31/2007	Corresponding caption in consolidated financial statements (amount) 12/31/2006	% impact of related parties 12/31/2007	% impact of related parties 12/31/2006
OTHER BALANCE SHEET CAPTIONS:						
Miscellaneous receivables and other non-current assets						
Of which attributable to transactions with:						
– associates and joint ventures	7	10				
– subsidiaries of associates and joint ventures						
– other related parties through directors, statutory auditors and key managers						
– pension funds						
	7	**10**	**866**	**871**	**0.8**	**1.1**
Trade and miscellaneous receivables and other current assets						
Of which attributable to transactions with:						
– associates and joint ventures	156	201				
– subsidiaries of associates and joint ventures	9	14				
– other related parties through directors, statutory auditors and key managers	369	5				
– pension funds						
	534	**220**	**9,088**	**8,748**	**5.9**	**2.5**
Miscellaneous payables and other non-current liabilities						
Of which attributable to transactions with:						
– associates and joint ventures						
– subsidiaries of associates and joint ventures	23	23				
– other related parties through directors, statutory auditors and key managers	1					
– pension funds						
	24	**23**	**1,587**	**1,857**	**1.5**	**1.2**
Trade and miscellaneous payables and other current liabilities						
Of which attributable to transactions with:						
– associates and joint ventures	54	99				
– subsidiaries of associates and joint ventures	56	58				
– other related parties through directors, statutory auditors and key managers	200	27				
– pension funds	31	20				
	341	**204**	**12,380**	**11,596**	**2.8**	**1.8**

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 joint ventures on the other.

As a result of the acquisition of the 50% stake in Shared Service Center S.r.l. by Telecom Italia from Pirelli, the company has been consolidated line-by-line starting from October 1, 2007. The related party transactions show the balances and capital expenditures with this company up to September 30, 2007.

(millions of euro)	**2007**	**2006**	
Revenues	269	270	These mainly refer to revenues from: Teleleasing S.p.A. euro 233 million (euro 225 million in 2006), LI.SIT. S.p.A. euro 13 million (euro 12 million in 2006), Shared Service Center Scrl euro 14 million (euro 20 million in 2006), ETECSA euro 6 million (euro 8 million in 2006), Telbios S.p.A. euro 1 million and NordCom S.p.A. euro 1 million (euro 1 million in 2006). In 2006 there were revenues from Siemens IT Solutions and Services S.p.A. euro 1 million and AVEA I.H.A.S. euro 1 million, no longer related parties.
Other income	3	6	This mainly refers to cost recoveries for off-site personnel by certain subsidiaries and associates.
Acquisition of goods and services	89	103	These refer mainly to costs for rent from Tiglio I S.r.l. euro 5 million (euro 5 million in 2006) and Tiglio II S.r.l. euro 1 million (euro 3 million in 2006), for telecommunications services from ETECSA euro 6 million (euro 6 million in 2006), for maintenance and assistance contracts from Shared Service Center Scrl euro 20 million (euro 27 million in 2006), for telecommunications equipment from Teleleasing S.p.A. euro 28 million (euro 15 million in 2006), for sponsorship costs from Luna Rossa Challenge 2007 S.L. euro 13 million (euro 17 million in 2006), for accessories and consumables from Baltea S.r.l. euro 5 million (euro 4 million in 2006), for remote medicine services from Telbios S.p.A. euro 8 million (euro 5 million in 2006) and costs for software services from NordCom S.p.A. euro 3 million (euro 2 million in 2006). In 2006 there were costs for software and computer materials as well as costs for maintenance and assistance contracts from Siemens IT Solutions and Services S.p.A euro 17 million and for telecommunications services from AVEA I.H.A.S. euro 2 million, no longer related parties.
Finance income	1	1	This includes accrued interest income earned on loans made to Aree Urbane S.r.l..
Finance expenses	38	27	These refer to interest expenses with Teleleasing S.p.A. for finance leases euro 37 million (euro 26 million in 2006) and Tiglio I S.r.l. euro 1 million (euro 1 million in 2006).
Capital expenditures in tangible and intangible assets (on an accrual basis)	57	144	These refer mainly to projects and acquisitions of computer from Shared Service Center Scrl euro 53 million (euro 77 million in 2006), Telbios S.p.A. euro 2 million (euro 1 million in 2006) and Movenda S.p.A. euro 1 million. In 2006 there were purchases from Siemens IT Solutions and Services S.p.A. euro 65 million.

(millions of euro)	12/31/2007	12/31/2006	
Securities, financial receivables and other non-current financial assets	25	24	These refer to medium/long-term loans made to Aree Urbane S.r.l..
Miscellaneous receivables and other non-current assets	7	10	These refer to receivables from LI.SIT S.p.A. for the residual paid-in capital paid.
Trade and miscellaneous receivables and other current assets	156	201	These refer mainly to receivables from: LI.SIT. S.p.A. euro 94 million (euro 120 million at 12/31/2006), Teleleasing S.p.A. euro 56 million (euro 64 million at 12/31/2006), ETECSA euro 3 million (euro 2 million at 12/31/2006), Telbios S.p.A. euro 2 million (euro 1 million at 12/31/2006) and NordCom S.p.A. euro 1 million. At 12/31/2006 there were also receivables from Luna Rossa Challenge 2007 S.L. for euro 10 million and Shared Service Center Scrl euro 2 million.
Financial receivables and other current financial assets	–	1	At 12/31/2006 these referred to loans made to Aree Urbane S.r.l..
Cash and cash equivalents	1	1	These refer to treasury accounts with Perseo S.r.l..
Non-current financial liabilities	279	239	These refer to non-current financial payables (i) to Teleleasing S.p.A. euro 271 million (euro 231 million at 12/31/2006) for finance leases (ii) to Tiglio I S.r.l. euro 7 million (euro 7 million at 12/31/2006) and Tiglio II S.r.l. euro 1 million (euro 1 million at 12/31/2006) for building sale and leaseback transactions.
Current financial liabilities	141	148	These refer to current financial payables to Teleleasing S.p.A. euro 141 million (euro 143 million at 12/31/2006) for finance leases. At 12/31/2006 there were current financial payables to Tiglio I S.r.l. euro 4 million and Tiglio II S.r.l. euro 1 million.
Trade and miscellaneous payables and other current liabilities	54	99	These mainly refer to payables, under supply contracts connected with operating and investment activities, to: Teleleasing S.p.A. euro 10 million (euro 3 million at 12/31/2006), ETECSA euro 16 million (euro 12 million at 12/31/2006), Telbios S.p.A. euro 3 million (euro 2 million at 12/31/2006), Baltea S.r.l. euro 1 million (euro 1 million at 12/31/2006), Asscom S.r.l. euro 1 million (euro 1 million at 12/31/2006), NordCom S.p.A. euro 3 million (euro 1 million at 12/31/2006), Movenda S.p.A. euro 1 million and Tiglio I S.r.l. euro 2 million, and deferred income from LI.SIT S.p.A. euro 16 million relating to the accrued portion of investment income (euro 14 million at 12/31/2006). At 12/31/2006 there were also trade payables to Luna Rossa Challenge 2007 S.L. euro 1 million, Shared Service Center Scrl euro 16 million; there were also payables to Siemens IT Solutions and Services S.p.A. euro 48 million, no longer a related party.

The following tables present 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 companies controlled by jointly controlled companies on the other (the companies of the Italtel group, related parties through the investment in the parent Italtel Group S.p.A. and the companies of the Telecom Argentina group related through Sofora Telecomunicaçiones S.A.).

(millions of euro)	2007	2006	
Revenues	20	176	These refer to revenues from the Telecom Argentina group euro 18 million (euro 16 million in 2006) and Italtel group euro 2 million (euro 2 million in 2006). In 2006 there were revenues from the Brasil Telecom Participações group euro 158 million relating to telecommunications services, no longer a related party.
Other income	–	1	In 2006 this mainly referred to cost recoveries for off-site personnel at certain subsidiaries and associates.
Acquisition of goods and services	24	61	These refer to costs for maintenance and assistance contracts from the Italtel group euro 17 million (euro 25 million in 2006) and telecommunications service costs from the Telecom Argentina group euro 7 million (euro 7 million in 2006). In 2006 there were costs for telecommunications services from the Brasil Telecom Participações group euro 29 million, no longer a related party.
Capital expenditures in tangible and intangible assets (on an accrual basis)	274	338	These refer to the purchase of telephone equipment from the Italtel group.

(millions of euro)	12/31/2007	12/31/2006	
Trade and miscellaneous receivables and other current assets	9	14	These refer to telecommunications services rendered to the Italtel group euro 1 million (euro 1 million at 12/31/2006) and receivables from the Telecom Argentina group connected with telecommunications activities for euro 8 million (euro 13 million at 12/31/2006).
Miscellaneous payables and other non-current liabilities	23	23	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	56	58	These refer to payables, for supply transactions connected with investment and operating activities, to the Italtel group euro 52 million (euro 54 million at 12/31/2006) and to the Telecom Argentina group for telecommunications activities euro 4 million (euro 4 million at 12/31/2006) 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 Telecom Italia Group has also provided guarantees on behalf of associates and companies controlled by associates for a total of euro 95 million (euro 102 million at December 31, 2006) of which euro 54 million is on behalf of Tiglio I S.r.l. (euro 54 million at December 31, 2006), euro 11 million on behalf of Aree Urbane S.r.l. (euro 11 million at December 31, 2006), euro 19 million on behalf of Italtel group (euro 25 million at December 31, 2006) and euro 11 million on behalf of other companies (euro 12 million at December 31, 2006).

The following tables present the major economic, balance sheet and financial transactions and balances between companies consolidated line-by-line on one hand and parties related to Telecom Italia S.p.A. through directors, statutory auditors and key managers on the other.

Furthermore, as a result of the expiration of the terms of office of the directors Vittorio Merloni and Massimo Moratti and the resignations of the directors Luciano Gobbi, Claudio De Conto, Carlo Alessandro Puri Negri and Diana Bracco, there are no longer any related party transactions with the companies of the Merloni group, the company F.C. Internazionale Milano S.p.A., the companies of the Bracco group and those with the companies of the Pirelli group and CamFin group. Consequently, the related party transactions show the income statement balances and capital expenditures up to June 30, 2007 with the companies of the Merloni group and the company F.C. Internazionale Milano S.p.A. and up to September 30, 2007 with the companies of the Bracco, Pirelli and CamFin groups.

Following the appointment of the new directors Stefano Cao, Renzo Capra, Aldo Minucci, Gaetano Miccichè, César Alierta Izuel and Julio Linares López, the following are considered related parties: respectively, the companies of the Eni, Asm and Generali groups, starting from April 1, 2007, the Intesa SanPaolo group, starting from July 1, 2007 and the Telefonica group starting from November 1, 2007.

With regard to transactions with the companies of the Telefonica group, reference should be made to paragraph 8 in the Annual Report on Corporate Governance.

(millions of euro)	2007	2006	
Revenues	206	18	These refer to: (i) information systems and computer services, energy and telephone services, to the Pirelli group euro 6 million (euro 11 million in 2006); (ii) telecommunications services and the lease of movable assets registered to the Eni group euro 23 million, (iii) telecommunications services to: the Telefonica group euro 103 million, the Intesa SanPaolo group euro 39 million, the Edizione Holding group euro 7 million (euro 5 million in 2006), the Asm group euro 1 million, to related companies through Mr. Moratti euro 1 million (euro 1 million in 2006), to the Generali group euro 19 million, to the Merloni group euro 2 million and to Mediobanca group euro 5 million. In 2006 there were also revenues from Telepost S.p.A. euro 1 million, no longer a related party.

(millions of euro)	2007	2006	
Acquisition of goods and services	174	93	These refer to R&D expenditures, purchases of ADSL modems and equipment, consulting and services regarding intellectual property rights and real estate activities from the Pirelli group euro 27 million (euro 69 million in 2006), sponsorships and commissions paid for the sale of prepaid telephone cards to Autogrill S.p.A. (Edizione Holding group) euro 2 million (euro 2 million in 2006), sponsorship and content provider costs from F.C. Internazionale Milano S.p.A. – related company through Mr. Moratti – euro 2 million (euro 3 million in 2006), supply of energy from CamFin S.p.A. euro 1 million (euro 1 million in 2006), supply of fuel by the Eni group euro 38 million and insurance premiums and building leases from the Generali group euro 15 million, telecommunications services from the Telefonica group euro 80 million, costs for credit recovery activities and factoring commissions from the Intesa SanPaolo group euro 8 million and from the Mediobanca group euro 1 million. In 2006 there were also costs for Document Management services from Telepost S.p.A. euro 18 million, no longer a related party.
Employee benefits expenses	2	–	This refer to non-mandatory personnel insurance premiums from the Generali group.
Other operating expenses	–	6	In 2006 there were other operating expenses relating to commercial settlements with the Pirelli group.
Finance income	83	–	This refers to income from the Intesa SanPaolo group euro 72 million and derivative contracts with the Mediobanca group euro 11 million.
Finance expenses	46	–	These refer to expenses on derivative contracts with Mediobanca group euro 30 million and interest expenses on short-term payables, finance leases and the sale of receivables with the Intesa SanPaolo group euro 16 million.
Capital expenditures in tangible and intangible assets (on an accrual basis)	82	61	These refer to unbundling from the Telefonica group euro 4 million and purchases of ADSL modems and equipment from the Pirelli group euro 78 million (euro 61 million in 2006).

(millions of euro)	12/31/2007	12/31/2006	
Trade and miscellaneous receivables and other current assets	369	5	These mainly refer to the above-mentioned services for revenues from sales and services to the Telefonica group euro 91 million, to the Edizione Holding group euro 2 million (euro 1 million at 12/31/2006), to the Generali group euro 9 million, to the Eni group euro 4 million, to the Intesa SanPaolo group euro 262 million and to the Mediobanca group euro 1 million. At 12/31/2006 these referred to trade receivables from other companies euro 1 million and from the Pirelli group euro 3 million, no longer related parties.
Securities (current assets)	7	–	These refer to securities issued by the Mediobanca group.
Financial receivables and other current financial assets	13	–	There refer to derivatives on assets of a financial nature put into place with the Intesa SanPaolo group euro 12 million and to fair value hedge derivatives put into place with the Mediobanca group euro 1 million.
Cash and cash equivalents	277	–	These refer to bank deposits with the Intesa SanPaolo group.
Non-current financial liabilities	581	–	These refer to non-current financial payables for the Term Loan Facility euro 68 million, and the Revolving Credit Facility euro 62 million with the Mediobanca group. They also refer to non-current financial payables relating to the Term Loan Facility euro 259 million, the Revolving Credit Facility euro 126 million, fair value hedge derivatives euro 41 million, loans euro 9 million and finance lease liabilities euro 16 million with Intesa SanPaolo group.
Miscellaneous payables and other non-current liabilities	1	–	These refer to deferred income on the supply of “IRU” transmission capacity to the Telefonica group.
Current financial liabilities	164	–	These refer to fair value hedge derivatives put into place with the Mediobanca group euro 44 million and current account balances euro 66 million, fair value hedge derivatives euro 5 million, finance lease liabilities euro 6 million, financial payables euro 43 million with the Intesa SanPaolo group.
Trade and miscellaneous payables and other current liabilities	200	27	These refer to transactions with the Telefonica group euro 103 million, the Eni group euro 14 million, the Intesa SanPaolo group euro 80 million, the Mediobanca group euro 2 million and the Edizione Holding group euro 1 million. At 12/31/2006 there were also supply contracts for purchases and the rendering of services and investment activities with the Pirelli group euro 20 million, payables relating to sponsorship activities from F.C. Internazionale Milano S.p.A. – a related party through Mr. Moratti euro 2 million and costs for Document Management services by Telepost S.p.A. euro 4 million, no longer related parties.

The following tables present 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)	2007	2006	
Employee benefits expenses	84	25	These refer to the contribution made to pension funds of which euro 62 million for Telemaco (euro 17 million in 2006), euro 15 million for Fontedir (euro 6 million in 2006) and euro 7 million for other Italian and foreign pension funds (euro 2 million in 2006).

(millions of euro)	12/31/2007	12/31/2006	
Trade and miscellaneous payables and other current liabilities	31	20	These refer to contributions payable to pension funds of which euro 24 million for Telemaco (euro 15 million at 12/31/2006), euro 5 million for Fontedir (euro 4 million at 12/31/2006) and euro 2 million for other Italian and foreign pension funds (euro 1 million at 12/31/2006).

The following is a brief description of the contents of the main contracts between the Telecom Italia Group and associates, joint ventures, companies controlled by associates, companies controlled by companies subject to joint control and related parties through directors, statutory auditors and key managers and the pension funds for employees of the Group companies.

Contracts with:

Aree Urbane S.r.l.

Revenue related

These refer to a medium/long-term loan made and regulated by the shareholders' agreements.

Asscom Insurance Brokers S.r.l.

Expense related

This refers to an insurance broker and consulting contract regarding the risk coverage of the Italian and foreign companies of the Group.

Baltea S.r.l.

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:

- international telecommunications services and roaming;
- technical assistance supplied by Telecom Italia S.p.A.;
- recovery of costs for off-site personnel.

Expense related

The main contracts relate to international telecommunications services and roaming.

LI.SIT S.p.A.

Revenue related

The contract refers to the information network for the social health system of the Lombardy Region, rendering online services available 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 telephony 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 has become 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.

Movenda S.p.A.

Expense related

The main contracts refer to the development of innovative software products for the mobile network.

NordCom S.p.A.

Revenue related

The main contracts refer to the supply of data network connections and software applications and the recovery of costs for off-site personnel.

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:

- supply of telephone, data transmission services and information systems and computer services;
- operation and maintenance of the client's software applications at the Telecom Italia data center;
- the recovery of costs of centralized expenses.

Expense related

The main contracts refer to:

- 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;
- lease of a building.

Telbios S.p.A.

Revenue related

The main contracts cover the supply of telephone services, ADSL lines and the sale of video-communication equipment and services rendered for activities directed towards specific projects.

Expense related

The main contracts refer to the supply of services, products and hardware systems and software for the remote medicine offering.

Teleleasing S.p.A.

Revenue related

The contracts relate to the application of the cooperation agreement signed in 2000.
By virtue of this agreement, Telecom Italia assigned Teleleasing the role of financial partner for its commercial offerings to customers purchasing by lease instead of by outright purchase. Telecom Italia sells the equipment to Teleleasing which, in turn, signs the lease contract with the customer; Telecom Italia sees to the collection of the lease payments after having acquired the rights.

Expense related

The main contracts refer both to the finance lease of telephone systems to Telecom Italia and its subsidiaries and the finance lease of a building.

Tiglio I S.r.l.
Revenue related
The main contracts call for the supply of telephone services.
Expense related
The main contracts refer to:
- lease of buildings (also premises housing telecommunications equipment) with an expiration date in 2021 and the possibility of tacit renewal, unless notice of termination is given by Telecom Italia, for successive periods of six years, at the same terms and conditions as originally agreed;
- lease of buildings solely for office use, for standard lease periods.

Tiglio II S.r.l.
Revenue related
The main contracts call for the supply of telephone services.
Expense related
The main contracts refer to:
- lease of buildings (also premises housing telecommunications equipment) with an expiration date in 2021 and the possibility of tacit renewal, unless notice of termination is given, by Telecom Italia for successive periods of six years, at the same terms and conditions as originally agreed;
- lease of buildings solely for office use, for standard lease periods.

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Telecom Argentina Group
Revenue related
The main contracts refer to:
- technical assistance provided by Telecom Italia for broadband development and for the study and implementation of Value Added Services;
- data transmission and voice services and the supply of "IRU" transmission capacity by Telecom Italia Sparkle S.p.A.;
- international telecommunications services and roaming.

Expense related
The main contracts relate to international telecommunications services and roaming.

Italtel Group
Revenue related
The main contracts provide for the supply of telephone, data transmission services and the sale of LAN and MAN networks.
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 equipment and their maintenance for the data networks using CISCO technology.

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Asm Group
Revenue related
The main contracts refer to the supply of telephone services.

CamFin Group
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 the sponsorship of companies and sports events, commissions paid to Autogrill S.p.A. for the sale of prepaid telephone cards and occupancy charges for the public telephones located at their structures.

Eni Group
Revenue related
The main contracts provide for the supply of telephone and data transmission services and the lease of registered movable assets.
Expense related
The main contracts provide for the supply of gas for heating and fuel for motor vehicles and also the supply of air transportation services.

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 soccer company F.C. Internazionale Milano (Inter) by Telecom Italia. 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 equipment, 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.

Generali Group
Revenue related
The main contracts provide for the supply of services for fixed and mobile telecommunications and data transmission among agencies and high-speed connections between offices and outsourcing of the relative services.
Under the agreement formalized in 2007, Telecom Italia is the sole provider of telecommunications equipment and services (fixed and mobile voice, data, equipment maintenance, etc.) for all the foreign companies of Generali (in France, Portugal, Germany, Belgium, Austria and Spain); the contract is for a period of five years.
Expense related
The main contracts refer to:
- insurance polices to cover company risks;
- property leases through Società Generali Properties S.p.A..

Intesa SanPaolo Group
Revenue related
The main contracts refer to:
- current accounts and bank deposits by companies of the Telecom Italia Group;
- fair value hedge derivatives relating to hedged items classified in current assets of a financial nature and non-hedging derivatives with companies of the Telecom Italia Group.
- supply of telephone and data transmission services;
- marketing of ICT products and solutions.

Expense related
The contracts refer to the following:
- Term Loan Facility (expiring 1/28/2010) and a Revolving Credit Facility (expiring 8/4/2014);
- loans, current accounts and finance lease liabilities with companies of the Telecom Italia Group;
- credit recovery activities;
- sale of trade receivables.

Mediobanca Group
Revenue related
The main contracts refer to:
- fair value hedge derivatives relating to hedged items classified in current assets of a financial nature with Telecom Italia S.p.A.;
- bonds issued by Mediobanca subscribed by Telecom Italia Finance S.A.;
- supply of telephone services, data network outsourcing, video-surveillance and data network expansion at the branches.

Expense related
The contracts refer to the following:
- Term Loan facility (expiring 1/28/2010) and Revolving Credit Facility (expiring 8/4/2014) where Mediobanca is one of the Initial Mandated Lead Arrangers and Bookrunners;
- fair value hedge derivatives relating to CCIRS on Telecom Italia Capital S.A. bonds for USD 1 billion, 4%, maturing November 15, 2008.

Merloni Group
Revenue related
The main contracts provide for the supply of telephone and data transmission services and housing services.

Telefonica Group
Revenue related
The main contracts refer to the following:
- supply of software for vocal synthesis and recognition, integrated within the solutions that the companies sell to large public and private companies;
- supply of "IRU" transmission capacity;
- interconnection and roaming services;
- broadband access fees.

Expense related
The main contracts refer to the following:
- interconnection, roaming services, site sharing and co-billing agreements;
- broadband line sharing and unbundling.

Pirelli & C. S.p.A.
Revenue related
The contracts refer to:
- Assistance and consulting services rendered for economic analyses and sector studies
  The purpose of this contract is the performance of assistance and consulting services for economic analyses and sector studies by Telecom Italia on behalf of Pirelli.
- Supply of telecommunications services

Expense related
The main contracts with Pirelli & C. and its wholly-owned subsidiaries, Pirelli Broadband Solutions S.p.A. and Pirelli Labs S.p.A., refer to the following:
- Contract for consulting and services for patent rights
  The contract refers to:
  - consulting and end-to-end services regarding patent rights and trademarks;
  - defining strategies regarding patent rights;
  - litigation and analyses of patents of the competition;
  - management of a database for patent data and relative reports;
  - training of technicians.

  During the first quarter, a mutual resolution of the relationship was agreed starting from April 1, 2007 and continuing to the end of the year (natural expiration date of the contract) for certain initiatives.
- Contract for research and development
  The contract, signed in 2002, covers research projects and product development projects, but differently:
  - Research projects
    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;
       - subsystems, joint competence of Telecom Italia - 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 an exclusive license which can be sublicensed for patents for use in the "Networks and Services" area;

- Telecom Italia 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 to Telecom Italia and the companies it controls, 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.

- Product development projects
  The main points of the new contract are as follows:
  - at the start of every project, the activities are planned, the requisites of the anticipated product and the increase in value from the relative development are agreed, in addition to a target price for the product under development;
  - as the project progress, if the product under development is no longer of interest to Telecom Italia due to changes in market conditions or technology, Telecom Italia may discontinue the project at pre-set times;
  - Telecom Italia shall acquire exclusive ownership of the rights to the outcome of the projects and, should it decide to buy the product, will assign Pirelli the first lot supplied.

- Contract for the supply of equipment
  These contracts call for the supply of user equipment for network access and broadband services and devices for exchanges to supply such services.

- Cooperation contract concerning joint initiatives
  Under this contract, Pirelli is working on two research projects for Telecom Italia: one relating to the “Photovoltaic and energy consumption measurement systems” and the second to “Third-generation poles for the fixed network”. The agreements generally 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 and b) characterized by the inclusion of specific chemical compositions and/or treatments using specific chemical processes. The license granted to Telecom Italia, with regard to the results obtained during the course of the activities conducted under the above two projects mentioned, is at no charge.

Pirelli & C. Real Estate S.p.A.

Revenue related
The contracts provide for the supply of call center services, data transmission services, building leases 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), maintenance of technological plants and systems and total facility management (maintenance and operation of plants, security and cleaning services).
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 holds control of the management companies (Pirelli & C. Real Estate SGR and Pirelli & C. Real Estate SGR Opportunities) of the above real estate funds.

* * *

Pension funds

Transactions regarding supplementary pension funds refer to:

- payment of contributions both by the employer and the employee;
- supply of personal information records of the associated employees with the relative contribution details.

* * *

Remuneration to key managers

Key managers, 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 directors, are the following:

Directors:	
Gabriele Galateri di Genola (1)	Chairman
Pasquale Pistorio (2)	Chairman
Guido Rossi (3)	Chairman
Franco Bernabè (1)	Chief Executive Officer
Carlo Orazio Buora (4)	Executive Deputy Chairman
Riccardo Ruggiero (4)	Chief Executive Officer General Manager
Managers:	
Enrico Parazzini	General Manager Head of Finance, Administration and Control Chairman of Telecom Italia Media S.p.A.
Antonio Campo Dall'Orto (7)	Chief Executive Officer of Telecom Italia Media S.p.A. Head of Media Business Unit
Stefano Pileri	General Manager Head of Technology
Massimo Castelli	General Manager Head of Domestic Fixed Services
Luca Luciani	General Manager Head of Domestic Mobile Services
Gustavo Bracco	Head of Human Resources, Organization and Industrial Relations
Francesco Chiappetta	Head of General Counsel & Corporate & Legal Affairs
Germanio Spreafico	Head of Purchasing
Franco Rosario Brescia (5)	Head of Public Affairs
Paolo Annunziato (6)	Head of Public Affairs
Filippo Bettini (7)	Head of Strategy
Giampaolo Zambeletti (7)	Head of International Affairs

(1) from December 3, 2007
(2) from April 17, 2007 to December 2, 2007
(3) to April 6, 2007
(4) to December 2, 2007
(5) from February 16, 2007 to May 24, 2007
(6) from May 25, 2007
(7) from February 16, 2007

The total remuneration recorded for the period by Telecom Italia S.p.A. or by companies controlled by the Group in respect of key managers amounts to euro 43 million (euro 33 million in 2006) divided as follows:

(millions of euro)	2007	2006
Short-term remuneration	25 (*)	19 (**)
Long-term remuneration	1 (***)	4
Employment termination benefit incentives	17	10
	43	**33**

(*) of which euro 1 million accounted for by the subsidiary TI Media S.p.A.
(**) of which euro 0.3 million accounted for by the subsidiary TI Media S.p.A.
(***) of which euro 0.1 million accounted for by the subsidiary TI Media S.p.A.

Note 44 - Stock option plans of the telecom italia group

During 2007 and 2006, the existing stock option plans relate to options that give, or have given, the right to the subscription of Telecom Italia ordinary shares (including shares from the options that had at one time been granted by TIM S.p.A., later merged in Telecom Italia S.p.A.) and Telecom Italia Media ordinary shares. These plans have been used by the Group for retention purposes and as a long-term incentive for managers and personnel of the Group.
The stock option plans of the Group are described below.

Telecom Italia S.p.A. Stock Option Plans

With respect to the description of Telecom Italia stock option plans, account should be taken of the following mergers:

- merger of Telecom Italia S.p.A. in Olivetti S.p.A. in 2003: starting from August 4, 2003, the number of shares that could originally be subscribed under the stock option plans (one share for each option) was changed on the basis of the new exchange ratio and now, each option allows the subscription of 3.300871 new post-merger Telecom Italia S.p.A. ordinary shares; the relevant subscription price of each Telecom Italia ordinary share resulting from the exercise of the option was adjusted for each plan, dividing the original exercise price of the options by the new exchange ratio;

- merger of TIM S.p.A. in Telecom Italia S.p.A. in 2005: starting from June 30, 2005, the number of shares that could originally be subscribed under the TIM S.p.A. stock option plans (one share for each option) was changed on the basis of the new exchange ratio and now, each option allows the subscription of 1.73 post-merger Telecom Italia S.p.A. ordinary shares; the relevant subscription price of each Telecom Italia S.p.A. ordinary share resulting from the exercise of the option was adjusted for each plan, dividing the original exercise price of the options by the new exchange ratio.

In the description of the stock option plans, in order to render the representation of the options homogeneous with that of the underlying subscribable shares and to facilitate their measurement on the basis of the relevant subscription prices, the Group has used the concept of “equivalent options”, that means a quantity of options equal to the number of Telecom Italia S.p.A. ordinary shares subscribable post-merger. In this manner, the weighted average prices and the exercise prices are consistent and directly comparable among each other.

The main features of the Telecom Italia S.p.A. stock option plans existing at December 31, 2006 and 2007 are summarized below:

Stock Option Plans (Date of Shareholder Meeting)	BoD Grant Date (Grantees)	Lot	Exchange Ratio (1)	Exercise Price of Options (2) (euro)	Exercise Price for Equivalent Options (3) (euro)	Original Grant No. of Options	Original Grant No. of Equivalent Options	Exercise Period from	Exercise Period to	Equivalent Options Outstanding at 31/12/2006	Equivalent Options Outstanding at 31/12/2007
2000 Plan (12/15/1998 - 8/10/2000 - 5/3/2001- 5/26/2003)	**9/11/2000** (Managers of the Group)	1°	3.300871	13.815	4.185259	15,460,000	51,031,466	7/2/01	7/1/06	–	–
		2°	3.300871	13.815	4.185259	15,460,000	51,031,466	7/1/02	6/30/07	17,659,608	–
		3°	3.300871	13.815	4.185259	15,460,000	51,031,466	not vested (4)		–	–
		extra bonus	3.300871	13.815	4.185259	5,050,000	16,669,399	not vested (4)		–	–
2001 Plan (6/12/2001- 5/26/2003)	**7/27/2001** (Managers and Middle Managers of the Group)	1°	3.300871	10.488	3.177343	33,512,500	110,620,439	4/16/02	4/15/07	105,123,871	–
		2°	3.300871	10.488	3.177343	33,512,500	110,620,439	not vested (4)		–	
2002 Top Plan (6/12/2001 - 5/26/2003)	**2/13/2002** (16 Top Managers)	1°	3.300871	9.203	2.788052	3,540,000	11,685,083	2/18/03	2/18/08	8,714,294	6,535,721
		2°	3.300871	9.203	2.788052	3,540,000	11,685,083	2/18/04	2/18/09	8,714,294	6,535,721
		3°	3.300871	9.203	2.788052	4,720,000	15,580,111	2/18/05	2/18/10	13,863,655	10,958,889
2002 Plan granted in March (12/15/1998 - 8/10/2000 - 5/3/2001- 5/26/2003)	**3/26/2002** (Managers of the Group and new grantees)	1°	3.300871	9.665	2.928015	8,987,400	29,666,248	3/3/03	3/3/08	14,448,297	13,824,437
		2°	3.300871	9.665	2.928015	8,987,400	29,666,248	3/3/04	3/3/09	15,381,635	14,713,214
		3°	3.300871	9.665	2.928015	11,983,200	39,554,997	3/3/05	3/3/10	22,326,947	21,039,616
2002 Plan granted in August (12/15/1998 - 8/10/2000 - 5/3/2001- 5/26/2003)	**8/1/2002** (Managers of the Group and new grantees)	1°	3.300871	7.952	2.409061	252,000	831,819	3/3/03	3/3/08	663,473	663,473
		2°	3.300871	7.952	2.409061	252,000	831,819	3/3/04	3/3/09	663,473	663,473
		3°	3.300871	7.952	2.409061	336,000	1,109,093	3/3/05	3/3/10	884,631	884,631
2000-2002 Plan (12/18/1998 - 4/07/2005)	**12/22/1999** (Managers of the Group)	1°	1.730000	6.420	3.710983	7,070,000	12,231,100	5/1/00	12/31/08	–	–
		2°	1.730000	6.420	3.710983	7,070,000	12,231,100	6/1/01	12/31/08	8,198,461	8,002,395
		3°	1.730000	6.420	3.710983	7,070,000	12,231,100	6/1/02	12/31/08	8,747,930	8,471,136
2002-2003 Plan (10/10/2000 - 4/07/2005)	**2/12/2002** ((Managers of the Group and employees)	1°	1.730000	5.670	3.277457	12,755,000	22,066,150	12/17/02	12/31/08	15,046,675	14,449,825
		2°	1.730000	5.670	3.277457	12,755,000	22,066,150	12/1/03	12/31/08	15,046,675	14,449,825
2003-2005 Plan (10/10/2000 - 4/7/2005)	**5/6/2002** (Managers of the Group and new grantees)	1°	1.730000	5.070	2.930636	16,685,667	28,866,204	5/2/03	5/31/08	725,042	725,042
		2°	1.730000	5.070	2.930636	16,685,666	28,866,202	5/24/04	5/31/09	920,186	920,186
		3°	1.730000	5.070	2.930636	16,685,667	28,866,204	12/22/04	5/31/10	1,271,377	1,271,377
Total										**258,400,524**	**124,108,961**

(1) Number of Telecom Italia Ordinary Shares subscribable for the exercise of one option.
(2) Original exercise price determined for the exercise of one option.
(3) Exercise price of Telecom Italia Ordinary Shares that come from the exercise of the options.
(4) Lot not vested because of failure to reach the performance criteria.

Additional information in connection with the Telecom Italia stock option plans is briefly provided.

- "Stock Option Plan 2000" and "Stock Option Plan 2001": for each lot, 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.
  For the Stock Option Plan 2000, 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.
  For the Stock Option Plan 2001, 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.
  During 2007, the date for the exercise of the remaining exercisable options expired for both plans and, consequently, they expired.

- "Stock Option Plan 2002 Top": the options were not subject to reaching performance parameters.

- "Stock Option Plan 2002": 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, as an incentive and as a means of retaining management loyalty, and approved the introduction of the "Stock Option Plan 2002", 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 beforehand, could take part in the new plan. The options of the Stock Option Plan 2002 were not subject to reaching performance parameters.

- "Stock Option Plans 2000-2002": the options vested 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.

- "Stock Option Plans 2002-2003": the options were not subject to reaching performance parameters.

- "Stock Option Plans 2003-2005": 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" 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 options were not subject to reaching performance parameters.

During 2007, no new stock option plans were introduced.

Furthermore, during 2007 no stock options were exercised.

The market value of Telecom Italia ordinary shares at December 31, 2007 and 2006 was respectively euro 2.13 and euro 2.29, both lower than the exercise prices per equivalent option for all the stock option plans.

Aggregate movements in all Telecom Italia stock option plans in 2006 and 2007 are presented in the following table:

	Number of Equivalent Options	Weighted Average Price per Equivalent Option (euro)
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**
Lapsed (1)	(11,590,605)	2.91
Expired and Forfeited (2)	(122,700,958)	3.32
Options outstanding at December 31, 2007	**124,108,961**	**3.08**

(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 forfeited since they did not become vested due to failure to reach the performance parameters.

The following tables present, with reference to the Telecom Italia stock option plans existing at December 31, 2007 and 2006, grouped by the range of exercise price, the residual weighted average life and the weighted average grant price of the equivalent options:

	Equivalent Options Outstanding and Exercisable at December 31, 2007		
Range of Prices (euro)	**Equivalent Options**	**Residual Weighted Average Life** (years)	**Weighted Average Grant Price** (euro)
2.41	2,211,577	1.27	2.41
2.78 - 2.94	76,524,203	1.33	2.88
3.27 - 3.72	45,373,181	1.00	3.43
	124,108,961		

	Equivalent Options Outstanding and Exercisable at December 31, 2006		
Range of Prices (euro)	**Equivalent Options**	**Residual Weighted Average Life** (years)	**Weighted Average Grant Price** (euro)
2.41	2,211,577	2.27	2.41
2.78 - 2.94	86,365,727	2.34	2.88
3.17 - 3.72	152,163,612	0.82	3.26
4.19	17,659,608	0.50	4.19
	258,400,524		

Telecom Italia Media S.p.A. Stock Option Plans

During 2007 and 2006, the existing stock option plans of Telecom Italia Media S.p.A., relate to options that give, or have given, the right to the subscription of Telecom Italia Media ordinary shares equal to the number of options exercised, at a specific exercise price.

The main features of the Telecom Italia Media stock option plans existing at December 31, 2006 and 2007 are summarized below:

Stock Option Plans (Date of Shareholder Meeting)	**BoD Grant Date** (Garantees)	**Lot**	**Exchange Ratio** (1)	**Original Exercise Price of the Options** (2) (euro)	**Implicit Exercise Price of the Options** (3) (euro)	**Original Granted N. of Options**	**Exercise Period from**	**Exercise Period to**	**Options Outstanding at 31/12/2006**	**Options Outstanding at 31/12/2007**
2002 Key People (11/20/2000 and integrations of 5/10/2001, 7/30/2001 and 12/11/2001)	**5/17/2002** (Managers of the Group and Employees)	1°	1.000	0.8532	0.8532	13,920,000	5/1/03	5/31/08	675,000	675,000
		2°	1.000	0.8532	0.8532	13,920,000	5/1/04	5/31/08	675,000	675,000
		3°	1.000	0.8532	0.8532	18,560,000	5/1/05	5/31/08	900,000	900,000
2005 (11/20/2000 and integrations of 5/10/2001, 7/30/2001 and 12/11/2001)	**2/23/2005** (Managers of the Group and Employees)	1°	1.000	0.3826	0.3826	15,890,000	7/11/05	12/31/08	2,174,830	2,114,830
		2°	1.000	0.3826	0.3826	11,917,500	1/5/06	12/31/08	5,395,000	5,237,500
		3°	1.000	0.3826	0.3826	11,917,500	1/8/07	12/31/08	9,712,500	9,450,000
Total									**19,532,330**	**19,052,330**

(1) Number of Telecom Italia Media ordinary shares subscribable following the exercise of one Option.
(2) Original exercise price determined for the exercise of one Option.
(3) Telecom Italia Media ordinary shares exercise price deriving from the exercise of the Options.

Additional information in connection with the Telecom Italia Media stock option plans are briefly provided.

- "Key People Plan": the options were not subject to reaching performance parameters.
- "Plan 2005": in the meeting held on February 23, 2005, the Telecom Italia Media S.p.A. board of directors considered the objective ineffectiveness of the "Stock Option Plan 2000-2002" and "Key People Plan", as an incentive and as a means of retaining management loyalty, and approved the introduction of the "Plan 2005" for managers, employees in service at Telecom Italia Media and its subsidiaries identified on the basis of 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 fair value was determined as euro 0.1246 per option.
The options are not subject to reaching performance parameters.

During 2007, no new stock option plans were introduced.

Furthermore, during 2007 no stock options were exercised.

The market value of Telecom Italia Media ordinary shares at December 31, 2007 and 2006 was respectively euro 0.24 and euro 0.36, both lower than the exercise price for the options of each stock option.

Aggregate movements in all Telecom Italia Media stock option plans in 2006 and 2007 are presented in the following table:

	Number of Options	**Weighted Average Price per Option** (euro)
Options outstanding at December 31, 2005	**27,504,830**	**0.42**
Exercised	(6,100,000)	0.38
Lapsed (1)	(1,872,500)	0.38
Options outstanding at December 31, 2006	**19,532,330**	**0.44**
Lapsed (1)	(480,000)	0.38
Options outstanding at December 31, 2007	**19,052,330**	**0.44**

(1) 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 Telecom Italia Media stock option plans existing at December 31, 2007 and 2006, grouped by the range of exercise price, the residual weighted average life and the weighted average grant price of the options:

	Options Outstanding and Exercisable at December 31, 2007		
Range of Prices (euro)	**Options**	**Residual Weighted Average Life** (years)	**Weighted Average Grant Price** (euro)
0.38	16,802,330	1.00	0.38
0.85	2,250,000	0.42	0.85
	19,052,330		

	Options Outstanding at December 31, 2006			**Options Outstanding at December 31, 2006**	
Range of Prices (euro)	**Options**	**Residual Weighted Average Life** (years)	**Weighted Average Grant Price** (euro)	**Options**	**Weighted Average Grant Price** (euro)
0.38	17,282,330	2.00	0.38	7,569,830	0.38
0.85	2,250,000	1.42	0.85	2,250,000	0.85
	19,532,330			**9,819,830**	

Note 45 - Significant non-recurring events and transactions

Details of non-recurring items

The effect of non-recurring events and transactions on equity and net financial debt at December 31, 2007 and on profit and cash flows for the year 2007 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 2007 is as follows:

(millions of euro)		Equity	Profit for the year	Net financial debt	Cash flows (*)
Amount - financial statements	**(A)**	**26,985**	**2,455**	**35,701**	**(780)**
Industrial reconversion costs and impairments		(17)	(17)	–	–
Antitrust fine		(20)	(20)	–	–
Other miscellaneous expenses		(6)	(6)	–	–
Gains on properties		8	8	–	–
Gain on sale of Oger Telecom		86	86	(462)	351
Gain on sale of Capitalia		36	36	(74)	74
Gain on sale of Mediobanca		102	102	(236)	236
Gain on sale of Solpart Participações		188	188	(360)	360
Gain on sale of Brasil Telecom Participações		22	22	(48)	48
Gains on other sales		1	1	(2)	2
Payment of additional antitrust fine		–	–	2	(2)
Total effect - excluding effect of Discontinued operations	**(B)**	**400**	**400**	**(1,180)**	**1,069**
Effect of Discontinued operations	**(C)**	**36**	**36**	**–**	**–**
Figurative amount - financial statements	**(A-B-C)**	**26,549**	**2,019**	**36,881**	**(1,849)**

(*) 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 income statement is as follows:

(millions of euro)	2007	2006
Acquisition of goods and services, Other operating expenses:		
Corporate reorganization costs	–	(13)
Industrial reconversion costs	(17)	(13)
Antitrust fine	(20)	(2)
Other	(6)	–
Impact on EBITDA	**(43)**	**(28)**
Gains (losses) on non-current assets:		
Gains on properties	10	135
Gain on sale of Ruf Gestion	–	27
Loss on sale of Telecom Italia Learning Services	–	(33)
Loss on sale of Radiomaritime activities	–	(9)
Impairment reversals (losses) on non-current assets:		
Impairment losses on industrial reconversions	(6)	–
Impact on EBIT	**(39)**	**92**
Finance income (expenses):		
Release of AVEA I.H.A.S. provisions	–	121
Gain on sale of AVEA I.H.A.S.	–	72
Gain on sale of Neuf Télécom	–	148
Gain on sale of Oger Telecom	86	–
Gain on sale of Capitalia	38	–
Gain on sale of Mediobanca	109	–
Gain on sale of Solpart Participações	201	–
Gain on sale of Brasil Telecom Participações	27	–
Other gains	1	2
Miscellaneous finance expenses	–	(4)
Impact on profit before tax from continuing operations	**423**	**431**
Effect of income taxes	(23)	(72)
Effect of discontinued operations	36	(8)
Impact on profit for the year	**436**	**351**

Note 46 - Positions or transactions resulting from atypical and/or unusual operations

In accordance with Consob Communication dated July 28, 2006, a statement is made to the effect that in 2007 the Telecom Italia Group has not taken part in any atypical and/or unusual operations, as defined by that Communication

Note 47 - Other information

a) Exchange rates used to translate foreign currency financial statements [1]

		Year-end exchange rates (balance sheet)		Average exchange rates for the year (income statement)	
(local currency units per euro 1)		12/31/2007	12/31/2006	2007	2006
Europe					
CHF	Swiss franc	1.65470	1.60690	1.64280	1.57294
GBP	Pound sterling	0.73335	0.67150	0.68462	0.68178
TRY	Turkish lira	1.71700	1.85150	1.78647	1.79800
North America					
CAD	Canadian dollar	1.44490	1.52810	1.46825	1.42361
USD	U.S. dollar	1.47210	1.31700	1.37072	1.25552
Latin America					
VEB	Venezuelan bolivar	3,161.04000	2,831.55000	2,943.98595	2,699.36800
BOB	Bolivian boliviano	11.22480	10.45698	10.74977	9.97464
PEN	Peruvian nuevo sol	4.40894	4.20782	4.28485	4.10882
ARS	Argentinean peso	4.63693	4.03265	4.27143	3.86013
CLP	Chilean peso	733.03200	701.30250	714.96824	666.01290
COP	Colombian peso	2,969.59000	2,948.10450	2,841.70996	2,963.62507
MXN	Mexican peso	16.05470	14.26970	14.97945	13.68708
BRL	Brazilian real	2.60753	2.81575	2.66397	2.73341
Other countries					
HKD	Hong Kong dollar	11.48000	10.24090	10.69340	9.75391
SGD	Singapore dollar	2.11630	2.02020	2.06351	1.99387
ILS	Israeli shekel	5.66514	5.54786	5.63061	5.59097
JPY	Japanese yen	164.93000	156.93000	161.26438	146.02074

(1) Source: data processed by the European Central Bank, Reuters and major Central Banks.

b) Research and development

During the year 2007, research and development activities by the Telecom Italia Group were mainly carried out by the research center, Telecom Italia Lab, also in collaboration with Pirelli Labs, and by Olivetti S.p.A..

The total costs incurred in 2007 amount to approximately euro 122 million (euro 133 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 83 million (euro 76 million in 2006). Capitalized development costs, euro 39 million (euro 57 million in 2006), include only expenditures that can be directly attributed to the development process: in particular, such capitalization refers to tangible assets for network assets and intangible assets for software.
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 contracts for the lease of direct connections, in particular numeric and analog lines, offered under wholesale plans to interconnecting operators.
At December 31, 2007, the amount of lease installments receivable on non-cancelable lease contracts is equal to euro 5 million (euro 10 million at December 31, 2006) and all of them expire within one year.

Expense-related

The Group has signed lease contracts for buildings (for periods from 6 to 9 years) and lines. At December 31, 2007, the amount of lease installments payable on non-cancelable lease contracts is the following:

(millions of euro)	12/31/2007	12/31/2006
Within 1 year	445	355
From 2 to 5 years	824	788
Beyond 5 years	222	323
Total	**1,491**	**1,466**

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 2007, for carrying out such functions in the Parent and in other consolidated companies, amounts to euro 28 million for the directors and euro 1 million for the statutory auditors.

e) Summary of the fees to the audit firm and the firms in its network

Pursuant to art. 149 - duodecies of the Consob Regulation of Issuers (Resolution 11971/1999, as amended), the following schedule reports the fees charged in 2007 for audit and other services rendered to the companies of the Telecom Italia Group by Reconta Ernst & Young and firms that are part of its network.

	Reconta Ernst & Young S.p.A.			Firms in the Ernst & Young network			
(in euro)	Telecom Italia	Subsidiaries	Telecom Italia Group	Telecom Italia	Subsidiaries	Telecom Italia Group	Total Telecom Italia Group
Audit services	3,595,760	1,023,413	4,619,173	–	2,475,010	2,475,010	7,094,183
Verification services with issue of certification:							
• Issue of comfort letters	90,000	–	90,000	–	–	–	90,000
• Certifications for participation in bids and other	43,000	24,000	67,000	–	–	–	67,000
Other services:							
• Agreed upon procedures on regulatory accounting areas	53,000	–	53,000	482,500	14,000	496,500	549,500
• Agreed upon procedures on areas pertaining to the internal control system	76,500	–	76,500	–	228,606	228,606	305,106
Total Telecom Italia Group	**3,858,260**	**1,047,413**	**4,905,673**	**482,500**	**2,717,616**	**3,200,116**	**8,105,789**

Note 48 - Events subsequent to december 31, 2007

Sale of the residual investment in Atesia

On January 22, 2008, Telecom Italia finalized the sale of the remaining 19.9% stake in Atesia S.p.A. to AlmavivA Contact S.p.A. for euro 1.5 million after the sale option was exercised pursuant to the Share Purchase and Sale Contract signed on July 2, 2004.

Repayment and repurchase of bonds

On January 24, 2008, the Telecom Italia Finance S.A. bonds with a 5.875% coupon payable annually reached maturity and were duly repaid in the amount of euro 1,658.9 million (the original issue amount of euro 1,750 million was later reduced as a result of the bonds repurchased on the market and subsequently cancelled).

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On February 4, 2008, the board of directors approved the repurchase of bonds issued by Telecom Italia S.p.A. for a maximum amount of euro 1 billion over the next 18 months.

Sale of the investment in Liberty Surf Group S.a.S.

In the early months of 2008, steps were take to sell the investment in Liberty Surf Group S.a.s. (Broadband activities in France).

TLC operating fee 1998

By order of February 21, 2008, the EU Court of Justice ruled in favor of the Telecom Italia Group on the question of the incompatibility of internal laws (art. 20 of Law 488/98) with community regulations. Such law had extended the obligation to pay the TLC operating fee for 1998 even though the market that had already been deregulated.

In May 2006, the Regional Administrative Court (TAR) of Lazio, based on the appeals filed by Telecom Italia and TIM to ascertain its right to the reimbursement of the operating fee for the year 1998 (amounting to euro 386 million for Telecom Italia and euro 143 million for TIM, in addition to interest), had in fact suspended the national judgment and sent the case to the Court of Justice to rule on the preliminary question, believing the above national laws were potentially at variance with the community directive 97/13 concerning the rights and expenses for individual licenses.

It is believed that once the TAR of Lazio summarizes the administrative decision, it will rule – the same way as the EU Court of Justice – on the incompatibility of the internal laws contested by the Telecom Italia Group with the mentioned community directives.

Note 49 - 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 companies and significant 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.

COMPANIES OF THE TELECOM ITALIA GROUP

Name	Head Office	Currency	Share Capital	% Ownership	% of voting rights	Held by
PARENT COMPANY						
TELECOM ITALIA S.p.A.	MILAN (ITALY)	EUR	10,673,793,336			
COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS						
DOMESTIC						
ELETTRA TLC S.p.A. (services rendered in connection with submarine cable systems for telecommunications)	ROME (ITALY)	EUR	10,329,200	70.0000		TELECOM ITALIA SPARKLE LUXEMBOURG S.A.
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.
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 TELECOM ITALIA SPARKLE LUXEMBOURG 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		TELECOM ITALIA SPARKLE LUXEMBOURG S.A. LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS BRASIL Ltda (installation and maintenance of submarine cable systems)	RIO DE JANEIRO (BRAZIL)	BRL	6,850,598	99.9999 0.0001		LATIN AMERICAN NAUTILUS BRASIL PARTICIPAÇÕES Ltda LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS BRASIL PARTICIPAÇÕES Ltda ((holding company)	RIO DE JANEIRO (BRAZIL)	BRL	8,844,866	99.9999 0.0001		LATIN AMERICAN NAUTILUS Ltd TELECOM ITALIA SPARKLE LUXEMBOURG S.A.
LATIN AMERICAN NAUTILUS CHILE S.A. (installation and maintenance of submarine cable systems)	SANTIAGO (CILE)	CLP	9,264,912,315	100.0000		LATIN AMERICAN NAUTILUS Ltd
LATIN AMERICAN NAUTILUS COLOMBIA Ltda (installation and maintenance of submarine cable systems)	BOGOTÀ (COLOMBIA)	COP	240,225,000	99.9996		LATIN AMERICAN NAUTILUS Ltd
LATIN AMERICAN NAUTILUS Ltd (installation and maintenance of submarine cable systems)	DUBLINO (IRLANDA)	USD	1,000,000	100.0000		TELECOM ITALIA SPARKLE LUXEMBOURG 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	56,865,179	100.0000		LATIN AMERICAN NAUTILUS Ltd
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)	VEF	981,457	100.0000		LATIN AMERICAN NAUTILUS Ltd
LOQUENDO SOCIETÀ 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 di partecipazioni)	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 B.V. (holding di partecipazioni)	AMSTERDAM (HOLLAND)	EUR	18,003	100.0000		MEDITERRANEAN NAUTILUS Ltd
MEDITERRANEAN NAUTILUS GREECE S.A. (installation and maintenance of submarine cable systems)	ATHENS (GREECE)	EUR	111,600	100.0000		MEDITERRANEAN NAUTILUS B.V.

(following) **Companies of the Telecom Italia Group**

Name	Head Office	Currency	Share Capital	% Owner-ship	% of voting rights	Held by
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)	RAMAT GAN (ISRAEL)	ILS	1,000	100.0000		MEDITERRANEAN NAUTILUS B.V.
MEDITERRANEAN NAUTILUS ITALY S.p.A. (installation and maintenance 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		TELECOM ITALIA SPARKLE LUXEMBOURG 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 S.A.
OLIVETTI MULTISERVICES S.p.A. (real estate management)	MILAN (ITALY)	EUR	20,337,161	100.0000		TELECOM ITALIA S.p.A.
PATH.NET S.p.A. (networking systems and telecommunications)	ROME (ITALY)	EUR	25,800,000	100.0000		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.
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 NETHERLANDS B.V. (telecommunications services)	AMSTERDAM (HOLLAND)	EUR	18,200	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SAN MARINO S.p.A. (telecommunications services in San Marino)	ROVERETA - 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 LUXEMBOURG S.A. (holding company)	LUXEMBOURG (LUXEMBOURG)	EUR	41,625,000	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 ITALIA SAN MARINO S.p.A.
TELEMEDIA INTERNATIONAL USA Inc. (telecommunications services)	NEW JERSEY (USA)	USD	154,022,889	100.0000		TMI - TELEMEDIA INTERNATIONAL Ltd
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.
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.
THINX-SM TELEHOUSE INTERNET EXCHANGE S.r.l. (housing e hosting)	DOGANA (REP. OF S. MARINO)	EUR	25,800	99.0000 1.0000		TELECOM ITALIA SAN MARINO S.p.A. TELECOM ITALIA SPARKLE S.p.A.
TI BELGIUM S.P.R.L. - B.V.B.A (telecommunications services)	BRUXELLES (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.

(following) **Companies of the Telecom Italia Group**

Name	Head Office	Currency	Share Capital	% Owner-ship	% of voting rights	Held by
TIS FRANCE S.A.S. (installation and maintenance of telecommunications services for fixed network and relating activities)	PARIS (FRANCE)	EUR	3,295,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TMI - TELEMEDIA INTERNATIONAL Ltd (telecommunications services)	LONDON (UK)	EUR	3,983,254	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TMI TELEMEDIA INTERNATIONAL DO BRASIL Ltda (telecommunications services)	SAN PAOLO (BRAZIL)	BRL	8,909,639	100.0000		TMI - TELEMEDIA INTERNATIONAL Ltd
EUROPEAN BROADBAND						
BBEYOND B.V. (telecommunications services)	HOOFDDORP (HOLLAND)	EUR	18,000	100.0000		BBNED N.V.
BBNED N.V. (telecommunications services)	HOOFDDORP (HOLLAND)	EUR	82,430,000	99.9939 0.0061		TELECOM ITALIA INTERNATIONAL N.V. BBNED N.V.
HANSENET TELEKOMMUNIKATION GmbH (telecommunications services)	AMBURG (GERMANY)	EUR	91,596,500	100.0000		TELECOM ITALIA DEUTSCHLAND HOLDING GmbH
INTERCALL S.A. (sale of prepaid phone cards audiotex services)	PARIS (FRANCE)	EUR	807,060	88.6342		LIBERTY SURF GROUP S.A.S.
INTERNLNET B.V. (internet services)	NIJMEGEN (HOLLAND)	EUR	39,960	100.0000		BBNED N.V.
LIBERTY SURF GROUP S.A.S. (holding company)	PARIS (FRANCE)	EUR	282,559,451	100.0000		TELECOM ITALIA S.p.A.
LIBERTY SURF NETWORK B.V. (in liquidazione) (internet services)	AMSTERDAM (HOLLAND)	EUR	20,001	100.0000		LIBERTY SURF GROUP S.A.S.
TELECOM ITALIA DEUTSCHLAND HOLDING GmbH (holding company)	AMBURG (GERMANY)	EUR	25,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA S.A.S. (Internet access provider)	PARIS (FRANCE)	EUR	3,478,234	100.0000		LIBERTY SURF GROUP S.A.S.
BRAZIL MOBILE						
TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A. (holding company)	RIO DE JANEIRO (BRAZIL)	BRL	6,273,221,437	100.0000		TIM INTERNATIONAL N.V.
TIM CELULAR S.A. (mobile telephony operator)	SAN PAOLO (BRAZIL)	BRL	7,826,534,568	100.0000		TIM PARTICIPAÇÕES S.A.
TIM NORDESTE S.A. (mobile telephony operator)	JABOATÃO DOS GUARARAPES (BRAZIL)	BRL	1,610,401,324	100.0000		TIM CELULAR S.A.
TIM PARTICIPAÇÕES S.A. (holding company)	RIO DE JANEIRO (BRAZIL)	BRL	7,550,525,275	69.7253	81.2399	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		TELECOM ITALIA 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.
MILANO DESIGN STUDIO S.r.l. (planing, realization, production, editing, management, marketing, promotion, also on behalf of third parties of publishing contents)	MILAN (ITALY)	EUR	10,000	100.0000		MTV ITALIA S.r.l.
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 PUBBLICITÀ 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 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.
TELECOM ITALIA MEDIA S.p.A. (esercizio dell'industria e del commercio handling of information)	ROME (ITALY)	EUR	100,510,259	65.7069 2.2471	66.7962 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.

(following) **Companies of the Telecom Italia Group**

Name	Head Office	Currency	Share Capital	% Ownership	% of voting rights	Held by
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.
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 GmbH (sale of office equipment and accessories)	VIENNA (AUSTRIA)	EUR	36,336	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI COLOMBIANA S.A.(in liquidation) (sale of office and industrial equipment)	BOGOTÀ (COLOMBIA)	COP	2,500,000,000	90.5288 9.4700		OLIVETTI INTERNATIONAL B.V. OLIVETTI S.p.A.
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 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)	BARCELLONA (SPAIN)	EUR	1,229,309	99.9912		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 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 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)	IVREA (TURIN) (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. (in liquidation) (electronic diagnostics and repairs of computer products)	IVREA (TURIN) (ITALY)	EUR	293,618	91.2069		OLIVETTI S.p.A.
OTHER ACTIVITIES						
ASCAI SERVIZI S.r.l. (in liquidation) (promotion of communication's strategies and processes)	ROME (ITALY)	EUR	73,337	64.9599		SAIAT SOCIETÀ ATTIVITÀ INTERMEDIE AUSILIARIE TLC
BRASILCO S.r.l. (holding company)	MILAN (ITALY)	EUR	10,000	100.0000		TELECOM ITALIA INTERNATIONAL N.V.
DATACOM S.r.l. (data transmission services)	LA PAZ (BOLIVIA)	BOB	66,938,200	99.9991		ENTEL S.A.
DIASPRON DO BRASIL S.A. (in liquidation) (manufacture and export of typewriters and printers)	SAN PAOLO (BRAZIL)	BRL	5,135,417	100.0000		OLIVETTI DO BRASIL S.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. EMPRESA NACIONAL DE TELECOMUNICACIONES (national and international long distance, mobile, local telecommunications services and data trasmission)	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.

(following) **Companies of the Telecom Italia Group**

Name	Head Office	Currency	Share Capital	% Owner-ship	% of voting rights	Held by
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.
NETESI S.p.A. (in liquidation) (telecommunications and multimedia services)	MILAN (ITALY)	EUR	434,715	100.0000		TELECOM ITALIA S.p.A.
OFI CONSULTING S.r.l. (administrative consulting)	IVREA (TURIN) (ITALY)	EUR	95,000	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI DO BRASIL S.A. (manufacture and sale of typewriters, accessories, spare parts and assistance)	SAN PAOLO (BRAZIL)	BRL	111,660,625	100.0000		TELECOM ITALIA AMERICA LATINA SA
OLIVETTI GESTIONI IVREA S.r.l. (real estate services)	IVREA (TURIN) (ITALY)	EUR	100,000	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI HOLDING B.V. (financing company)	AMSTERDAM (HOLLAND)	EUR	15,882,770	100.0000		TELECOM ITALIA FINANCE S.A.
SAIAT SOCIETÀ ATTIVITÀ INTERMEDIE AUSILIARIE TLC P.A. (financing company)	TORINO	EUR	35,745,120	100.0000		TELECOM ITALIA S.p.A.
SATURN VENTURE PARTNERS LLC (holding company)	DELAWARE (USA)	USD	25,135,647	56.9643 17.8481		TELECOM ITALIA LAB SA TELECOM ITALIA S.p.A.
SHARED SERVICE CENTER S.r.l. (planning, design, installation running of computer services)	MILAN (ITALY)	EUR	1,756,612	100.0000		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 SA (telecommunications and promotional services)	SAN PAOLO (BRAZIL)	BRL	56,014,072	99.9997		TELECOM ITALIA S.p.A.
TELECOM ITALIA CAPITAL S.A. (financing company)	LUXEMBOURG	EUR	2,336,000	99.9990 0.0010		TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.
TELECOM ITALIA FINANCE S.A. (financing company)	LUXEMBOURG	EUR	542,090,241	99.9999		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	EUR	370,005	99.9939 0.0061		TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.
TELSI Unlimited (financing company)	LONDON (UK)	GBP	496,602,655	100.0000		TELECOM ITALIA FINANCE S.A.
TIAUDIT LATAM S.A. (internal auditing)	SAN 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.

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	481,503	25.0000		OFI CONSULTING S.r.l.
AREE URBANE S.r.l. (real estate)	MILAN (ITALY)	EUR	307,717	31.6508 0.9720		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.p.A. (production and sales of multimedia services)	SERRAVALLE (REP.OF S.MARINO)	EUR	77,000	20.0000		TELECOM ITALIA SAN MARINO S.p.A.
CONS. SCUOLA SUP.ALTA FORMAZIONE UNIVERSITARIA FEDERICO II (in liquidation) (professional training)	NAPLES (ITALY)	EUR	127,500	20.0000		TELECOM ITALIA S.P.A.
CONSORZIO E O (in liquidation) (professional training)	ROME (ITALY)	EUR	15,844	50.0026		TELECOM ITALIA S.P.A.
CONSORZIO NAUTILUS S.c.a.r.l. (professional training)	ROME (ITALY)	EUR	30,000	20.0000		MEDITERRANEAN NAUTILUS Ltd
CONSORZIO TEMA MOBILITY (marketing and development of the products jointly realized by Telecom Italia and Magneti Marelli)	TURIN (ITALY)	EUR	350,000	50.0000		TELECOM ITALIA S.P.A.
CONSORZIO TURISTEL (online tourism services)	ROME (ITALY)	EUR	77,460	33.3333		TELECOM ITALIA S.P.A.
Empresa de Telecomunicaciones de Cuba S.A. ETEC-SA (telecommunications services)	L'AVANA (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.
INTERCALL HELLAS S.A. (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	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
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.
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	1,899,384	32.8600		TELECOM ITALIA S.P.A.
TELEGONO S.r.l. (in liquidation) (real estate management)	ROME (ITALY)	EUR	200,000	40.0000		TELECOM ITALIA S.P.A.

(following) **Companies of the Telecom Italia Group**

Name	Head Office	Currency	Share Capital	% Owner-ship	% of voting rights	Held by
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	49.4700		TELECOM ITALIA S.P.A.
WEMACOM TELEKOMMUNIKATION GmbH (telecommunications services)	SCHWERIN (GERMANY)	EUR	60,000	25.0000		HANSENET TELEKOMMUNIKATION GmbH
XTRA MEDIA SERVICES B.V. (internet services)	NIJMEGEN (HOLLAND)	EUR	18,000	49.0000		INTERNLNET B.V.

COMPANIES ACCOUNTED FOR BY THE EQUITY METHOD

Name	Head Office	Currency	Share Capital	% Owner-ship	% of voting rights	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. (professional training)	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 company)	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.
ITALBIZ.COM Inc. (internet services)	CALIFORNIA (USA)	USD	4,720	19.5000		TELECOM ITALIA MEDIA S.p.A.
LEGACY LLH Limited (ex Leisure Link Ltd) (manufacture of gaming and leisure-time machines)	STAFFORDSHIRE (UK)	GBP	7,809,179	11.4700		TELECOM ITALIA FINANCE S.A.
MIX S.r.l. (internet service provider)	MILAN (ITALY)	EUR	99,000	10.8500		TELECOM ITALIA S.p.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.
PIEDMONT INTERNATIONAL S.A. (financing company)	LUXEMBOURG	USD	10,507,500	17.1300	10.3000	TELECOM ITALIA FINANCE S.A.

Certification of the consolidated financial statements pursuant to art. 81-ter of Consob Regulation 11971 dated May 14, 1999, with amendments and additions

- The undersigned, Franco Bernabè as the Chief Executive Officer and Enrico Parazzini, as the Manager responsible for preparing Telecom Italia S.p.A.'s financial reports, certify, having also considered the provisions of art. 154-bis, paragraph 3 and 4, of Legislative Decree 58 dated February 24, 1998:

  – the adequacy in relation to the characteristics of the company and
  – the effective application

  of the administrative and accounting procedures used in the preparation of the Consolidated financial statements for the 2007 fiscal year:

- Telecom Italia has adopted as its framework for the definition and assessment of its internal control system, with particular reference to the internal controls surrounding the preparation of the financial statements, the Internal Control - Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission.

- The undersigned also certify that the Consolidated financial statements at December 31, 2007:

  – agree with the results of the accounting records and entries;
  – are prepared in conformity with International Financial Reporting Standards adopted by the European Union, as well as the legislative and prescribed provisions in effect in Italy, and based on their knowledge, fairly and correctly present the financial condition, results of operations and cash flows of the issuer and of the group companies included in consolidation.

March 6, 2008

Franco Bernabè
Chief Executive Officer

Enrico Parazzini
Manager responsible for preparing the Company's financial reports

ERNST & YOUNG

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Independent auditors' report
pursuant to Article 156 of Legislative Decree No. 58 of February 24, 1998
(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, 2007, 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 26, 2007.

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, 2007, and for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the standards issued in accordance with article 9 of the Italian Legislative Decree n° 38/2005.

Milan, Italy
March 26, 2008

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
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Telecom Italia S.p.A. separate Financial Statements

Contents

Balance sheets

Assets

(euro)	note	12/31/2007	*of which related parties*	12/31/2006	*of which related parties*
NON-CURRENT ASSETS					
Intangible assets					
– Goodwill	4)	40,013,044,756		40,013,044,756	
– Intangible assets with a finite useful life	5)	4,866,605,024		4,896,648,936	
		44,879,649,780		44,909,693,692	
Tangible assets					
– IProperty, plant and equipment owned	6)	12,208,125,448		12,475,638,961	
– Assets held under finance leases	6)	1,442,372,649		1,512,524,788	
		13,650,498,097		13,988,163,749	
Other non-current assets	7)				
– Investments		11,199,110,286		10,913,207,938	
– Securities, financial receivables and other non-current financial assets		582,332,594	136,278,000	670,144,843	139,533,000
– Miscellaneous receivables and other non-current assets		488,647,370	8,345,000	541,742,569	13,824,000
– Deferred tax assets	8)	122,235,284		714,163,237	
		12,392,325,534		12,839,258,587	
TOTAL NON-CURRENT ASSETS (A)		**70,922,473,411**		**71,737,116,028**	
CURRENT ASSETS					
Inventories	9)	97,899,066		124,849,172	
Trade and miscellaneous receivables and other current assets	10)	6,871,409,542	697,069,000	6,852,642,718	442,012,000
Current income tax receivables	11)	37,169,726		258,293,118	
Financial receivables and other current financial assets	12)	243,543,176	8,242,000	265,704,104	12,050,000
Cash and cash equivalents	13)	4,383,254,755	132,689,000	5,207,976,162	89,458,000
TOTAL CURRENT ASSETS (B)		**11,633,276,265**		**12,709,465,274**	
TOTAL ASSETS (A+B)		**82,555,749,676**		**84,446,581,302**	

Equity and liabilities

(euro)	note	12/31/2007	of which related parties	12/31/2006	of which related parties
EQUITY					
– Share capital issued		10,673,793,336		10,673,764,057	
less: treasury shares		(699,608)		(699,608)	
– Share capital		10,673,093,728		10,673,064,449	
– Paid-in capital		1,689,150,637		1,689,040,449	
– Legal reserve		2,134,755,339		2,134,750,014	
– Other reserves					
• Reserve L.D. 124/93 ex art. 13		391,352		391,352	
• Reserve D.P.R. 917/86 ex art. 74		5,749,710		5,749,710	
• Reserve for capital grants		602,258,805		602,258,805	
• Revaluation reserve ex lege 413/91		1,128,827		1,128,827	
• Reserve Law 266/2005, ex art.1, para. 469 - Law 342/2000 ex art. 14		315,842,091		315,842,091	
• Other		3,178,302,523		3,185,916,808	
Total Other reserves		4,103,673,308		4,111,287,593	
• Retained earnings (Accumulated losses), including profit for the year		5,014,750,633		5,915,406,023	
TOTAL EQUITY (A)	14)	**23,615,423,645**		**24,523,548,528**	
NON-CURRENT LIABILITIES					
Non-current financial liabilities	15)	39,332,248,114	21,618,416,000	40,069,092,181	21,441,053,000
Employee benefits	17)	1,039,787,185		1,142,650,533	
Deferred tax liabilities	8)	478,939,274		133,842,193	
Provisions	18)	737,640,486		646,190,966	
Miscellaneous payables and other non-current liabilities	19)	1,397,231,945	103,090,000	1,679,959,716	121,040,000
TOTAL NON-CURRENT LIABILITIES (B)		**42,985,847,004**		**43,671,735,589**	
Current liabilities					
Current financial liabilities	15)	6,019,340,058	3,687,174,000	6,689,236,239	3,899,888,000
Trade and miscellaneous payables and other current liabilities	20)	9,832,817,120	773,041,000	9,436,885,659	739,948,000
Debiti per imposte sul reddito	21)	102,321,849		125,175,287	
TOTAL CURRENT LIABILITIES (C)		**15,954,479,027**		**16,251,297,185**	
TOTAL LIABILITIES (D=B+C)		**58,940,326,031**		**59,923,032,774**	
TOTAL EQUITY AND LIABILITIES (A+D)		**82,555,749,676**		**84,446,581,302**	

Income statements

(euro)	note	2007	of which related parties	2006	of which related parties
Revenues	25)	22,847,037,143	723,608,000	22,720,672,767	835,814,000
Other income	26)	297,764,662	34,771,000	405,091,852	31,022,000
Total operating revenues and other income		**23,144,801,805**		**23,125,764,619**	
Acquisition of goods and services	27)	(9,471,285,930)	(1,284,958,000)	(9,180,350,262)	(1,436,542,000)
Employee benefits expenses	28)	(3,111,780,499)	(119,274,000)	(3,003,608,461)	(55,341,000)
Other operating expenses	29)	(1,259,511,455)	(763,000)	(750,851,195)	(9,518,000)
Changes in inventories	30)	(27,064,792)		5,391,178	
Internally generated assets	31)	455,175,633		413,585,953	
OPERATING PROFIT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS (EBITDA)		**9,730,334,762**		**10,609,931,832**	
of which: impact of non-recurring items	40)	***(26,528,000)***		***(2,500,000)***	
Depreciation and amortization	32)	(4,258,950,617)		(3,934,598,994)	
Gains (losses) on disposals of non-current assets	33)	1,049,705		110,140,567	
Impairment reversals (losses) on non-current assets	34)	(37,754,278)		(3,782,195)	
OPERATING PROFIT (EBIT)		**5,434,679,572**		**6,781,691,210**	
of which: impact of non-recurring items	40)	***(26,528,000)***		***129,726,000***	
Finance income	35)	1,360,079,041	421,200,000	2,882,341,002	2,132,345,000
Finance expenses	36)	(3,268,406,599)	(1,422,887,000)	(3,414,487,607)	(1,290,868,000)
PROFIT BEFORE TAX		**3,526,352,014**		**6,249,544,605**	
of which: impact of non-recurring items	40)	***121,626,000***		***170,938,000***	
Income tax expense	37)	(1,643,931,493)		(2,105,968,014)	
PROFIT FOR THE YEAR		**1,882,420,521**		**4,143,576,591**	
of which: impact of non-recurring items	40)	***112,206,000***		***90,753,000***	

Statements of changes in equity

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2006

(euro)	Share capital	Paid-in capital	Other	Retained earnings (accumulated losses), including profit for the year	Total
Balance at December 31, 2005 - 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 - IFRS	**10,667,431,942**	**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 - IFRS	**10,667,431,942**	**1,669,188,158**	**5,316,724,967**	**4,874,376,812**	**22,527,721,879**
Changes in equity during the year:					
Available for sale financial assets					
Valuation gains (losses) taken to equity			66,001,084		66,001,084
Cash flows hedges:					
Gains (losses) taken to equity			(6,721,148)		(6,721,148)
Gains (losses) transferred to the income statement			263,497,953		263,497,953
Tax on items taken directly to or transferred from equity			(88,221,082)		(88,221,082)
Total income (loss) recognized directly to equity			**234,556,807**		**234,556,807**
Profit for the year				4,143,576,591	4,143,576,591
Total recognized income and expense for the year			**234,556,807**	**4,143,576,591**	**4,378,133,398**
Dividends approved				(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			378,574,304		378,574,304
Other changes			319,967,027	(319,483,572)	483,455
Balance at December 31, 2006	**10,673,064,449**	**1,689,040,450**	**6,246,037,606**	**5,915,406,023**	**24,523,548,528**

STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED DECEMBER 31, 2007

(euro)	Share capital	Paid-in capital	Other	Retained earnings (accumulated losses), including profit for the year	Total
Balance at December 31, 2006	**10,673,064,449**	**1,689,040,450**	**6,246,037,606**	**5,915,406,023**	**24,523,548,528**
Changes in equity during the year:					
Available for sale financial assets:					
Valuation gains or losses taken to equity			(48,154,262)		(48,154,262)
Gains or losses transferred to the income statement			(137,387,007)		(137,387,007)
Cash flows hedges:					
Gains or losses taken to equity			(158,381,675)		(158,381,675)
Gains or losses transferred to the income statement			386,863,898		386,863,898
Tax on items taken directly to or transferred from equity			(54,932,528)		(54,932,528)
Total income (loss) recognized directly to equity			**(11,991,574)**		**(11,991,574)**
Profit for the year				1,882,420,521	1,882,420,521
Total recognized income and expense for the year			**(11,991,574)**	**1,882,420,521**	**1,870,428,947**
Dividends approved				(2,783,070,586)	(2,783,070,586)
Conversion of bonds	29,279	110,187	2,090,550		2,230,016
Other changes			2,292,065	(5,325)	2,286,740
Balance at December 31, 2007	**10,673,093,728**	**1,689,150,637**	**6,238,428,648**	**5,014,750,633**	**23,615,423,645**

Cash flows statements

(thousands of euro)	note	Esercizio 2007	Year 2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Profit		1,882,421	4,143,577
Adjustments for:			
Depreciation and amortization		4,258,951	3,934,599
Impairment (reversals) losses on non-current assets (including investments)		103,036	325,269
Net change in deferred tax assets and liabilities		882,753	1,729,521
Net (gains) losses on disposals of non-current assets (including investments)		(149,880)	(64,751)
Change in employee benefits		(195,309)	(117,830)
Change in inventories		26,950	1,144
Change in trade receivables and net receivables on construction contracts		334,384	(138,317)
Change in trade payables		499,876	286,436
Net change in miscellaneous receivables/payables and other assets/liabilities		(564,921)	(261,123)
CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES (A)		**7,078,261**	**9,838,525**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of intangible assets on an accrual basis	*5)*	*(1,551,298)*	*(1,537,046)*
Purchases of tangible assets on an accrual basis	*6)*	*(2,396,452)*	*(2,187,544)*
Total purchases of intangible and tangible assets on an accrual basis (*)		(3,947,750)	(3,724,590)
Change in amounts due to fixed asset suppliers		*265,143*	*319,379*
Total purchases of intangible and tangible assets on a cash basis		(3,682,607)	(3,405,211)
Acquisitions of subsidiaries and businesses, net of cash acquired (I)	7)	(703,872)	(149,129)
Acquisition of cash and cash equivalents as a result of corporate transactions		(10,336)	1,354,493
Change in financial receivables and other financial assets		110,013	(70,656)
Proceeds from distribution of dividends by Telecom Italia Media	7)		361,654
Proceeds from sales/repayments of intangible, tangible and other non-current assets (II)		348,120	414,868
CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES (B)		**(3,938,682)**	**(1,493,981)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Change in current financial liabilities and other		(410,299)	(3,403,108)
Proceeds from non-current financial liabilities (including current portion)		4,699,846	6,512,474
Repayments of non-current financial liabilities (including current portion)		(5,972,692)	(9,695,258)
Dividends paid (*)		(2,779,736)	(2,782,728)
CASH FLOWS FROM (USED IN) FINANCING ACTIVITIES (C)		**(4,462,881)**	**(9,368,620)**
AGGREGATE CASH FLOWS (D=A+B+C)		**(1,323,302)**	**(1,024,076)**
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (E)		**4,788,491**	**5,812,567**
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR (F=D+E)		**3,465,189**	**4,788,491**

(I) Net of change in payables arising from the related acquisition.
(II) Net of change in receivables arising from the related disposal.

(*) OF WHICH RELATED PARTIES

(thousands of euro)	Year 2007	Year 2006
Total purchases of intangible and tangible assets on an accrual basis	(388,858)	(511,447)
Dividends paid	(400,358)	(365,781)

ANALYSIS OF NET CASH AND CASH EQUIVALENTS:

(thousands of euro)	Year 2007	Year 2006
NET CASH AND CASH EQUIVALENTS AT BEGINNING 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**
NET CASH AND CASH EQUIVALENTS AT END OF THE YEAR:		
Cash and cash equivalents	4,383,255	5,207,976
Bank overdrafts repayable on demand	(918,066)	(419,485)
	3,465,189	**4,788,491**

ADDITIONAL CASH FLOW INFORMATION:

(thousands of euro)	Year 2007	Year 2006
Income taxes (paid) received	(460,965)	(647,180)
Interest expense paid	(2,707,882)	(2,334,590)
Interest income received	631,740	511,460
Dividends received	151,878	2,167,152

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. The head office of the Company is located 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 retail customers and other national wholesale providers, 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, as from January 1, 2006, Telecom Italia S.p.A. adopts 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. IFRS also include 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 at December 31, 2007 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 and article 149 - duodecies of the Consob Regulation for Issuers.

For comparison purposes and pursuant to IAS 1 (*Presentation of financial statements*), comparative data relating to the balance sheets as of December 31, 2006 and the income statements, cash flow statements and statements of changes in equity for the year ended December 31, 2006 are also presented.

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 financial instruments which have been measured at fair value. 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 2007.

The preparation of separate financial statements is mandatory pursuant to the provisions contained in article 2423 of the Italian Civil Code.

Publication of the separate financial statements of Telecom Italia S.p.A. for the year ended December 31, 2007 was approved by resolution of the board of directors' meeting held on March 6, 2008.

However, the shareholders' meeting has responsibility for the final approval of the separate financial statements of Telecom Italia S.p.A..

Financial statement formats

The financial statement formats conform to those indicated in IAS 1. In particular:
- the balance sheet has been prepared by classifying assets and liabilities into current and non-current;
- the income statement has been prepared by classifying operating expenses 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 cash flow statement has been prepared by presenting financial flows from operating activities according to the "indirect method", as permitted by IAS 7 (Cash flow statements).

All amounts are expressed in thousands of euro, unless otherwise indicated.

Furthermore, as required by Consob Resolution 15519 of July 27, 2006, in the income statement by nature, those income and expenses relating to non-recurring transactions or events which infrequently occur during the normal course of business operations have been shown separately.
In particular, they refer to:
- income / expenses from the sale of buildings;
- income / expenses from the sale of business segments and investments classified as non-current assets;
- expenses / any income from reorganizations connected with extraordinary corporate-related transactions (mergers, demergers, acquisitions and other corporate-related transactions);
- expenses / any income from fines levied by regulatory agencies (the National Regulatory Authority (NRA), the Antitrust Authority etc.).

Again in reference to the above Consob resolution, the balance sheets and income statements present the balances or transactions with related parties separately.

Seasonal factors affecting revenues

a) Fixed telephony
The trend of revenues from basic subscription charges and traffic relating to fixed telecommunication was not significantly affected by seasonal factors between 2006 and 2007.

b) Mobile telephony
The trend of revenues from voice traffic relating to mobile telecommunications was not affected by seasonable factors related to marketing campaigns. These campaigns, however, did have an effect on the level of revenues from sales and marginally also on revenues from value added services (VAS). Nevertheless, there are seasonal phenomena relating to changes in 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 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 useful life. The excess of fair value over cost (“negative goodwill”) is recognized in the income statement at the date of acquisition.

Goodwill is initially recorded at cost and is subsequently reduced only for 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 accounting policy *Impairment of assets - Goodwill,* reported below.

When a previously acquired enterprise, or part thereof, is sold, the relative amount of goodwill is taken into account in calculating the gain or loss on disposal.

In the context of IFRS first-time adoption, the Company elected not to apply IFRS 3 (*Business Combinations*) retrospectively to those business combinations which had arisen before January 1, 2004. As a consequence, goodwill on acquisitions before the date of transition to IFRS has been retained (except for possible effects arising from the application of the new accounting standards) at the previous Italian GAAP amounts, and was tested for impairment at that date.

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 treatments:

- *Mergers which are acquisitions of controlling interests*: these transactions are accounted for in accordance with IFRS 3, as described previously for “Business combinations and goodwill”.
- *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 are accounted for at the carrying amount. The excess of the carrying amount of the investment over the corresponding share of 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 either 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 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 to sell or use 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 useful life

Other purchased or internally-generated assets with a finite useful life 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 production cost and amortized on a straight-line basis over their estimated useful lives. Intangible assets with finite useful life are also tested for impairment annually or more frequently, whenever there is an indication that the asset may be impaired.

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 income statement prospectively.
For a small portion of bundled offerings of mobile equipment and services, the Company capitalizes directly attributable subscriber acquisition costs (represented by commissions for the sales network and subsidies for the purchase of handsets) when the following conditions are met:

- the capitalized costs can be measured reliably;
- there is a contract binding the customer for a specific period of time; and
- it is probable that the amount of the capitalized costs will be recovered through the revenues generated by the service contract, or, where the customer withdraws from the contract in advance, through the collection of the penalty.

Capitalized subscriber acquisition costs are amortized on a straight-line basis over the minimum period of the underlying contract (2 years).

In all other cases, subscriber acquisition costs are expensed when incurred.

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, construction or production of the asset) are expensed as incurred.

Cost also includes the expected costs of dismantling the asset and restoring the site if a legal or constructive obligation exists. The corresponding liability is recognized in the year in which the obligation arises in the balance sheet under provisions at its present value.
These capitalized costs are depreciated and charged to the income statement 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 land pertaining to buildings, is not depreciated.

The depreciation 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 income statement prospectively.

The depreciation rates used in 2007 and 2006 are the following:

Buildings	3% - 10%
Plant and equipment	3% - 33%
Manufacturing and distribution equipment	20% - 25%
Other	11% - 33%

Tangible assets - Assets held under finance leases

Assets held under finance leases, in which substantially all the risks and rewards of ownership are transferred to the Company, 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 due to the lessor is included in the balance sheet in financial liabilities.

Furthermore, gains realized on sale and leaseback transactions that are recorded under finance lease contracts 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 income statement 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 generally conducted in conjunction with the planning process of the Company, 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 income statement. 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 useful 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 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) operates.

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 non-current assets held for sale).

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 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 useful life

During the year, the Company assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful 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 indicators of an impairment exist, the carrying amount of the assets is reduced to the 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 Company estimates the recoverable amount of the cash-generating unit to which the asset belongs. Impairment losses are recognized in the income statement.

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. The reversal of an impairment loss is recognized as income in the income statement.

Financial instruments

In the context of IFRS first-time adoption, Telecom Italia elected to adopt IAS 32 (*Financial instruments: 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 a financial instrument as a financial asset "at fair value through profit or loss" or "available-for-sale" or a financial liability measured at "fair value through profit or loss" has been carried out at January 1, 2004 instead of at the date of initial recognition.

Investments

Investments in subsidiaries, associates and joint ventures are valued at cost adjusted by impairment losses. When the conditions that gave rise to an impairment loss no longer exist, the carrying amount of the investment is increased up to the relative original cost. This reversal is recorded as income in the income statement.

Other investments are classified as non-current or current assets if, by decision of the directors, are intended to be kept in the Company's portfolio for a period of more or not more than 12 months, respectively.

Upon the acquisition such investments are classified in the following categories:

- "available-for-sale financial assets", as non-current or current assets;
- "financial assets at fair value through profit or loss", as current assets held for trading.

Investments classified as "available-for-sale financial assets" are measured at fair value or at cost in the case of unlisted companies whose fair value cannot be determined reliably, adjusted by any impairment losses, as required by IAS 39. Changes in the value of these investments measured at fair value are recognized in a specific equity reserve (Reserve for available-for-sale financial assets) until the financial asset is disposed of or impaired at which time the equity reserve is reversed to the income statement.

The impairment losses on investments classified as “available-for-sale financial assets” are not reversed.

Changes in value of investments “at fair value through profit or loss” are recognized directly in the income statement.

Receivables and loans

Receivables and loans classified both as non-current and current assets are initially recognized at fair value and subsequently measured at amortized cost.
Receivables with maturities of more than one year which bear no interest or interest rates 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 their original maturity or the remaining maturity at the date of purchase does not exceed three 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 income statement 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 finance lease obligations.
In accordance with IAS 39, they also include trade and other payables.

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 splitting 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 (*fair value hedge derivatives*) 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 income statement 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 (*cash flow hedge derivatives*) are measured at amortized cost in accordance with the hedge accounting principles of IAS 39.

Derivatives

Derivatives are used by the Company 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, the hedging relationship is formally designated and documented;
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 income statement. 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 income statement.
- 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 cash flow hedges*). The cumulative gain or loss is removed from equity and recognized in the income statement at the same time as the hedged transaction affects the income statement. The gain or loss associated with the ineffective portion of a hedge is recognized in the income statement immediately. If the hedged transaction is no longer probable, the cumulative gains or losses included in the equity reserve are immediately recognized in the income statement.

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 income statement.

Sales of receivables

Coinciding with the expiry date of the securitization program and with reference to some categories of receivables, already subject to securitization, commencing June 2006 Telecom Italia put into place contracts for the sale of similar receivables under the factoring Law 52/1991. 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 derecognition. Specific servicing contracts, through 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.

Other receivables are sold by Telecom Italia under factoring agreements which, in the majority of cases, meet IFRS requirements for asset derecognition.

Amounts due from customers on construction contracts

Amounts due from customers on construction contracts, regardless of the duration of the contracts, are recognized in accordance with the stage of completion method and classified under current assets. Losses on such contracts, if any, are recorded in full in the income statement 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 basis (by single movement).
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

Employee severance indemnity, mandatory for Italian companies pursuant to art. 2120 of the Italian Civil Code, is considered deferred compensation and is based on the employees' years of service and the compensation earned by the employee during the service period.

Under IAS 19 (*Employee benefits*), the employee severance indemnity as calculated is considered a "Defined benefit plan" and the related liability to be recognized in the balance sheet (*Provision for employee severance indemnities*) is determined by actuarial calculations using the Projected Unit Credit Method. As allowed by IFRS 1 and IAS 19, in the context of IFRS first-time adoption and for subsequent years, Telecom Italia has elected to recognize all actuarial gains and losses in the income statement as they arise.
The expenses relative to the increase in the present value of the severance indemnity liability, as the time for payment of the benefit comes closer, are included in the income statement under "Employee benefits expenses".

Starting from January 1, 2007, the 2007 State Budget Law and the decrees implementing the law introduced significant changes to employee severance indemnity regulations, including the choice as to the possible destination of accruing employee severance indemnity either to supplementary pension funds or to the "Treasury fund" managed by INPS.

Consequently, the Company's obligation to INPS and the contributions to supplementary pension funds, take the form, under IAS 19, of "Defined contribution plans", whereas the amounts recorded in the Provision for employee severance indemnities, retain the nature of "Defined benefit plans".

These legislative changes introduced starting from 2007 have also led to a revision of the actuarial assumptions and the consequent calculations used for the computation of employee severance indemnities and the related effects have been directly recognized in the income statement.

Equity 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 IFRS 1, paragraph 25B, and thus 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 shares can assume over the life of the option.

The Company provides additional benefits to certain managers and employees through equity compensation plans (stock options). In accordance with IFRS 2, 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 value of the stock options is allocated pro-rata over the

vesting period and recorded in equity under “Other equity instruments”, with a contra-entry to the income statement in “Employee benefits expenses”. At the end of each year, the previously determined fair value of each option is not adjusted or updated, but maintained at its original value. However, at that date, the Company revises its estimates of the number of options that will vest at expiry based on the number of employees who will have exercise rights. The impact of the change in estimate is deducted from or added to “Other equity instruments” with a corresponding entry to the income statement in “Employee benefits expenses”.
When the option expires, the amount recorded in “Other equity instruments” is reclassified as follows: the portion relating to exercised options is reclassified to “Paid-in capital” and the portion relating to non-exercised options is reclassified under “Other reserves and retained earnings (accumulated losses), including profit for the year”.

Provisions

The Company records provisions for risks and charges when it has a present 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 the amount of the obligation can be estimated reliably.
Changes in estimates are reflected in the income statement 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 cost of acquisition over the nominal amount is presented as a deduction from “Other reserves and retained earnings (accumulated losses), including profit for the year”.

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 at the end of the prior year are recognized in the income statement.

Revenue recognition

Revenues are recognized to the extent that it is probable that economic benefits will flow to the Company and their amount can be measured reliably. Revenues are stated net of discounts, allowances, and returns.

- *Revenues from services rendered*

  Revenues from services rendered are recognized in the income statement according to the stage of completion of the service and only when the outcome of the service rendered can be estimated reliably.
  Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators. Amounts billed to customers for providing information or other content are recognized as revenues when the service is provided either at the gross amount billed to the customer or based on the commission received from the content provider, depending on the nature of the service rendered.
  Revenues from the activation of telephone services (as well as the related costs not in excess of the amount of revenues) are deferred over the expected duration of the relationship with the customer (generally 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 revenues for unused minutes are recorded in "Trade and miscellaneous payables and other current liabilities" in the balance sheet.

- *Revenues from sales and bundled offerings*

  Revenues from sales (telephone equipment and other) are recognized when the significant risks and rewards of ownership are transferred to the buyer.

  When an arrangement contains multiple elements, revenue is allocated to each element based on its relative fair value. For offerings that cannot be separated in identifiable components, revenues are recognized in full over the life of the contract.

  For offerings which include the delivery of mobile handsets and service contracts, Telecom Italia recognizes revenues related to the sale of the handset when it is delivered to the customer whereas traffic revenues are recorded on the basis of the minutes used; the related subscriber acquisition costs, including handset subsidies and sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value.

  A small portion of the bundled offerings in the mobile business are contracts with a minimum contractual period of 24 months and which include an enforced termination penalty. For these contracts, the subscriber acquisition costs are capitalized under "Intangible assets with a finite useful life" if the conditions for capitalization as described in the related accounting policy are met.

- *Revenues on construction contracts*

  Revenues on construction contracts are recognized using the stage of completion method.

Research costs and advertising expenses

Research costs and advertising expenses are charged directly to the income statement in the year in which they are 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 under "Finance expenses".

Income taxes are recognized in the income statement under "Income tax expense" except to the extent that they relate to items directly charged or credited to equity; in which case the related tax is recognized in the relevant equity reserves.

Taxes, other than income taxes, are included either in Other operating expenses or in Finance 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 separate financial statements except for non tax-deductible goodwill. Deferred tax assets relating to unused tax loss carryforwards are recognized to the extent that it is probable that future taxable income 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 there is a legally enforceable right of offset. Deferred tax assets and liabilities are determined based on enacted tax rates 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 income statement 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 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 in conformity with IFRS require 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 allowances, 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 income statement.
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 in order to disclose relevant and reliable information so that the financial statements:

- represent faithfully the financial position, financial performance 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 EU and in force from January 1, 2007

As required by IAS 8 (*Accounting policies, changes in accounting estimates and errors*), paragraph 28, IFRS in force from January 1, 2007 are herewith reported and briefly summarized.

IFRS 7 - Financial instruments: disclosures

This Standard, endorsed by the EU in January 2006 (EC Regulation 108-2006) supersedes IAS 30 (*Disclosures in financial statements of banks and other financial institutions*) and incorporates the section on Disclosures contained in IAS 32 (*Financial instruments: presentation and disclosures*) with amendments and additions; consequently, the title of IAS 32 has changed to *"Financial instruments: presentation"*.

Amendments to IAS 1 - Presentation of Financial Statements - Capital disclosures

Such amendments, endorsed by the EU in January 2006 (EC Regulation 108-2006) provide that an entity presents disclosures which allow users of the financial statements to assess its objectives, policies and processes for managing capital.

IFRIC 8 - Scope of IFRS 2

On September 8, 2006, the European Commission with EC Regulation 1329-2006 endorsed IFRIC 8 (*Scope of IFRS 2*).
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 lower

than the fair value of the equity instruments granted (or liability incurred), this typically indicates that additional consideration has been or will be received.
The application of this Interpretation did not have any effect on the separate financial statements at December 31, 2007.

IFRIC 9 - Reassessment of embedded derivatives

On September 8, 2006, the European Commission with EC Regulation 1329-2006 endorsed IFRIC 9 (*Reassessment of embedded derivatives*).
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 a reassessment on the separation of the embedded derivative is required.
The application of this Interpretation did not have any effect on the separate financial statements at December 31, 2007.

IFRIC 10 - Interim financial reporting and impairment

On June 1, 2007, the European Commission with EC Regulation 610-2007 endorsed IFRIC 10 (*Interim financial reporting and impairment*).
This interpretation addresses the interaction between the requirements of IAS 34 (Interim financial reporting) and the recognition of impairment losses on goodwill under IAS 36 and some financial assets discussed in IAS 39, as well as the effect of this interaction in subsequent interim financial statements and in the annual financial statements.
IFRIC 10 clarifies the accounting treatment to be adopted in the annual financial statements or in subsequent interim financial statements for the impairment losses of some assets recognized in a previous interim period (for example, quarterly or first-half financial statements) if at the end of the period the conditions which previously gave rise to the recognition of an impairment loss no longer exist.
The application of this Interpretation did not have any effect on the separate financial statements at December 31, 2007.

New Standards and Interpretations endorsed by the EU but not yet in force

As required by IAS 8 (*Accounting policies, changes in accounting estimates and errors*), paragraph 30, IFRS in force from January 1, 2008 or subsequently, are herewith reported and briefly summarized.

IFRIC 11 - (IFRS 2 - Group and treasury share transactions)

On June 1, 2007, the European Commission with EC Regulation 611-2007 endorsed IFRIC 11 (*IFRS 2 - Group and treasury share transactions*).

First of all, this interpretation clarifies that share-based payment transactions in which an entity receives services (for example, from employees) as consideration for its own equity instruments shall be accounted for as equity-settled. This applies regardless of whether the entity chooses or is required to buy those equity instruments from another party to satisfy its obligations to its employees under the share-based payment arrangement.

IFRIC 11 also defines the accounting treatment to be applied in the separate financial statements of subsidiaries for payment arrangements using equity instruments of the parent in certain specified circumstances.

IFRIC 11 will come into force from the year 2008.

The Company expects that the application of this Interpretation would not result in material effects on the separate financial statements.

IFRS 8 (Operating segments)

On November 21, 2007, EC Regulation 1358-2007 was published endorsing IFRS 8 (*Operating segments*) in the EU.

IFRS 8 requires an entity to report financial and descriptive information about its reportable segments. Reportable segments are operating segments or aggregations of operating segments that meet specified criteria. The reportable segments are operating segments for which discrete financial information is available and whose operating results are reviewed regularly by the entity's chief operating decision maker to make decisions about resources to be allocated to the segment and to assess its performance.
Generally, financial information is required to be reported on the basis that is used internally for evaluating operating segment performance and deciding how to allocate resources to operating segments.
IFRS 8 will come into force for annual financial statements for periods beginning on or after January 1, 2009 and supersedes IAS 14 (*Segment reporting*). Prior years' segment information presented as comparative information in the year of transition must be restated to conform to IFRS 8 requirements, unless the necessary information is unavailable and the cost to develop it would be excessive.

Note 3 - Financial risk management

Objectives and policies for financial risk management

As reported in Note 4 of 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 is therefore not established for the individual companies.

As regards the exchange rate risk on financial payables contracted 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.

Market risk: sensitivity analysis

Telecom Italia S.p.A.'s exposure to the various market risks can be measured, like the Group, by sensitivity analyses, as provided by IFRS 7. The suppositions and assumptions for this analysis are reported in Note 4 of the consolidated financial statements under "Financial risk management".

If, at December 31, 2007 the interest rates in the different markets in which the Telecom Italia S.p.A. operates had been 100 basis points higher (lower) than that actually recorded, the following would have been recorded:
- in the income statement: higher (lower) finance expenses, gross of the relative tax effect, for euro 132 million (euro 103 million in 2006).

- in equity, excluding the above effect on the profit for the year, higher (lower) for euro 360 million (euro 425 million); similarly, at December 31, 2006, the same change in interest rates would have produced higher (lower) equity of Telecom Italia S.p.A. for euro 505 million (euro 590 million).

Allocation of the financial structure between fixed rate and floating rate

As for the allocation of the financial structure between the fixed-rate component and the floating-rate component, for both financial assets and liabilities, the tables presented below should be considered. They show the nominal repayment/investment amount (insofar as that amount expresses the effective interest rate exposure of the Company) 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 reset on the basis of market parameters, even though the contract does not call for resetting 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)

	12/31/2007			12/31/2006		
(millions of euro)	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
Bonds	14,016	2,797	16,813	13,625	2,861	16,486
Convertible and exchangeable bonds	574	–	574	574	–	574
Loans and other payables	12,105	15,087	27,192	15,647	12,821	28,468
Total	**26,695**	**17,884**	**44,579**	**29,846**	**15,682**	**45,528**

FINANCIAL ASSETS (at the nominal investment amount)

	12/31/2007			12/31/2006		
(millions of euro)	Fixed rate	Floating rate	Total	Fixed rate	Floating rate	Total
Cash & cash equivalents	–	4,369	4,369	–	5,205	5,205
Other receivables	429	296	725	456	207	663
Total	**429**	**4,665**	**5,094**	**456**	**5,412**	**5,868**

With regard to floating-rate financial instruments, the contracts provide for revisions of the relative parameters to take place within the subsequent 12 months.

Effective interest rate

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 changes in fair value: therefore, this is the amortized cost, net of accruals and any changes in fair value as a consequence of hedge accounting.

FINANCIAL LIABILITIES

	12/31/2007		12/31/2006	
(millions of euro)	Adjusted carrying amount	Effective interest rate (%)	Adjusted carrying amount	Effective interest rate (%)
Bonds	16,740	5.98	16,433	5.96
Convertible and exchangeable bonds	510	7.42	482	7.43
Loans and other payables	26,174	5.20	27,954	4.84
Total	**43,424**	**5.53**	**44,869**	**5.21**

FINANCIAL ASSETS

	12/31/2007		12/31/2006	
(millions of euro)	Adjusted carrying amount	Effective interest rate (%)	Adjusted carrying amount	Effective interest rate (%)
Cash & cash equivalents	4,369	4.52	5,205	3.62
Other receivables	624	6.11	663	5.64
Total	**4,993**	**4.72**	**5,858**	**3.85**

Transactions hedging outstanding financial liabilities at December 31, 2007 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 derivatives.

With reference to the concept of market risk, in the broad sense, the Company has interest coupon step-ups and step-downs for certain bonds that change in relating to changes in ratings. 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 derivatives, reference should be made to the Note “Derivatives”.

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 during the year with temporary excess cash resources 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 high-credit-quality banking and financial institutions with a minimum of an A rating.

Liquidity risk

Telecom Italia S.p.A. pursues an objective of achieving an adequate level of financial flexibility.

Fair value

In order to determine the fair value of derivatives, Telecom Italia uses various valuation models. The fair value of IRS and CCIRS 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 IRS, 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 CCIRS, 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 CCIRS 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.

Relating to the fair value valuation of financial liabilities additional details are provided in the Note “Information on the financial instruments”.

Note 4 - Goodwill

Goodwill amounts to euro 40,013,045 thousand at December 31, 2007, unchanged compared to December 31, 2006.

Details of the composition of goodwill are as follows:

(thousands of euro)	**12/31/2006**
Domestic Fixed	14,207,963
Domestic Mobile	25,805,082
Total	**40,013,045**

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 Fixed and Domestic Mobile Business Units which represent the cash generating units/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 (present value of expected revenue flows) and the fair value less costs to sell (price obtainable on the market).
The value in use of the Fixed and Domestic Mobile Business Units for purposes of the impairment test in the separate financial statements of Telecom Italia S.p.A. has been calculated using the same parameters as the impairment test for the Fixed 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:

Domestic Fixed	**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)
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 2007 and rely on the best forecasts formulated by management for the period of the 2008/2010 plan.

The nominal growth rates used to estimate the end amount are the following:

Domestic Fixed	**Domestic Mobile**
–0.5%	+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 2007 results).

The cost of capital was estimated by considering the following:

a) the criteria for the estimate of the cost of capital CAPM - Capital Asset Pricing Model (the same criteria used by the Group to estimate the value in use and referred to in Annex A of IAS 36);

b) the Beta coefficient for business segments arrived at by using the Beta coefficients of the European multibusiness incumbents, including Telecom Italia itself, adjusted to take into account the target financial structure;

c) the Weighted Average Cost of Capital (WACC) used by other operators to test the value of goodwill;

d) the Weighted Average Cost of Capital (WACC) used by the analysts following Telecom Italia stock in the reports published after the announcement of third-quarter 2007 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:

	Domestic Fixed	Domestic Mobile
WACC post-tax	7.0%	7.1%
WACC post-tax - g	7.5%	6.6%

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. There was no impairment at this second level of testing either.

Note 5 - Intangible assets with a finite useful life

Intangible assets with a finite useful life decreased from euro 4,896,649 thousand at December 31, 2006 to euro 4,866,605 thousand. Details on the composition and movements during the year are as follows:

(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**

(thousands of euro)	12/31/2006	Additions	Amortization	Impairment losses/ reversals	Disposals	Other changes	12/31/2007
Industrial patents and intellectual property rights	2,079,097	969,762	(1,366,751)	(6,765)	(3,301)	477,300	2,149,342
Concessions, licenses, trademarks and similar rights	2,033,071	10,264	(138,383)			288	1,905,240
Other intangible assets	101,125	177,269	(121,133)			2	157,263
Work in progress and advance payments	683,356	394,003		(15,500)	(569)	(406,530)	654,760
Total	**4,896,649**	**1,551,298**	**(1,626,267)**	**(22,265)**	**(3,870)**	**71,060**	**4,866,605**

Additions made during 2007 include euro 267,367 thousand of capitalized internally generated assets. Impairments losses generally refer to software projects.

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. The UMTS license, equal to euro 1,879,903 thousand is being amortized over 18 years on the basis of the residual period of benefit and the amortization charge for 2007 is euro 134,279 thousand. The Wireless Local Loop license, equal to euro 10,068 thousand, is being amortized over 15 years and the amortization charge for 2007 is euro 1,119 thousand.

Other intangible assets mainly include the capitalization of Subscriber Acquisition Costs referring to certain mobile telephone sales campaigns (euro 154,217 thousand).

Amortization and impairment losses are recorded in the income statement as components of the operating result.

The gross carrying amount, accumulated impairment losses and accumulated amortization at December 31, 2007 and 2006 can be summarized as follows:

	12/31/2007			
(thousands of euro)	Gross carrying amount	Accumulated impairment losses	Accumulated amortization	Net carrying amount
Industrial patents and intellectual property rights	10,495,272	(14,302)	(8,331,628)	2,149,342
Concessions, licenses, trademarks and similar rights	2,548,557		(643,317)	1,905,240
Other intangible assets	351,540		(194,277)	157,263
Work in progress and advance payments	670,260	(15,500)		654,760
Total	**14,065,629**	**(29,802)**	**(9,169,222)**	**4,866,605**

	12/31/2006			
(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	175,052		(73,927)	101,125
Work in progress and advance payments	683,618	(262)		683,356
Total	**13,777,584**	**(15,071)**	**(8,865,864)**	**4,896,649**

Note 6 - Tangible assets (owned and under finance leases)

Property, plant and equipment owned

Property, plant and equipment owned decreased from euro 12,475,639 thousand at December 31, 2006 to euro 12,208,125 thousand. Details on the composition and movements during the year are as follows:

(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
Buildings (civil and industrial)	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**

(thousands of euro)	12/31/2006	Additions	Depreciation	Impairment losses/ reversals	Disposals	Other changes	12/31/2007
Land	124,824	12			(856)	67	124,047
Buildings (civil and industrial)	509,193	705	(39,050)		(3,261)	2,731	470,318
Plant and equipment	10,463,374	1,861,143	(2,234,171)	(3,465)	(14,756)	327,876	10,400,001
Manufacturing and distribution equipment	49,079	6,721	(23,364)		(159)	9,964	42,241
Other	617,915	130,782	(210,167)		(131)	49,249	587,648
Construction in progress and advance payments	711,254	339,635		(12,024)	(48)	(454,947)	583,870
Total	**12,475,639**	**2,338,998**	**(2,506,752)**	**(15,489)**	**(19,211)**	**(65,060)**	**12,208,125**

Additions in 2007 include euro 187,809 thousand of internally generated assets.
The impairment losses refer to unused equipment and telephone systems in the process of being replaced with new technologically advanced materials.

Depreciation and impairment losses/reversals are recorded in the income statement as components of the operating result.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2007 and 2006 can be summarized as follows:

	12/31/2007			
(thousands of euro)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	124,812	(765)		124,047
Buildings (civil and industrial)	1,177,801	(1,542)	(705,941)	470,318
Plant and equipment	54,518,830	(20,445)	(44,098,384)	10,400,001
Manufacturing and distribution equipment	706,576		(664,335)	42,241
Other	3,172,342	(6,020)	(2,578,674)	587,648
Construction in progress and advance payments	605,485	(21,615)		583,870
Total	**60,305,846**	**(50,387)**	**(48,047,334)**	**12,208,125**

	12/31/2006			
(thousands of euro)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Land	125,589	(765)		124,824
Buildings (civil and industrial)	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 1,512,525 thousand at December 31, 2006 to euro 1,442,373 thousand. Details on the composition and changes are as follows:

(thousands of euro)	12/31/2005	Merger effect Tim Italia/ Nuova Tin.it	Additions	Depreciation	Impairment losses/ reversals	Disposals	Other changes	12/31/2006
Buildings (civil and industrial)	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**

(thousands of euro)	12/31/2006	Additions	Depreciation	Impairment losses/ reversals	Disposals	Other changes	12/31/2007
Buildings (civil and industrial)	1,416,135	23,821	(100,533)			20,295	1,359,718
Plant and equipment	–		(41)			85	44
Other	46,935	7,945	(25,358)			(106)	29,416
Construction in progress and advance payments	49,455	25,688			(122)	(21,826)	53,195
Total	**1,512,525**	**57,454**	**(125,932)**	**0**	**(122)**	**(1,552)**	**1,442,373**

Depreciation and impairment losses/reversals are recorded in the income statement as components of the operating result.

The gross carrying amount, accumulated impairment losses and accumulated depreciation at December 31, 2007 and 2006 can be summarized as follows:

	12/31/2007			
(thousands of euro)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Buildings (civil and industrial)	1,969,786	(27,312)	(582,756)	1,359,718
Plant and equipment	8,744		(8,700)	44
Other	166,612		(137,196)	29,416
Construction in progress and advance payments	53,195			53,195
Total	**2,198,337**	**(27,312)**	**(728,652)**	**1,442,373**

	12/31/2006			
(thousands of euro)	Gross carrying amount	Accumulated impairment losses	Accumulated depreciation	Net carrying amount
Buildings (civil and industrial)	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, 2007, minimum lease payments due in future years and their present value are as follows (thousands of euro):

	12/31/2007		12/31/2006	
	Minimums lease payment	Present value of minimum lease payments	Minimums lease payment	Present value of minimum lease payments
Within 1 year	216,282	203,845	225,955	211,512
From 2 to 5 years	793,992	629,425	819,161	637,479
Beyond 5 years	1,601,218	792,433	1,840,653	868,810
	2,611,492	**1,625,703**	**2,885,769**	**1,717,801**

	12/31/2007	12/31/2006
Future lease payments (minimum lease payments)	2,611,492	2,885,769
Interest portion	(985,789)	(1,167,968)
Present value of lease payments	**1,625,703**	**1,717,801**
Finance lease liabilities	2,029,151	2,080,893
Financial receivables for lessors' net investments	(403,448)	(363,092)
Total net finance lease liabilities	**1,625,703**	**1,717,801**

Note 7 - Other non-current assets

Other non-current assets decreased from euro 12,839,258 thousand at December 31, 2006 to euro 12,392,326 thousand. The composition is as follows:

(thousands of euro)	12/31/2007	*Of which Financial Instruments*	12/31/2006	*Of which Financial Instruments*
Investments in:				
– Subsidiaries	11,065,519		10,427,092	
– Associates and joint ventures	82,804		93,356	
– Other companies	50,787	*50,787*	392,760	*392,760*
	11,199,110	***50,787***	**10,913,208**	***392,760***
Financial receivables and other non-current financial assets	582,333	*582,333*	670,145	*670,145*
	582,333	***582,333***	**670,145**	***670,145***
Miscellaneous receivables and other non-current assets				
– Miscellaneous receivables	12,604	*10,888*	34,350	*14,658*
– Medium/long-term prepaid expenses	476,044		507,392	
	488,648	***10,888***	**541,742**	***14,658***
Deferred tax assets (*)	122,235		714,163	
Total	**12,392,326**	***644,008***	**12,839,258**	***1,077,563***

(*) Analyzed in the Note "Deferred tax assets and deferred tax liabilities".

Additional details on Financial Instruments are provided in the Note "Information on other financial instruments".

Details of investments are as follows:

INCREASES:		(thousands of euro)
• **Acquisitions, subscriptions, payments against future investments and loss coverage of:** Olivetti (30,000), Telecom Italia Deutschland Holding (665,015), Telecom Italia America Latina (4,769), Trainet (1,700), Shared Services Center (1,170), Telbios (931), Consorzio TEMA MOBILITY (175), Teco Soft Argentina (75), Consorzio EO (22), Consorzio S.I.A.R.C. (8), Mix (5), Consorzio GAL - PMI (2)		703,872
• **Fair value adjustments to:** Assicurazioni Generali (101)		101
Total increases	**(A)**	**703,973**

DECREASES:		
• **Sales/reduction of shares/quotas /payments against future investments of:** Mediobanca (266,997), Capitalia (74,771), Olivetti Gestioni Ivrea (1,731), Domus Academy (515), Saturn Venture Partners (90), IN.VA. (161), Consortium (286), Insula (248)		(344,799)
• **Distribution of capital/reserves/dividends:** Tiglio I (5,484), Telegono (320)		(5,804)
• **Cancellation of the investment in Progetto Italia following its merger in Telecom Italia**		(1,000)
• **Impairment losses charged to the income statement of:** Olivetti (58,887), Tiglio I (2,607), Luna Rossa Trademark (674), TILAB S.A. (728), Telbios (554), Mobi Top Level Domain (450), IT Telecom (330), Saturn Venture Partners (221), IM.SER. (139), Telecom Italia Media (43), Fratelli Alinari (29), Consorzio EO (22), Consorzio S.I.A.R.C. (9)		(64,693)
• **Impairment losses charged against the provision for losses of subsidiaries and associates of:** Teco Soft Argentina (75), Trainet (1,700)		(1,775)
Total decreases	**(B)**	**(418,071)**
Net change for the year	**(A+B)**	**(285,902)**

The following is mentioned:

- on February 28, 2007, Telecom Italia made a loan against future investments to Telecom Italia Deutschland Holding of euro 665,015 thousand after finalization of the purchase of the AOL access business in Germany (broadband and narrowband) from the Time Warner

Group. On June 22, 2007, the companies purchased from the Time Warner Group were merged in and with HanseNet Telekommunikation GmbH.

- with effect on October 1, 2007, the company Progetto Italia S.p.A. was merged in and with Telecom Italia S.p.A.. The merger deed was signed on September 28, 2007;
- in 2007, 15,003,207 Mediobanca shares (equal to the entire investment held, 1.835%) with a carrying amount of euro 266,997 thousand (of which euro 126,663 thousand was the historical cost and euro 140,334 thousand the fair value adjustment at December 31, 2006) were sold for proceeds of euro 235,801 thousand. The sale resulted in a gain net of tax of euro 101,778 thousand;
- in 2007, 10,453,051 Capitalia shares (equal to the entire investment held, 0.403%) with a carrying amount of euro 74,771 thousand (of which euro 36,018 thousand was the historical cost and euro 38,753 thousand the fair value adjustment at December 31, 2006) were sold for proceeds of euro 73,612 thousand. The sale resulted in a gain net of tax of euro 35,609 thousand;
- following the dissolution of the partnership with Pirelli in the consortium company Shared Service Center (SSC), on October 1, 2007, the company conferred, to a company of the Pirelli Group, the business segment consisting of the persons and the structures that had been dedicated to the information services activities for the Pirelli group and later sold the shares from the above conferral to the same Pirelli. The process to transform the consortium company into a S.r.l. was then begun. Once this transformation was completed, Pirelli exited Shared Service Center as a shareholder when Telecom Italia, in November 2007, acquired its 50% stake in the company at the price of euro 1,072 thousand. Finally, in December 2007, Telecom Italia purchased the remaining 4.55% stake in Shared Service Center from Olivetti for euro 98 thousand. Therefore, at December 31, 2007, Telecom Italia held 100% of the share capital of Shared Service Center.

Financial receivables and other non-current financial assets decreased from euro 670,145 thousand at December 31, 2006 to euro 582,333 thousand. The composition is as follows:

(thousands of euro)	12/31/2007	12/31/2006
Financial receivables from subsidiaries	111,088	116,104
Financial receivables from associates and joint ventures	25,174	23,429
Financial receivables from other Group companies	16	–
Financial receivables for lessors' net investments	264,510	222,077
Loans to employees	61,976	65,482
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	94,988	155,517
Other receivables	1,669	67,971
Prepaid expenses	22,912	19,565
Total	**582,333**	**670,145**

Financial receivables from subsidiaries refer to a loan made to Telecom Italia Media (euro 100,003 thousand), received from the European Investment Bank (EIB) for the 2005-2007 three-year capital expenditures program aimed at expanding the infrastructures of the digital terrestrial network. These receivables also include euro 11,009 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 joint ventures refer to loans made principally to the company Aree Urbane (euro 25,129 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 Company 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 mark to market component of the derivatives. Additional details are provided in the Note “Derivatives”.

Loans to employees relate to the remaining amount due on loans granted.

Miscellaneous receivables and other non-current assets decreased from euro 541,742 thousand at December 31, 2006 to euro 488,648 thousand and are net of the relative provision for bad debts (euro 2,658 thousand), unchanged compared to December 31, 2006. Miscellaneous receivables and other non-current assets are composed of:

(thousands of euro)	12/31/2007	12/31/2006
Miscellaneous receivables from subsidiaries for consolidated national tax return	1,716	3,454
Miscellaneous receivables from associates	6,630	10,370
Other receivables	4,258	20,526
Prepaid expenses	476,044	507,392
Total	**488,648**	**541,742**

In particular:

- other receivables refer almost entirely to security deposits. The reduction of euro 16,268 thousand from December 31, 2006 is due to the complete recovery of the tax credit from the advance payment of taxes on the provision for employee severance indemnities by the end of 2008;
- prepaid expenses relate to the deferral of costs in connection with the recognition of revenues.

Miscellaneous receivables and other non-current receivables amounting to euro 10,888 thousand (euro 14,658 thousand at December 31, 2006).

Note 8 - Deferred tax assets and deferred tax liabilities

The net balance decreased from a net deferred tax asset balance of euro 580,321 thousand at December 31, 2006 to a net deferred tax liability balance of euro 356,704 thousand at December 31, 2007. Details are as follows:

(thousands of euro)	12/31/2007	12/31/2006
Deferred tax assets	122,235	714,163
Deferred tax liabilities	(478,939)	(133,842)
Total	**(356,704)**	**580,321**

Since deferred tax assets and liabilities are offset in the financial statements when 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	948,973	1,517,181
Deferred tax liabilities	(1,305,677)	(936,860)
Total	**(356,704)**	**580,321**

Utilizations and new charges for accruals to deferred tax assets and liabilities gave rise to a tax charge recorded in income tax expense for the year ended December 31, 2007 of euro 883,358 thousand (see the Note “Income tax expense” for additional details on the tax charge). The tax effect taken directly to equity in 2007 is a charge of euro 53,704 thousand and principally relates to the fair value adjustment to hedging derivatives (euro 66,225 thousand) net of the fair value adjustment to available-for-sale financial assets following their sale (euro 9,490 thousand).

Temporary differences which make up this caption at December 31, 2007 and 2006 are the following:

(thousands of euro)	12/31/2007	12/31/2006
Deferred tax assets		
– Writedowns	9,242	157,363
– Payables for pension fund integration Law 58/92	132,346	193,590
– Tax loss carryforwards	–	285,017
– Provisions for risks and charges	150,501	172,783
– Provision for bad debts	200,427	184,153
– Recognition of revenues	78,455	123,951
– Sale and leaseback of properties	129,691	139,322
– Provision for restoration costs	58,028	59,031
– Derivatives	23,097	41,731
– Capital grants	31,547	45,651
– Other deferred tax assets	135,639	114,589
Total	**948,973**	**1,517,181**
Deferred tax liabilities		
– Accelerated depreciation	(1,046,040)	(620,880)
– Deferred gains	(82,533)	(135,590)
– Notes and bonds	(17,278)	(27,062)
– Discounting of provision for employee severance indemnities	(43,238)	(38,689)
– Derivatives	(50,318)	–
– Other deferred tax liabilities	(66,271)	(114,639)
Total	**(1,305,677)**	**(936,860)**
Total deferred tax liabilities less deferred tax assets	**(356,704)**	**580,321**

At December 31, 2007, the Company has tax-deferred equity reserves of 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 9 - Inventories

Inventories decreased from euro 124,849 thousand at December 31, 2006 to euro 97,899 thousand and consist of equipment, handsets and the relative accessories for fixed and mobile telecommunications. The decrease from December 31, 2006 is mainly attributable to higher use of materials in connection with promotional campaigns conducted for both fixed and mobile equipment.

Writedowns of inventories made in 2007 total euro 18,505 thousand and mainly refer to the adjustment of mobile telephone handsets to estimated realizable value.

No inventories are pledged as collateral.

Note 10 - Trade and miscellaneous receivables and other current assets

Trade and miscellaneous receivables and other current assets increased from euro 6,852,642 thousand at December 31, 2006 to euro 6,871,409 thousand and consist of the following:

(thousands of euro)	12/31/2007	*Of which Financial Instruments*	12/31/2006	*Of which Financial Instruments*
Amounts due on construction contracts	22,767		11,787	
	22,767		**11,787**	
Trade receivables				
– Receivables from customers	3,682,830	3,682,830	4,106,100	4,106,100
– Receivables from other telecommunications operators	1,313,288	1,313,288	1,202,517	1,202,517
– Receivables from subsidiaries	197,741	197,741	197,272	197,272
– Receivables from associates	150,837	150,837	191,140	191,140
– Receivables from other Group companies	48,392	48,392	4,963	4,963
– Collections pending credit	20,867	20,867	37,199	37,199
	5,413,955	***5,413,955***	**5,739,191**	***5,739,191***
Miscellaneous receivables and other current assets				
– Receivables from subsidiaries	51,337		37,441	
– Receivables from associates	6,455	*6,455*	2,598	*2,322*
– Receivables from other Group companies	12		16	
– Other receivables	970,999	*502,081*	708,173	*200,130*
– Trade and miscellaneous prepaid expenses	405,884		353,436	
	1,434,687	***508,536***	**1,101,664**	***202,452***
Total	**6,871,409**	***5,922,491***	**6,852,642**	***5,941,643***

Additional details on Financial Instruments are provided in the Note “Information on other financial instruments”.

The following analysis presents the ageing of trade and miscellaneous receivables and other current assets at December 31, 2007 and December 31, 2006 which have not been written down.

			Overdue			
(thousands of euro)	**12/31/2007**	**Not overdue**	**0 - 90 days**	**91 - 180 days**	**181 - 365 days**	**More than 365 days**
Crediti commerciali, vari e altre attività correnti, netti	5,922,491	4,688,860	330,598	228,020	344,646	350,367

			Overdue			
(thousands of euro)	**12/31/2006**	**Not overdue**	**0 - 90 days**	**91 - 180 days**	**181 - 365 days**	**More than 365 days**
Crediti commerciali, vari e altre attività correnti, netti	5,941,643	4,690,658	407,969	325,183	198,274	319,559

Trade receivables amount to euro 5,413,955 thousand (euro 5,739,191 thousand at December 31, 2006) and are net of the provision for bad debts of euro 713,598 thousand (euro 539,441 thousand at December 31, 2006).

Movements in the provision for bad debts are as follows:

(thousands of euro)	**2007**	**2006**
At January 1	539,441	425,105
Tim Italia and Tin.it merger effect	–	112,588
Bad debt charge to the income statement	391,800	168,428
Utilization	(218,343)	(166,680)
Other movements	700	–
At December 31	**713,598**	**539,441**

The provision for bad debts increased due to the need for higher coverage following the increase in overdue mobile telephone receivables related to post-paid contracts as well as the increase in fixed telephone receivables from customers where contractual relations were terminated (overdue receivables). This refers to individual writedowns for euro 461,808 thousand (euro 329,961 thousand at December 31, 2006) and overall writedowns for euro 251,790 thousand (euro 209,480 thousand at December 31, 2006). Amounts are charged to the income statement for specific credit positions with special risks. Amounts charged in respect of receivable positions without such features are effected on the basis of the average estimated uncollectibility by customer segment.

Receivables from customers amount to euro 3,682,830 thousand and decreased by euro 423,270 thousand compared to December 31, 2006 mainly as a result of a contraction in sales and the steps taken to increase collections.

Receivables from other fixed and mobile telecommunications operations total euro 1,313,288 thousand net of the provision for bad debts of euro 119,673 thousand. This is an increase of euro 110,771 thousand compared to December 31, 2006 and can be ascribed to an increase in payables to the same operations due to the suspension of collections and payments owing to pending disputes.

Receivables from subsidiaries, amounting to euro 197,741 thousand, mainly refer to TLC services rendered to Telecom Italia Sparkle (euro 55,247 thousand), Telecom Italia Media (euro 21,195 thousand), Tim Participaçoes (euro 19,780 thousand), Path.Net (euro 19,207 thousand), HanseNet (euro 18,773 thousand) and Telecom Italia S.A. (euro 19,125 thousand).

Receivable from associates total euro 150,837 thousand and particularly refer to LI.SIT (euro 84,649 thousand) for the project to supply health cards to the Lombardy Region and Teleleasing (euro 56,038 thousand) for the sale of TLC equipment and services.

Miscellaneous receivables and other current assets amount to euro 1,434,687 thousand (euro 1,101,664 thousand at December 31, 2006) and are net of a provision for bad debts of euro 35,107 thousand. Details are as follows:

(thousands of euro)	12/31/2007	12/31/2006
Advances to suppliers	61,750	131,857
Receivables from subsidiaries	51,337	37,441
Receivables from associates	6,455	2,598
Receivables from other Group companies	12	16
Receivables from employees	36,676	30,049
Tax receivables	50,186	45,970
Sundry receivables	822,387	500,297
Trade and miscellaneous prepaid expenses	405,884	353,436
Total	**1,434,687**	**1,101,664**

Advances to suppliers decreased by euro 70,107 thousand mainly as a result of the recovery, after invoicing, of advances paid to the supplier Ericsson in 2006 (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.

Receivables from subsidiaries amount to euro 51,337 thousand and principally refer to credit positions connected with the Group VAT procedure (euro 38,319 thousand).

Receivables from associates of euro 6,455 thousand refer to transactions with LI.SIT.

Tax receivables totaling euro 50,186 thousand basically include amounts due from tax returns and VAT receivable on the purchase of cars and related accessories for which refunds were requested under Legislative Decree 258/2006, converted with amendments by Law 278/2006.

Sundry receivables particularly include:

- the receivable still due from the tax authorities (euro 100,343 thousand) for the legal interest earned up to the date of the refund of the principal portion of the TLC operating fee for the year 1999;
- receivables from factoring companies (euro 457,160 thousand), largely for the assignment of receivables due from dealers on the sale of mobile telephone equipment;
- the receivable for the Universal Service (euro 56,207 thousand).

Sundry receivables increased by euro 322,090 thousand mainly as a result of the increase in the above receivables due from factoring companies (+euro 311,132 thousand).

Trade and miscellaneous prepaid expenses principally pertain to building leases (euro 66,359 thousand), rentals and maintenance (euro 18,298 thousand), insurance premiums (euro 19,316 thousand) and the deferral of costs in relation to the recognition of revenues in accordance with IAS 18 (euro 191,384 thousand).

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Miscellaneous receivables and other current assets were written down individually for an amount of euro 15,072 thousand (euro 16,445 thousand at December 31, 2006); disclosure is provided in accordance with IFRS 7.

Note 11 - Current income tax receivables

Current income tax receivables decreased from euro 258,294 thousand at December 31, 2006 to euro 37,170 thousand. The reduction is mainly due to the on-account payment of IRAP taxes made in 2007 in excess of current IRAP taxes due with which it was offset in the financial statements.

Note 12 - Financial receivables and other current financial assets

Financial receivables and other current financial assets decreased from euro 265,704 thousand at December 31, 2006 to euro 243,543 thousand. Details are as follows:

(thousands of euro)	12/31/2007	12/31/2006
Financial receivables for lessors' net investments	138,938	141,015
Loans to employees	13,251	16,799
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	80,321	90,457
Non-hedging derivatives	3,562	7,220
Receivables from subsidiaries	6,291	6,062
Receivables from associates and joint ventures	32	559
Receivables from other Group companies	25	–
Other financial receivables	1,060	3,592
Prepaid expenses	63	–
Total	**243,543**	**265,704**

Additional details on Financial Instruments are provided in the Note “Information on other financial instruments”.

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 Company 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 "Derivatives".

Note 13 - Cash and cash equivalents

Cash and cash equivalents decreased from euro 5,207,976 thousand at December 31, 2006 to euro 4,383,255 thousand. They consist of the following:

(thousands of euro)	12/31/2007	12/31/2006
Liquid assets with banks, financial institutions and post offices	4,265,627	5,117,910
Cash and valuables	663	607
Receivables from subsidiaries	115,893	88,585
Receivables from associates and joint ventures	1,072	874
Total	**4,383,255**	**5,207,976**

Additional details on Financial Instruments are provided in the Note "Information on other financial instruments".

Liquid assets with banks, financial institutions and post offices decreased by euro 852,283 thousand compared to December 31, 2006 due to repayments of liabilities which became due in 2007, to the early partial repayment of euro 1.5 billion of the Term Loan maturing in 2010 and to the payment of dividends. Such repayments are higher than the amount of debt refinanced.

The different technical forms used for the investment of liquidity as of December 31, 2007 can be analyzed as follows:

- maturities: 94% of investments have a maximum maturity of two months;
- counterpart risk: investments are made with first-rate banks and financial institutions that have a high credit rating of not less than "A";
- country risk: the geographic location of investments is principally on major European markets.

Note 14 - Equity

Equity includes:

(thousands of euro)	12/31/2007	12/31/2006
Share capital issued	10,673,793	10,673,764
– Less: treasury shares	(700)	(700)
Share capital	10,673,093	10,673,064
Paid-in capital	1,689,150	1,689,040
Legal reserve	2,134,755	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	602,259	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	3,178,304	3,185,917
Total Other reserves	4,103,675	4,111,288
Retained earnings (accumulated losses), including profit for the year	5,014,751	5,915,406
Total	**23,615,424**	**24,523,548**

The movements in share capital during 2007 are presented in the following tables:

RECONCILIATION BETWEEN THE NUMBER OF SHARES OUTSTANDING AT DECEMBER 31, 2006 AND DECEMBER 31, 2007

Number of shares	At 12/31/2006	Shares issued as a result of bond conversions	At 12/31/2007
Ordinary shares	13,380,723,078	53,235	13,380,776,313
Less: treasury shares	(1,272,014)		(1,272,014)
Outstanding ordinary shares	13,379,451,064	53,235	13,379,504,299
Outstanding savings shares	6,026,120,661		6,026,120,661
Total shares issued	**19,406,843,739**	**53,235**	**19,406,896,974**
Less: treasury shares	(1,272,014)	–	(1,272,014)
Total shares outstanding	**19,405,571,725**	**53,235**	**19,405,624,960**

RECONCILIATION BETWEEN THE VALUE OF SHARES OUTSTANDING AT DECEMBER 31, 2006 AND DECEMBER 31, 2007

(thousands of euro)	Share capital at 12/31/2006	Changes in share capital as a result of bond conversions	Share capital at 12/31/2007
Ordinary shares	7,359,398	29	7,359,427
Less: treasury shares	(700)		(700)
Outstanding ordinary shares	7,358,698	29	7,358,727
Outstanding savings shares	3,314,366		3,314,366
Total shares issued	**10,673,764**	**29**	**10,673,793**
Less: treasury shares	(700)	–	(700)
Total shares outstanding	**10,673,064**	**29**	**10,673,093**

The total amount of ordinary treasury shares, euro 2,298 thousand, was recorded for the part relating to the par value (euro 700 thousand) as a deduction from the par value of the shares issued and, for the remaining amount, as a deduction from Other reserves.

Share capital structure

The share capital subscribed to and paid-in amounts to euro 10,673,793,335.70, divided into 13,380,776,313 ordinary shares of par value euro 0.55 each, equal to 68.95% of share capital, and 6,026,120,661 savings shares of par value euro 0.55 each, equal to 31.05% of share capital. The shares of the Company are listed on the Borsa Italiana S.p.A..

The ordinary and savings shares of the Company are listed on the NYSE in the form of American Depositary Shares, each of which corresponds to 10 shares of ordinary or savings shares, respectively, represented by ADRs issued by JPMorgan Chase Bank.

In the resolutions passed to increase share capital against cash payments, the option right can be excluded to the extent of a maximum of ten percent of the pre-existing share capital, on condition that the issue price corresponds to the market value of the shares and that this is confirmed in a specific report issued by the audit firm charged with auditing.

The Group sources itself with the capital necessary to fund its requirements for business development and operations; the sources of funds are found in a balanced mix of risk capital, permanently invested by the shareholders, and debt capital, to guarantee a balanced financial structure and minimize the total cost of capital, with a resulting advantage to all the stakeholders.

Debt capital is structured according to different maturities to ensure an equal balance between sources and uses, an efficient access to external sources of financing (taking advantage of the best opportunities offered on the euro, U.S. dollar and Pound sterling financial markets and an efficient process of refinancing at maturity).

The remuneration of the risk capital of the Group companies is proposed by the board of directors to the shareholders' meeting, which meets to approve the annual financial statements, based upon market trends and business performance, once all the other obligations are met, including debt servicing. Therefore, in order to guarantee adequate remuneration of capital, safeguarding company continuity and business development, the Group constantly monitors the change in debt levels in relation to equity, the level of net debt and the operating margin of industrial operations.

Rights of savings shares

The rights of savings shares are indicated below:

- the profit shown in the duly approved financial statements, less the amount appropriated to the legal reserve, must be distributed to the holders of savings shares in an amount up to 5% of the par value of the share;
- after assigning preferred dividends to the savings shares, the remaining profit shall be assigned to all the shares so that the savings shares have the right to dividends that are higher, than the dividends to which the ordinary shares are entitled, by 2% of the par value of the share;
- if in any one year dividends of below 5% of the par value of the share are paid to the savings shares, the difference is carried over and goes to increase the preferred dividends for the next two successive years;
- in the case of the distribution of reserves, the savings shares have the same rights as the other shares. Moreover, the shareholders' meeting called to approve the separate financial statements for the year can, when there is no profit or insufficient profit reported in those financial statements to satisfy the rights of the savings shares, resolve to satisfy the dividend right and/or the additional right by distributing available reserves;
- the reduction of share capital as a result of losses does not entail a reduction of the par value of savings shares except for the amount of the loss which exceeds the overall par value of the other shares;
- upon the wind-up of the Company, the savings shares have a preemptive right in the reimbursement of capital for the entire par value;
- under certain conditions, the holder of savings shares may ask the Company to convert its shares into ordinary shares, according to the manner resolved by the extraordinary session of the shareholders' meeting called for that purpose within two months of being excluded from negotiations.

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Paid-in capital is equal to euro 1,689,150 thousand at December 31, 2007 and increased by euro 110 thousand compared to December 31, 2006. The change is due to the paid-in capital relating to the issue of shares following the conversion of bonds.

The **Legal reserve** totals euro 2,134,755 thousand at December 31, 2007 and increased by euro 5 thousand compared to December 31, 2006 due to the appropriation of a part of the profit for the year 2006, in accordance with the resolution passed by the shareholders' meeting on April 16, 2007.

Other reserves amount in total to euro 4,103,675 thousand at December 31, 2007 . This is a decrease of euro 7,613 thousand compared to December 31, 2006. The various reserves are analyzed as follows:

- Reserve ex art. 13, L.D. 124/1993 (euro 391 thousand): unchanged from December 31, 2006;
- Reserve ex art. 74, D.P.R. 917/1986 (euro 5,750 thousand): unchanged from December 31, 2006;
- Reserve for capital grants (euro 602,259 thousand): unchanged from December 31, 2006;
- Revaluation reserve ex Law 413 of December 30, 1991 (euro 1,129 thousand): unchanged from December 31, 2006;
- Reserve, ex article 1, paragraph 469, Law 266/2005 and ex article 14, Law 342/2000 (euro 315,842 thousand): unchanged from December 31, 2006 and 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 cash flows hedges and underlying items (euro 120,931 thousand): an increase compared to December 31, 2006 of euro 162,257 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;
- Reserve for available-for-sale financial assets (– euro 3,762 thousand): a decrease compared to December 31, 2006 of euro 174,249 thousand mainly due to the transfer to the income statement of unrealized gains, net of the tax effect, as a result of the sale of Mediobanca and Capitalia shares during the year. This reserve includes unrealized gains, net of the related tax effect, referring to the investments in Assicurazioni Generali (euro 991 thousand) and the negative change of euro 4,753 thousand due to the fair value adjustment of available-for-sale financial assets;
- Reserve for other equity instruments (euro 73,668 thousand): includes the value of call options included in the issue of "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium" net of the tax effect. The reserve increased, compared to December 31, 2006, by euro 2,083 thousand mainly due to the effect of the adjustment to account for the new IRES tax rates established by Law 244 dated December 24, 2007 (State Budget Law 2008);
- Reserve Law ex lege 488/1992 (euro 203,416 thousand): unchanged from December 31, 2006;
- Merger surplus reserve (euro 2,072,518 thousand): an increase of euro 355 thousand compared to December 31, 2006, as a result of the cancellation surplus generated by the merger of Progetto Italia S.p.A. in Telecom Italia on October 1, 2007;
- Unavailable reserve originating from the application of art. 7, paragraph 7 of Legislative Decree 38/2005 (euro 578,234 thousand);
- Miscellaneous reserves (euro 133,299 thousand).

Retained earnings (accumulated losses), including profit for the year, is euro 5,014,751 thousand at December 31, 2007, with a decrease of euro 900,655 thousand compared to December 31, 2006. The change is due to dividends distributed (euro 2,783,071 thousand) which is partly compensated by the profit for the year 2007 (euro 1,882,421 thousand).

With regard to dividends, the amount paid to the shareholders holding ordinary and savings shares was, respectively, equal to euro 1,873,126 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 ART. 2427, 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	
(thousands of euro)				for absorption of losses	for other reasons
Share capital	**10,673,093**			**–**	**10,961**
Capital reserves:					
Paid-in capital	1,689,150	A, B, C	1,689,150	–	–
Legal reserve	1,952,851	B	–	–	–
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	12	A, B	12	–	–
Miscellaneous reserves	20,275	A, B, C	20,275	–	–
Reserve L.D. 38/2005 art. 7, para 7	578,234	B	–	–	–
Merger surplus reserve	2,010,152	A, B, C	2,010,152	–	–
Profit reserves:					
Legal reserve	181,904	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	–	–
Reserve ex Law 488/92	203,416	A, B	203,416	–	–
Miscellaneous reserves	114,610	A, B, C	114,610	–	–
Reserve for valuation gains or losses to derivatives and underlying items	120,931	B		–	–
Reserve for valuation gains or losses to available-for-sale financial assets	(3,762)	B	(3,762)	–	–
Reserve for other equity instruments	73,688	B	–	–	–
Merger surplus reserve	62,366	A, B, C	62,366	–	–
Retained earnings	3,132,330	A, B, C	3,132,330	–	–
Total			**8,153,920**	**–**	**–**
Difference between carrying amount and par value of treasury shares			(1,598)		
Amount not distributable [1]			203,431		
Remaining amount distributable			**7,948,891**		

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 12 thousand) and the part of 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** without any tax charges to be borne by the Company is equal to euro 5,760,705 thousand.

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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, 2006, additional out-of-book deductions that now amount to euro 1,939,647 thousand will have an effect after the next 2007 tax return and can principally be ascribed to accelerated depreciation and depreciation taken in excess of the normal statutory rates.

Therefore, taking into account the deductions effected in prior years, the total restriction on equity in the financial statements amounts to euro 2,344,566 thousand, as shown in the following detailed table.

(thousands of euro)	
Off-book deductions at 12/31/2006	**1,644,693**
Depreciation and other deductions in 2007	1,939,647
Reversal for taxation during the year	(170,744)
Off-book deductions at December 31, 2007	**3,413,596**
Deferred taxes (Ires and IRAP)	(1,069,029)
Restriction on equity at December 31, 2007	**2,344,566**

Future potential changes in share capital

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, 2007:

	Outstanding bonds/options rights at 12/31/2007	Conversion/ grant ratio	Number of maximum shares issuable	Par value (thousands of euro)	Paid-in capital (thousands of euro)	Subscription price per share (euro)
Additional increases approved (ord. sh.)						
Bonds "Telecom Italia 1.5% 2001 - 2010"	484,877,224	0.471553	228,645,309	125,755	359,122	
Stock Option Plan 2002 Top	7,280,001.33	3.300871	24,030,331	13,217	53,781	2.788052
Stock Option Plan 2002	15,689,553.93	3.300871	51,788,844	28,484	122,006	
of which grants March 2002	*15,019,553.50*	*3.300871*	*49,577,267*	*27,268*	*117,895*	*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	9,522,324.00	1.73	16,473,531	9,060	52,073	3.710983
Stock Option Plans 2002-2003 - ex-TIM	16,705,000.00	1.73	28,899,650	15,895	78,823	3.277457
Stock Option Plans 2003-2005 - ex-TIM	1,685,900.00	1.73	2,916,605	1,604	6,943	2.930636
Total additional increases approved (ord. sh.)			**352,754,270**	**194,015**	**672,748**	
Additional increases not yet approved (ord. sh.)			**1,600,000,000**	**880,000**		

With regard to the "Telecom Italia 1.5% 2001 - 2010 convertible bonds with a repayment premium", it should be noted that the number of outstanding bonds at December 31, 2007 includes 10,644 bonds for which the conversion to shares had already been requested. On January 15, 2008, the corresponding 5,017 ordinary shares were issued for a total par value of euro 2.8 thousand in addition to paid-in capital of euro 7.9 thousand.

Additional details on the stock option plans are disclosed in the Note - Stock option 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 1,600,000,000 ordinary shares, in whole or in part:

(i) to be offered as option rights to the shareholders and convertible bondholders, 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 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 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.

Authorization for the issue of convertible bonds and the purchase of treasury shares

The board of directors has the right to issue convertible bonds at one or more times and for five years starting from May 6, 2004 for a maximum amount of euro 880,000,000.

The ordinary session of the shareholders' meeting of Telecom Italia S.p.A. held on April 16, 2007 passed a resolution to authorize, for the maximum period allowed by the applicable law starting from the date of the shareholders' resolution, the purchase, at one or more times and at any date, of Telecom Italia S.p.A. ordinary shares for a maximum of 25,000,000 ordinary shares and thus up to 0.129% of share capital. The price for the purchases shall be between a minimum and a maximum corresponding to the weighted average official stock prices of ordinary shares recorded by Borsa Italiana S.p.A. in the last ten days of trading prior to the date of purchase, respectively increased or decreased by 10%. The purchase of treasury shares shall in any case take place within the limits of the available reserves, as shown in the most recent financial statements approved at the time the purchase is carried out.
The purchases shall be made on regulated markets, according to the manner allowed by the regulations and laws in force.

The above authorization for the purchase of treasury shares is in relation to the implementation – which, to date, has not yet occurred – of the plan for granting bonus Telecom Italia S.p.A. ordinary shares to the executive directors of the Company, those who report directly to the executive directors and other resources who hold key roles as employees or collaborators of Telecom Italia S.p.A. or subsidiaries, to be identified by the board of directors, approved by the same ordinary session of the shareholders' meeting held on April 16, 2007.

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On the basis of the motion put forward by the board of directors' meeting held on March 6, 2008, the profit for the year 2007 of Telecom Italia S.p.A., equal to euro 1,882,421 thousand, shall be appropriated as dividends for euro 1,646,100 thousand for distribution to the shareholders:

- euro 0.08 for each ordinary share,
- euro 0.091 for each savings share,

gross of withholdings as established by law. Undistributed profit will be appropriated to retained earnings.

Note 15 - Financial liabilities (current and non-current)

(thousands of euro)		12/31/2007	12/31/2006
Financial payables (medium/long-term)			
– Bonds		15,990,038	15,159,506
– Convertible and exchangeable bonds		510,413	482,007
– Amounts due to banks		4,979,959	6,106,100
– Payables to other lenders		51,564	64,549
– Payables to subsidiaries		15,258,831	15,653,745
		36,790,805	**37,465,907**
Finance lease liabilities			
– Payables to subsidiaries		272	285
– Payables to associates		279,618	239,125
– Payables to other Group companies		15,704	–
– Payables to others		1,482,125	1,583,902
		1,777,719	**1,823,312**
Other financial liabilities			
– Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature		763,630	779,873
– Deferred income		95	–
Total non-current dinancial liabilities	**(A)**	**39,332,249**	**40,069,092**
Financial payables (short-term)			
– Bonds		1,264,904	1,820,967
– Convertible and exchangeable bonds		7,307	7,270
– Amounts due to banks		737,927	789,513
– Payables to other lenders		346,719	144,871
– Payables to subsidiaries		3,174,187	3,541,422
– Payables to associates		166	54
– Other financial payables		230	886
		5,531,440	**6,304,983**
Finance lease liabilities			
– Payables to subsidiaries		88	145
– Payables to associates		141,483	147,642
– Payables to others		109,861	109,794
		251,432	**257,581**
Other financial liabilities			
– Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature		223,539	109,472
– Non-hedging derivatives		5,205	8,864
– Deferred income		7,724	8,336
		236,468	**126,672**
Total current financial liabilities	**(B)**	**6,019,340**	**6,689,236**
Total financial liabilities	**(C)=(A+B)**	**45,351,589**	**46,758,328**

Additional details on Financial Instruments are provided in the Note “Information on other financial instruments”.

Bonds are composed as follows:

(thousands of euro)	12/31/2007	12/31/2006
Non-current portion	15,990,038	15,159,506
Current portion	1,264,904	1,820,967
Total carrying amount	**17,254,942**	**16,980,473**
Measurement at amortized cost	(442,065)	(494,448)
Total nominal repayment amount	**16,812,877**	**16,486,025**

The nominal repayment amount totals euro 16,812,877 thousand and increased by euro 326,852 thousand compared to December 31, 2006 (euro 16,486,025 thousand).

The following table lists the bonds issued to third parties by Telecom Italia, expressed at the nominal repayment amount and at market value:

Currency	Amount (millions of euro)	Nominal repayment amount (millions of euro)	Coupon	Issue date	Maturity date	Issue price (%)	Market price at 12/31/07 (%)	Market value at 12/31/07 (millions of euro)
Bonds issued by Telecom Italia S.p.A.								
Euro	750	750	3-month Euribor + 0.22%	6/9/06	6/9/08	100	99.910	749
Euro	110	110	3-month Euribor + 0.60%	4/8/04	3/30/09	100	100.610	111
Euro	850	850	3-month Euribor + 0.20%	6/7/07	6/7/10	99.915	99.321	844
Euro	750	750	4.500%	1/29/04	1/28/11	99.560	97.595	732
Euro	1,250	1,250	6.250%	2/1/02	2/1/12	98.952	102.414	1,280
Euro	1,000	1,000	3-month Euribor + 0.53%	12/6/05	12/6/12	100	98.668	987
Euro	500	500	3-month Euribor + 0.63%	7/19/07	7/19/13	100	98.256	491
Euro	750	750	4.750%	5/19/06	5/19/14	99.156	94.841	711
Euro	120	120	3-month Euribor + 0.66%	11/23/04	11/23/15	100	104.043	125
GBP	500	682	5.625%	6/29/05	12/29/15	99.878	94.957	647
Euro	400	400	3-month Euribor + 0.79%	6/7/07	6/7/16	100	95.900	384
Euro	1,250	1,250	5.375%	1/29/04	1/29/19	99.070	93.670	1,171
GBP	850	1,159	6.375%	6/24/04	6/24/19	98.850	98.376	1,140
Euro	297	297	6-month Euribor (base 365)	1/1/02	1/1/22	100	100	297
GBP	400	545	5.875%	5/19/06	5/19/23	99.622	93.220	508
Euro	850	850	5.250%	3/17/05	3/17/55	99.667	76.320	649
Subtotal		**11,263**						**10,826**

The regulations and/or the tables relating to the bonds described above are available on the corporate website http://www.telecomitalia.it.

Convertible bonds are as follows:

(thousands of euro)	12/31/2007	12/31/2006
Non-current portion	510,413	482,007
Current portion	7,307	7,270
Total carrying amount	**517,720**	**489,277**
Measurement at amortized cost	56,257	84,841
Total nominal repayment amount	**573,977**	**574,118**

The nominal repayment amount totals euro 573,977 thousand.

The following table lists the convertible bonds issued by Telecom Italia, expressed at the nominal repayment amount:

Currency	Nominal repayment amount (millions of euro)	Coupon	New shares issue	Issue date	Maturity date	Issue price (%)	Market price at 12/31/07	Market value at 12/31/07 (millions of euro)
Convertible bonds issued by Telecom Italia S.p.A.								
Euro	574	1.50%	TI S.p.A.	11/23/01	1/1/10	100	118.603	575

Medium/long-term **amounts due to banks** total euro 4,979,959 thousand (euro 6,106,100 thousand at December 31, 2006) and decreased by euro 1,126,141 thousand. The reduction is mainly due to early repayments in July and September 2007 for a total nominal amount of euro 1.5 billion relating to the Term Loan expiring in 2010 and new loans secured from the European Investment Bank (EIB).
Short-term amounts due to banks of euro 737,927 thousand decreased by euro 51,586 thousand (euro 789,513 thousand at December 31, 2006) and include euro 472,335 thousand of the current portion of medium/long-term transactions due within 12 months.

Medium/long-term **payables to other lenders** amount to euro 51,564 thousand (euro 64,549 thousand at December 31, 2006) and refer almost entirely to payables to the Ministry of Industry. Short-term payables to other lenders amount to euro 346,719 thousand (euro 144,871 thousand at December 31, 2006).

Medium/long-term **payables to subsidiaries** amount to euro 15,258,831 thousand and decreased by euro 394,914 thousand compared to December 31, 2006 (euro 15,653,745 thousand). They refer to loans payable to Telecom Italia Finance (euro 6,528,807 thousand) and Telecom Italia Capital S.A. (euro 8,730,024 thousand).
Short-term payables to subsidiaries amount to euro 3,174,187 thousand and decreased by euro 367,235 thousand, compared to December 31, 2006 (euro 3,541,422 thousand). These payables refer to the current portion of medium/long-term loans due to Telecom Italia Finance (euro 1,682,340 thousand) and Telecom Italia Capital (euro 822,235 thousand), short-term loans payable to OFI Consulting (euro 8,302 thousand) and Olivetti Multiservices (euro 9,002 thousand) and current account transactions under the treasury service at market rates mainly with Telecom Italia Sparkle (euro 475,941 thousand), Saiat (euro 46,462 thousand), Shared Service Center (euro 32,792 thousand) and Matrix (euro 15,576 thousand).

Medium-long term **finance lease liabilities** total euro 1,777,719 thousand (euro 1,823,312 thousand at December 31, 2006) 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 251,432 thousand (euro 257,581 thousand at December 31, 2006).

Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature amount to euro 763,630 thousand (euro 779,873 thousand at December 31, 2006). Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature total euro 223,539 thousand (euro 109,472 thousand at December 31, 2006). Additional details are provided in the Note “Derivatives”.

Short-term **non-hedging derivatives** totaling euro 5,205 thousand (euro 8,864 thousand at December 31, 2006) decreased by euro 3,659 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, 2007, the unused credit lines of Telecom Italia S.p.A. amount to euro 7,945,341 thousand (euro 7,793,959 thousand at December 31, 2006) and include unused committed credit lines of euro 6,500,000 thousand expiring in 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:

	12/31/2007 (millions of foreign currency)	12/31/2007 (millions of euro)	12/31/2006 (millions of foreign currency)	12/31/2006 (millions of euro)
USD	4,029	2,737	4,213	3,199
GBP	1,783	2,431	1,782	2,653
JPY	40,139	243	40,110	256
EURO	39,940	39,940	40,650	40,650
		45,351		**46,758**

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)	12/31/2007	12/31/2006
Up to 2.5%	271	450
From 2.5% to 5%	14,897	17,666
From 5% to 7.5%	26,562	25,142
From 7.5% to 10%	1,694	1,610
Over 10%	–	–
	43,424	**44,868**
Accruals/deferrals, MTM and derivatives	1,927	1,890
	45,351	**46,758**

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)	12/31/2007	12/31/2006
Up to 2.5%	544	693
From 2.5% to 5%	15,535	23,416
From 5% to 7.5%	25,800	19,149
From 7.5% to 10%	1,545	1,610
Over 10%	–	–
	43,424	**44,868**
Accruals/deferrals, MTM and derivatives	1,927	1,890
	45,351	**46,758**

Gross financial debt by maturity date (divided between medium/long-term and short-term) at December 31, 2007 is as follows (carrying amounts):

(millions of euro)	Medium/long-term debt	Short-term debt	Total
By December 31, 2008 (*)	4,740	1,279	6,019
By December 31, 2009	1,222		1,222
By December 31, 2010	3,356		3,356
By December 31, 2011	2,992		2,992
By December 31, 2012	9,633		9,633
Beyond December 31, 2012	22,129		22,129
	44,072	**1,279**	**45,351**

(*) The total includes accrued liabilities and deferred income, of which euro 998 million is in non-current financial liabilities due within 1 year and euro 9 million in other current financial liabilities.

Note 16 - Net financial debt

As required by Consob Communication DEM/6064293 dated July 28, 2006, the following table presents the net financial debt at December 31, 2007 and December 31, 2006 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 Commission 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 40,365,293 thousand at December 31, 2007 (euro 40,907,054 thousand at December 31, 2006) and, compared to the corresponding amount determined according to the criteria of the Group, is higher by euro 222,835 thousand at December 31, 2007 (higher by euro 292,551 thousand at December 31, 2006).

Net financial debt amounts to euro 40,142,458 thousand at December 31, 2007, a decrease of euro 472,045 thousand compared to euro 40,614,503 thousand at the end of 2006. The major changes are discussed in the Report on Operations.

NET FINANCIAL DEBT (*)			
(thousands of euro)		**12/31/2007** (a)	**12/31/2006** (b
Non-current financial liabilities (*):			
Financial payables		36,790,805	37,465,907
Finance lease liabilities		1,777,719	1,823,312
Non-current liabilities for hedging derivatives		763,630	779,873
Other financial liabilities		95	–
	(1)	39,332,249	40,069,092
Less:			
Non-current financial receivables for lessors' net investments		*(264,510)*	*(222,077)*
Non-current assets for hedging derivatives		*(94,988)*	*(155,517)*
		(359,498)	***(377,594)***
Total non-current financial liabilities (*)	(A)	**38,972,751**	**39,691,498**
Current financial liabilities (*):			
Financial payables		5,531,440	6,304,983
Finance lease liabilities		251,432	257,581
Current liabilities for hedging and non-hedging derivatives		228,744	118,336
Other financial liabilities		7,724	8,336
	(2)	6,019,340	6,689,236
Less:			
Current financial receivables for lessors' net investments		*(138,938)*	*(141,015)*
Current assets for hedging derivatives		*(80,321)*	*(90,457)*
		(219,259)	**(231,472)**
Total current financial liabilities (*)	(B)	**5,800,081**	**6,457,764**
Total financial debt (*)	(C=A+B)	**44,772,832**	**46,149,262**
Current financial assets (*)			
Financial receivables and other current financial assets		(243,543)	(265,704)
Cash and cash equivalents		(4,383,255)	(5,207,976)
	(3)	(4,626,798)	(5,473,680)
Less:			
Current financial receivables for lessors' net investments		*138,938*	*141,015*
Current assets for hedging derivatives		*80,321*	*90,457*
		219,259	**231,472**
Total current financial assets (*)	(D)	**(4,407,539)**	**(5,242,208)**
Net financial debt as of CONSOB communication DEM/6064293/2006	(E=C+D)	**40,365,293**	**40,907,054**
Non-current financial assets (*)			
Financial receivables and other non-current financial assets	(4)	(582,333)	(670,145)
Less:			
Non-current financial receivables for lessors' net investments		*264,510*	*222,077*
Non-current assets for hedging derivatives		*94,988*	*155,517*
		359,498	**377,594**
Total non-current financial assets (*) (°)	(F)	**(222,835)**	**(292,551)**
Net financial debt	(G=E+F)	**40,142,458**	**40,614,503**
Composition of net financial debt			
Total gross financial debt:			
Non-current financial liabilities	(1)	39,332,249	40,069,092
Current financial liabilities	(2)	6,019,340	6,689,236
		45,351,589	46,758,328
Total gross financial assets:			
Non-current financial assets	(4)	(582,333)	(670,145)
Current financial assets	(3)	(4,626,798)	(5,473,680)
		(5,209,131)	**(6,143,825)**
		40,142,458	**40,614,503**

(*) Net of assets for hedging derivatives and financial receivables for lessors' net investments.
(°) At December 31, 2007, the item includes: low-rate loans made to employees (euro 61,976 thousand), loans made to Aree Urbane S.r.l. (euro 25,129 thousand) and loans made to Group companies (euro 111,011 thousand).

Covenants and negative pledges relating to outstanding debt positions at December 31, 2007

With reference to loans received by Telecom Italia S.p.A. from the European Investment Bank (EIB), the amount of euro 555,694 thousand (out of a total of euro 2,114,327 thousand at December 31, 2007) is not secured by bank guarantees but there are covenants for which: for the loan, nominal amount of euro 350.000 thousand, if the company's rating is lower than BBB+ for S&P's, Baa1 for Moody's and BBB+ for Fitch Ratings and for the loan, nominal amount of euro 200.000 thousand, if the company's rating is lower than BBB for S&P's, Baa2 for Moody's and BBB for Fitch Ratings, Telecom Italia 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 Company is obliged to promptly advise the bank about changes in the allocation of share capital among the shareholders which could bring about a change in control.
Failure to communicate this information would result in the termination of the contract.
The contract shall also be terminated when a shareholder, which, at the dating of signing the contract does not hold at least 2% of the share capital, comes to hold more than 50% of voting rights in the shareholders' meeting or, in any case, a number of shares such that it represents more than 50% of the share capital, whenever, in the bank's reasonable opinion, this fact could cause a detriment to the bank or could compromise the execution of the Project.

The syndicated bank loans of Telecom Italia do not contain financial covenants (e.g. ratios such as Debt/EBITDA, EBITDA/Interest, etc.) which would oblige Telecom Italia to automatically 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 added 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 2014.
The two syndicated bank lines contain the usual other types of covenants, including the commitment not to use the company's assets as collateral for loans (*negative pledges*), the commitment not to change the business purpose or sell the assets of the company unless specific conditions exist (e.g. the sale should take place at *fair market value)*. Substantially similar covenants 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 137,771 thousand at December 31, 2007) consider the case where a party, other than the current relative majority shareholder or permitted acquiring shareholders, including the shareholders of Telco, acquires 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.
The absence of financial covenants on the loan contracts being understood, it is pointed out that at December 31, 2007, no covenant of any other type, negative pledge or other clause, relating to the above-described debt position, has in any way been violated or infringed.

Note 17 - Employee benefits

Employee benefits decreased from euro 1,245,986 thousand at December 31, 2006 to euro 1,053,153 thousand. The composition and changes are as follows:

(thousands of euro)	12/31/2005	Merger effect Tim Italia/ Nuova Tin.it	Increase	Decrease	12/31/2006
Provision for employee severance indemnities	1,024,513	119,203	128,122	(131,631)	1,140,207
Provision for termination benefit incentives	214,687	2,072	4,286	(118,159)	102,886
Provision for other employee benefits	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

(thousands of euro)	12/31/2006	Increase	Decrease	12/31/2007
Provision for employee severance indemnities	1,140,207	68,185	(170,691)	1,037,701
Provision for termination benefit incentives	102,886	–	(89,923)	12,963
Provision for other employee benefits	2,893	–	(404)	2,489
Total	**1,245,986**	**68,185**	**(261,018)**	**1,053,153**
of which:				
Non-current portion	1,142,650			1,039,787
Current portion	103,336			13,366

Provision for employee severance indemnities decreased by euro 102,506 thousand compared to December 31, 2006. The provision represents the balance between the employee severance indemnity expense charged to the income statement (euro 64,281 thousand), utilizations for indemnities paid to employees who terminated employment, advances, the impact of the social security reform (a total of euro 170,691 thousand) and other positive changes (euro 3,904 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 remuneration 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”.

Under the new regulations introduced by Legislative Decree 252/2005 and Law 296/2007 (the State Budget Law 2007), for companies with at least 50 employees, severance indemnities accruing from 2007 are assigned to either the Treasury Fund managed by INPS (starting from January 1) or to supplementary pension funds (from the month of option) and take the form of a “Defined contribution plan”. However, revaluations of the provision for employee severance indemnities existing up to December 31, 2006, made on the basis of the official cost-of-living index and interest earned, remain recorded in the provision for employee severance indemnities.

In accordance with IAS 19 “Employee Benefits”, the “Traditional Unit Credit Method” was used to measure Telecom Italia S.p.A. employee severance indemnities, as described below:

- the future possible benefits which could be paid to each employee registered in the program 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 etc.) without considering any increases for additional service seniority;
- 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;
- the liability for the company has been determined as the *average present value of future benefits* that will be generated by the existing provision at the measurement date, without considering any future accrual.

The following assumptions were made:

Financial assumptions	Executives	Non-executives
Cost-of-living increases	2.0% per annum	2.0% per annum
Discount rate	4.6% per annum	4.6% per annum
Demograpich 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: – 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% 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% in each year	10% in each year
– at 65 years of age	100%	100%

The adoption of the above assumptions resulted in a liability for employee severance indemnities at December 31, 2007 and 2006, respectively, of euro 1,037,701 thousand and euro 1,140,207 thousand.

The effect on the income statement is as follows:

(thousands of euro)	2007	2006
Current service cost (*)	13,789	113,401
Finance expenses	47,410	44,918
Net actuarial (gains) losses recognized during the year	3,082	(30,406)
Total expense	**64,281**	**127,913**
Actuarial (gains) losses resulting from 2007 social security reform	**50,863**	**–**
Effective return on plan assets	**n/a**	**n/a**

(*) Following the above-described social security reform, the amounts accruing that are assigned to the INPS Treasury Fund or supplementary pension funds (euro 120,680 thousand) are recorded in "Employee benefits expense" as "Social security expenses" and no longer as "Employee severance indemnities expenses".

Provisions for termination benefit incentives decreased due to utilizations as a result of the termination of employment during the year 2007.

Note 18 - Provisions

Provisions increased from euro 983,666 thousand at December 31, 2006 to euro 1,212,646 thousand. The composition and changes are as follows:

(thousands of euro)	12/31/2006	Increase	Used through income statement	Used directly	Reclassifi-cations/other movements	12/31/2007
Provision for taxation and tax risks	186,392	94,000		(1,010)		279,382
Provision for restoration costs	330,652	31,790		(7,812)		354,630
Provision for legal disputes	168,176	250,305		(98,176)	434	320,739
Provision for commercial risks	64,877	690			(1,150)	64,417
Provisions for risks and charges on investments and corporate-related transactions	138,180	5,589		(7,511)	(14,699)	121,559
Other provisions	95,389	30,334	(798)	(63,898)	10,892	71,919
Total	**983,666**	**412,708**	**(798)**	**(178,407)**	**(4,523)**	**1,212,646**
of which:						
Non-current portion	646,191					737,640
Current portion	337,475					481,831

In particular:

Provision for taxation and tax risks increased by euro 92,990 thousand, compared to December 31, 2006 following the adjustment made in respect of the requirements for pending disputes.

Provision for restoration costs refers to the charge for the estimated cost to dismantle tangible assets and restore the sites. This provision increased by euro 23,978 thousand compared to December 31, 2006, principally as a result of the change in the discount rate and the release to income of the accumulated effects of discounted cash flow analysis (euro 18,764 thousand) in addition to the balance between the charges due to a higher number of sites leased (euro 12,819 thousand) and the uses (euro 7,605 thousand).

Provision for legal disputes includes charges for disputes with employees (euro 37,895 thousand), social security agencies (euro 3,994 thousand) and third parties (euro 278,850 thousand). The provision increased by euro 152,563 thousand compared to December 31, 2006 owing to charges (for a total of euro 219,867 thousand) set aside as a result of the negative trend in disputes of a regulatory nature with other fixed and mobile telephone operators during the last few months of the year.

Other provisions include the provision for Antitrust fines (euro 24,100 thousand), the provision for freeing frequencies (euro 23,565 thousand), the provision for technological changes (euro 9,096 thousand) and the provision for customer retention activities (euro 9,334 thousand).
The increases principally refer to the fine of euro 20,000 thousand levied on Telecom Italia by the Antitrust Authority (order A357) in August 2007 for alleged unfair trade practices.

Note 19 - Miscellaneous payables and other non-current liabilities

Miscellaneous payables and other non-current liabilities decreased from euro 1,679,960 thousand at December 31, 2006 to euro 1,397,232 thousand and consist of the following:

(thousands of euro)	2007	2006
Payables to social security agencies	525,452	705,364
Capital grants	110,396	139,186
Deferred income	679,193	737,591
Payables to subsidiaries	82,191	97,819
Total	**1,397,232**	**1,679,960**

Payables to social security agencies 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)	2007	2006
Non-current payables		
Due from 2 to 5 years after the balance sheet date	482,922	644,860
Due beyond 5 years after the balance sheet date	42,530	60,504
	525,452	**705,364**
Current payables	215,163	214,819
Total	**740,615**	**920,183**

Capital grants and investment grants decreased by euro 28,790 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 658,294 thousand for the deferral of revenues from the activation of telephone service (euro 714,371 thousand at December 31, 2006).

Payables to subsidiaries refer to payables in relation to the consolidated national tax return principally due to Telecom Italia Media (euro 40,871 thousand) and Olivetti (euro 34,632 thousand).

Note 20 - Trade and miscellaneous payables and other current liabilities

Miscellaneous payables and other non-current liabilities increased from euro 9,436,886 thousand at December 31, 2006 to euro 9,832,817 thousand and consist of the following:

(thousands of euro)	12/31/2007	*of which Financial Instruments*	12/31/2006	*of which Financial Instruments*
Payables on construction work	23,375		1,586	
Trade payables				
– Payables to suppliers	4,108,587	*4,108,587*	3,661,405	*3,661,405*
– Payables to other telecommunication operators	1,273,720	*1,273,720*	968,838	*968,838*
– Payables to subsidiaries	333,321	*333,321*	285,438	*285,438*
– Payables to associates	33,356	*33,356*	80,863	*80,863*
– Payables to other Group companies	49,274	*49,274*	51,324	*51,324*
	5,798,258	***5,798,258***	**5,047,868**	***5,047,868***
Miscellaneous payables and other current liabilities:				
– Payables to subsidiaries	114,548		156,658	
– Payables to associates	910		605	
– Advances received	22,252		38,606	
– Tax payables	333,542		368,662	
– Payables to social security agencies	366,882		353,476	
– Payables for employee compensation	402,862	*401,806*	446,636	*446,637*
– Customer-related items	1,107,290	*240,632*	1,402,430	*277,602*
– Trade and miscellaneous deferred income	897,894		906,038	
– Other current liabilities	276,632	*162,084*	273,510	*181,671*
– Employee benefits expected to be settled within 1 year	13,366		103,336	
– Provisions expected to be settled within 1 year	475,006		337,475	
	4,011,184	***804,522***	**4,387,432**	***905,910***
Total	**9,832,817**	***6,602,780***	**9,436,886**	***5,953,778***

Additional details on Financial Instruments are provided in the Note “Information on other financial instruments”.

Trade payables amount to euro 5,798,258 thousand (euro 5,047,868 thousand at December 31, 2006) and increased by euro 750,390 thousand compared to December 31, 2006 mainly as a result of the increase in costs and capital expenditures.

Payables to other telecommunication operators total euro 1,273,720 thousand and increased by euro 304,882 thousand compared to December 31, 2006. The increase is due to payables to mobile telephone operators, particularly H3G – for the arbitration case of a regulatory nature – and to fixed telephone operators following recent changes in the termination rates of voice calls on the networks of other operators.

Trade payables to subsidiaries, euro 333,321 thousand, mainly refer to amounts due to Telecom Italia Sparkle (euro 179,526 thousand) and Matrix (euro 35,682 thousand) for telecommunications services, Olivetti (euro 22,661 thousand), Telenergia (euro 30,664 thousand) and Telecontact (euro 18,334 thousand) for supply contracts.

Payables to associates, euro 33,356 thousand, refer to telecommunications transactions with ETECSA (euro 14,027 thousand) and supply contracts with Teleleasing (euro 10,089 thousand).

Miscellaneous payables and other current liabilities amount to euro 4,011,184 thousand (euro 4,387,432 thousand at December 31, 2006) and decreased to euro 376,248 thousand compared to December 31, 2006.

Miscellaneous payables to subsidiaries, euro 114,548 thousand, mainly refer to payables for the consolidated national tax return (euro 99,558 thousand) including amounts due to Telecom Italia Media (euro 50,805 thousand) and Olivetti (euro 40,465 thousand). The caption also includes payables in connection with the Group VAT procedure mainly due to Telecom Italia Sparkle (euro 13,114 thousand).

Miscellaneous payables to associates mainly refer to transactions with LI.SIT (euro 16,209 thousand).

Tax payables, euro 333,542 thousand, particularly refer to VAT payables for 127,849 thousand, the payables for the government concession tax (euro 104,467 thousand) and withholding tax payables to the tax authorities as the substitute taxpayer (euro 88,975 thousand).

Payables to social security agencies include the short-term portion of the amount payable to INPS under Law 58/1992 for euro 215,163 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 for telephone calls and subscription charges debited in advance.

Deferred income includes euro 219,736 thousand (euro 281,982 thousand at December 31, 2006) for the deferral of revenues from the activation of telephone service.

With regard to **employee benefits** and **provisions**, reference should be made to the previous specific notes.

Note 21 - Current income tax payables

Current income tax payables decreased from euro 125,175 thousand at December 31, 2006, to euro 102,322 thousand. They mainly refer to payables to the tax authorities on the national consolidated tax return.

Note 22 - Derivatives

Derivative financial instruments are used by Telecom Italia S.p.A. to the 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, 2007 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 currency.

IRS transactions involve, at specified maturity dates, the exchange of flows of interest calculated on the notional amount at the agreed fixed or floating rates.
The same also applies to CCIRS transactions 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, 2007 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) in accordance with IAS 39:

Table 1 - Fair Value Hedge Derivatives

Description	**Notional Amount** (millions of euro)	**Mark-to-Market** (Clean Price) (millions of euro)
CCIRS transactions on the floating-rate intragroup loan in USD received by the subsidiary Telecom Italia Capital S.A. on the USD 1,000 million (equivalent amount at 12/31/2007 of euro 679 million) 5-year tranche of bonds issued by Telecom Italia Capital S.A. for a total amount of USD 4,000 million in October 2003	850	(173)
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 121 million at 12/31/2007) originally issued by Olivetti Finance N.V.S.A. (2002-2032)	172	(79)
Total Fair Value Hedge Derivatives	**1,022**	**(252)**

- 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 172 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. (now Telecom Italia Finance 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.

The selected method to test the effectiveness, retrospectively and prospectively, of Fair Value Hedge derivatives is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (where the portfolio means the derivative and the item hedged) and the risk of the hedged item taken separately. In short, the portfolio risk must be significantly less than the risk of the item hedged.

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
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 1,359 million at 12/31/2007) issued by Telecom Italia Capital S.A. for a total amount of USD 4,000 million in October 2003	1,709	(354)
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	9
CCIRS transactions put into place by Telecom Italia S.p.A. maturing December 2015 on bonds of GBP 500 million (equivalent amount of euro 682 million at 12/31/2007) issued by Telecom Italia S.p.A. in June 2005	751	(29)
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 1,159 million at 12/31/2007) issued by Telecom Italia S.p.A. in June 2004	1,258	(47)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing May 2023 on bonds of GBP 400 million (equivalent amount of euro 545 million at 12/31/2007) issued by Telecom Italia S.p.A. in May 2006	587	(27)
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	14
CCIRS transactions put into place by Telecom Italia S.p.A. maturing October 2029 on the floating rate intragroup loan in JPY received from the subsidiary Telecom Italia Finance S.A. against the "Dual-Currency" loan with a notional principal of JPY 20 billion (equivalent amount of euro 121 million at 12/31/2007) originally received by Olivetti International Finance N.V.	174	(80)
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 679 million at 12/31/2007) issued by Telecom Italia Capital S.A. for a total amount of USD 4,000 million in October 2003	849	(215)
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 679 million at 12/31/2007) issued by Telecom Italia Capital S.A. for a total amount of USD 2,600 million in July 2006	791	43
Total Cash Flow Hedge Derivatives	**7,349**	**(683)**

- On the bonds 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%;
- on the floating rate intragroup loan in USD received from the subsidiary Telecom Italia Capital S.A. following the bonds issued in October 2003 for a total 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 in 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 (euro 751 million) issued by Telecom Italia S.p.A. in June 2005, Telecom Italia S.p.A. put in place CCIRS contracts 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, starting June 2007 and maturing June 2019, converting the fixed rate of 6.375% in GBP to a fixed rate of 5.31% in euro;
- on the bonds 2006-2023 of GBP 400 million (euro 587 million) issued by Telecom Italia S.p.A. in May 2006, Telecom Italia S.p.A. put into place CCIRS contracts converting a rate of 5.875% in GBP to a fixed rate of 5.53% in euro;

- on the bonds 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;
- on 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., the following was put into place for euro 174 million:
  - 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. following 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 hedge of cash flows by derivatives designated as Cash Flow Hedges at December 31, 2007 was considered highly effective and at December 31, 2007 led to:

- recognition of an unrealized gain in equity of euro 228 million;
- the reversal from equity to the income statement of net losses from exchange rate adjustments of euro 461 million.

Furthermore, in 2006, the Reserve for hedging instruments included an unrealized gain of euro 89 million relating to IRS contracts with a total notional amount of euro 3 billion relating to the Term Loan secured in December 2004. During 2007, the Company closed the IRS derivatives in advance and ended the associated hedging relationship. At December 31, 2007, the total gain on the hedging instrument that is still recorded in equity amounts to euro 34 million. The positive impact reversed to the income statement in 2007 is euro 55 million.

The transactions hedged by Cash Flow Hedges generate cash flows and will produce economic effects on the income statement in the periods indicated in the following table:

Currency of denomination	**Notional amount in currency of denomination** (millions)	**Start of period**	**End of period**	**Rate applied**	**Interest period**
EURO	110	Jan-08	Mar-09	3-month Euribor + 0.60%	Quarterly
USD	2,000	Jan-08	Oct-13	3-month USD Libor +0.756%	Quarterly
EURO	120	Jan-08	Nov-15	3-month Euribor + 0.66%	Quarterly
GBP	500	Jan-08	Jun-15	5.63%	Annually
GBP	850	Jan-08	Jun–19	6.38%	Annually
GBP	400	Jan-08	May-23	5.88	Annually
EURO	1,000	Jan-08	Dec-10	3-month Euribor + 0.53%	Quarterly
JPY	20,000	Jan-08	Oct-29	6-month JPY Libor +0.94625%	Semiannually
USD	1,000	Jan-08	Nov-33	3-month USD Libor +0.756%	Quarterly
EURO	791	Jan-08	Jul-36	6-month Euribor +1.45969%	Semiannually

The selected method to test the effectiveness, retrospectively and prospectively, of Cash Flow Hedge derivatives, whenever the main terms do not fully coincide, is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (where the portfolio means the derivative and the item hedged) and the risk of the hedged item taken separately. In short, the portfolio risk must be significantly less than the risk of the item hedged.

The ineffective portion recognized in the income statement from designated Cash Flow Hedges in 2007 is immaterial.

Table 3 - Non-Hedge Accounting Derivatives

Description	Notional Amount (millions of euro)	Mark-to-Market (Clean Price) (millions of euro)
Foreign exchange rate transactions put into place by TI S.p.A.	19	(2)
Total Non-Hedge Accounting Derivatives	**19**	**(2)**

- The foreign exchange rate transactions put into place by Telecom Italia S.p.A. refer to currency forwards for a total of euro 19 million.

The following table presents the derivatives of Telecom Italia S.p.A. by type:

Type	Hedged Risk	Notional Amount at 12/31/2007 (millions of euro)	Notional Amount at 12/31/2006 (millions of euro)	Mark-to-Market Spot (Clean Price) at 12/31/2007 (millions of euro)	Mark-to-Market Spot (Clean Price) at 12/31/2006 (millions of euro)
IInterest rate swaps	Interest rate risk	–	–	–	–
Cross Currency and Interest Rate Swaps	Interest rate risk and foreign currency exchange rate risk	1,022	2,460	(252)	(203)
Total Fair Value Hedge Derivatives		**1,022**	**2,460**	**(252)**	**(203)**
Interest rate swaps	Interest rate risk	2,021	5,021	69	70
Cross Currency and Interest Rate Swaps	Interest rate risk and foreign currency exchange rate risk	5,328	5,328	(752)	(505)
Total Cash Flow Hedge Derivatives		**7,349**	**10,439**	**(683)**	**(435)**
Non-Hedge Accounting Derivatives		**19**	**2,857**	**(2)**	**(2)**
Total Derivatives Telecom Italia S.p.A.		**8,443**	**15,666**	**(937)**	**(640)**

Note 23 - Information on other financial instruments

Valuation at fair value

The majority of the non-current financial liabilities of Telecom Italia is composed of bonds and their fair market value can be easily determined by reference to financial instruments which, by size and diffusion among investors, are commonly traded on the relative markets (see the Note "Financial liabilities"). However, with regard to other types of financing, the following assumptions were made in order to determine fair value:

- for floating-rate loans, the nominal repayment amount;
- for fixed-rate loans, discounted cash flow analysis using market rates at December 31, 2007.

Lastly, for the majority of financial assets, the carrying amount represents a reasonable approximation of their fair value since these are short-term investments that are readily convertible into cash.

The following tables present additional information on financial instruments required by IFRS 7 for assets and liabilities at December 31, 2007 and at December 31, 2006 on the basis of the categories indicated in IAS 39. Overall gains and losses are also reported.

FAIR VALUE BY IAS 39 CATEGORY

(thousands of euro)	Categories IAS 39	Carrying amounts in financial statements 12/31/2007	Amounts recognized in financial statements according to IAS 39				Amounts recognized in financial statements according to IAS 17	Fair Value at 12/31/2007
			Amortized cost	Cost	Fair value taken to equity	Fair value transferred to the income statement		
Assets								
Loans and receivables	LaR	10,560,191	10,560,191					10,560,191
Available-for-sale financial assets	AfS	50,787		45,216	5,571			50,787
Financial assets at fair value through profit or loss held for trading)	FAHfT	3,562				3,562		3,562
Hedging derivatives	n.a.	175,309			170,141	5,168		175,309
Assets measured according to IAS 17	n.a.	403,448					403,448	403,448
		11,193,297						**11,193,297**
Liabilities								
Financial liabilities at amortized cost	FLAC	48,932,749	48,932,749					48,932,749
Financial liabilities at fair value through profit or loss held for trading	FLHfT	5,206				5,206		5,206
Hedging derivatives	n.a.	987,168			773,923	213,245		987,168
Liabilities measured according to IAS 17	n.a.	2,029,151					2,029,151	2,029,151
		51,954,274						**51,954,274**

CARRYING AMOUNTS AND AMOUNTS RECOGNIZED IN THE FINANCIAL STATEMENTS BY IAS 39 CATEGORY

(thousands of euro)	Categories IAS 39	Carrying amounts in financial statements 12/31/2007	Amounts recognized in financial statements acording to IAS 39				Amounts recognized in financial statements according to IAS 17
			Amortized cost	Cost	Fair value taken to equity	Fair value transferred to the income statement	
Assets							
Other investments	AfS	50,787		45,216	5,571		
Securities, financial receivables and other non-current financial assets							
of which loans and receivables	LaR	222,835	222,835				
of which receivables for lessors' net investments	n.a.	264,510					264,510
of which hedging derivatives	n.a.	94,988			94,988		
Miscellaneous receivables and other non-current assets (*)							
of which loans and receivables	LaR	10,888	10,888				
Trade and miscellaneous receivables and other current assets (*)							
of which loans and receivables	LaR	5,922,491	5,922,491				
Financial receivables and other current financial assets							
of which loans and receivables	LaR	20,722	20,722				
of which receivables for lessors' net investments	n.a.	138,938					138,938
of which hedging derivatives	n.a.	80,321			75,153	5,168	
of which non-hedging derivatives	FAHfT	3,562				3,562	
Cash and cash equivalents	LaR	4,383,255	4,383,255				
		11,193,297					
Liabilities							
Non-current financial liabilities							
of which liabilities at amortized cost	FLAC	36,790,805	36,790,805				
of which financial lease liabilities	n.a.	1,777,719					1,777,719
of which hedging derivatives	n.a.	763,630			730,288	33,342	
Current financial liabilities							
of which liabilities at amortized cost	FLAC	5,539,164	5,539,164				
of which financial lease liabilities	n.a.	251,432					251,432
of which hedging derivatives	n.a.	223,538			43,635	179,903	
of which non-hedging derivatives	FLHfT	5,206				5,206	
Trade and miscellaneous payables and other current liabilities (*)							
of which liabilities at amortized cost	FLAC	6,602,780	6,602,780				
		51,954,274					

(*) Part of assets or liabilities falling under application of IFRS 7.

FAIR VALUE BY IAS 39 CATEGORY

(thousands of euro)	Categories IAS 39	Carrying amounts in financial statements 12/31/2006	Amounts recognized in financial statements according to IAS 39				Amounts recognized in financial statements according to IAS 17	Fair Value at 12/31/2006
			Amortized cost	Cost	Fair value taken to equity	Fair value transferred to the income statement		
Assets								
Loans and receivables	LaR	11,483,840	11,483,840					11,483,840
Available-for-sale financial assets	AfS	392,760		45,522	347,238			392,760
Financial assets at fair value through profit or loss held for trading	FAHfT	7,220				7,220		7,220
Hedging derivatives	n.a.	245,974			196,336	49,638		245,974
Assets measured according to IAS 17	n.a.	363,092					363,092	363,092
		12,492,886						**12,492,886**
Liabilities								
Financial liabilities at amortized cost	FLAC	49,733,004	49,733,004					49,733,004
Financial liabilities at fair value through profit or loss held for trading	FLHfT	8,864				8,864		8,864
Hedging derivatives	n.a.	889,345			678,906	210,439		889,345
Liabilities measured according to IAS 17	n.a.	2,080,893					2,080,893	2,080,893
		52,712,106						**52,712,106**

CARRYING AMOUNTS AND AMOUNTS RECOGNIZED IN THE FINANCIAL STATEMENTS BY IAS 39 CATEGORY

(thousands of euro)	Categories IAS 39	Carrying amounts in financial statements 12/31/2006	Amounts recognized in financial statements acording to IAS 39				Amounts recognized in financial statements according to IAS 17
			Amortized cost	Cost	Fair value taken to equity	Fair value transferred to the income statement	
Assets							
Other investments	AfS	392,760		45,522	347,238		
Securities, financial receivables and other non-current financial assets							
of which loans and receivables	LaR	292,551	292,551				
of which receivables for lessors' net investments	n.a.	222,077					222,077
of which hedging derivatives	n.a.	155,517			155,517		
Miscellaneous receivables and other non-current assets (*)							
of which loans and receivables	LaR	14,658	14,658				
Miscellaneous receivables and other non-current assets (*)	LaR	5,941,643	5,941,643				
of which loans and receivables	LaR						
Financial receivables and other current financial assets							
of which loans and receivables	LaR	27,012	27,012				
of which receivables for lessors' net investments	n.a.	141,015					141,015
of which hedging derivatives	n.a.	90,457			40,819	49,638	
of which non-hedging derivatives	FAHfT	7,220				7,220	
Cash and cash equivalents	LaR	5,207,976	5,207,976				
		12,492,886					
Liabilities							
Non-current financial liabilities							
of which liabilities at amortized cost	FLAC	37,465,907	37,465,907				
of which financial lease liabilities	n.a.	1,823,312					1,823,312
of which hedging derivatives	n.a.	779,873			590,823	189,050	
Current financial liabilities							
dof which liabilities at amortized cost	FLAC	6,313,319	6,313,319				
of which financial lease liabilities	n.a.	257,581					257,581
of which hedging derivatives	n.a.	109,472			88,083	21,389	
of which non-hedging derivatives	FLHfT	8,864				8,864	
Trade and miscellaneous payables and other current liabilities (*)							
of which liabilities at amortized cost	FLAC	5,953,778	5,953,778				
		52,712,106					

(*) Part of assets or liabilities falling under application of IFRS 7.

Gains and losses by IAS 39 category - 2007

(thousands of euro)	Category IAS 39	Gains/(Losses) net 2007 (1)	of which from interests
Loans and Receivables	LaR	(547,401)	143,365
Financial assets Available-for-Sale (2)	AfS	150,555	
Financial Assets/Liabilities Held for Trading	FAHfT e FLHfT	20,617	
Financial Liabilities at Amortised Cost	FLAC	(2,103,398)	(2,226,954)
Total		**(2,479,140)**	**(2,083,589)**

(1) Of which, euro 550 thousand is from fees and expenses not included in the effective interest rate calculation on financial assets/liabilities other than those at fair value through profit or loss.
(2) They include gains of euro 137,387 thousand tranferred to the income statement from equity.

Gains and losses by IAS 39 category - 2006

(thousands of euro)	Category IAS 39	Gains/(Losses) net 2006 (1)	of which from interests
Loans and Receivables	LaR	(265,053)	135,398
Financial assets Available-for-Sale	AfS		
Financial Assets/Liabilities Held for Trading	FAHfT e FLHfT	2,341	
Financial Liabilities at Amortised Cost	FLAC	(2,135,262)	(2,106,745)
Total		**(2,378,974)**	**(1,971,347)**

(1) Of which, euro 1,215 thousand is from fees and expenses not included in the effective interest rate calculation on financial assets/liabilities other than those at fair value through profit or loss.

Note 24 - Contingent assets and liabilities, commitments and other guarantees

The main legal, arbitration and tax proceedings in which companies of the Telecom Italia Group were involved as of December 31, 2007 are described below. For the disputes considered likely to have an adverse outcome, the Group has made provisions totaling euro 426 million; for those where an adverse outcome is considered unlikely or for which a reliable estimate cannot be made of the amount, no provisions have been made.
In addition to the potential liabilities reported below, this note also describes potential assets, in connection with the restitution of the 1998 licence fee, amounting to euro 529 million plus interest.

a) Potential liabilities

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-oriented, non-discriminatory fees. The consequent request for damages amounts to about euro 79 million.

Telecom Italia filed a counterclaim in the arbitration proceeding, challenging Fastweb's statements.

* * *

In previous financial years, at the conclusion of Case A/351 of the Antitrust Authority, Telecom Italia paid a fine of euro 115 million for alleged abuses of dominant position.
In connection with that measure, proceedings are still under way in the action brought by Fastweb in November 2006 before the Milan Court of Appeal to have Telecom Italia ordered to pay damages of euro 644 million.

Telecom Italia has defended the case, arguing that Fastweb's requests are unfounded and inadmissible.

In 2007 the Court of Appeal ordered a technical accounting appraisal on its own authority to determine the exact amount of the damages requested by Fastweb.

During the court-ordered appraisal Telecom Italia will contest Fastweb's quantification of the damages and the existence of any liability for Telecom Italia.

* * *

In October 2007 Fastweb brought an action before the Milan Court of Appeal for damages of euro 970 million in relation to the alleged abusiveness of Telecom Italia's win-back strategy in the markets for the supply of fixed voice telephony services to residential users and non-residential users and retail broadband Internet access.

The action brought by Fastweb on the merits of the case is based on the order issued on May 16, 2006 in which the Milan Court of Appeal, upholding an urgent appeal by Fastweb, had prohibited Telecom Italia from continuing with allegedly abusive conduct consisting in the use of information on former clients by its marketing departments for targeted win-back activities, the encouragement of its sales network through increased commissions with a view to excluding Fastweb from the markets concerned, and the denigration of Fastweb.
Telecom Italia has defended the case, contesting Fastweb's claims.

H3G

In August 2007, at the conclusion of Antitrust Case A/351, Telecom Italia was ordered to pay an administrative fine of euro 20 million for anti-competitive conduct. In December 2007 H3G initiated proceedings before the Milan Court with reference to the illicit conduct already punished by the Antitrust Authority.

Specifically, H3G alleges that Tim (now Telecom Italia) engaged in illegitimate conduct consisting in applying to its own marketing divisions more favourable technical and/or economic conditions for the termination of fixed/mobile calls on its own network than those applied to competitors. H3G is claiming damages of approximately euro 700 million.

Telecom Italia will defend the case, arguing that H3G's assertions are unfounded.

* * *

In January 2008 Telecom Italia was notified of the initiation of an action by H3G before the Milan Court to have Telecom Italia ordered to pay compensatory and exemplary damages, to be quantified during the trial, for allegedly anti-competitive conduct consisting in illegitimate contacts with users who had applied for mobile number portability (MNP) towards H3G. The plaintiff asserts that a significant percentage of users who had applied for portability of their numbers towards H3G and had signed the related contract were contacted by Telecom Italia for purposes of win-back or retention, to convince them to revoke the applications for portability already addressed to H3G and return to Telecom Italia. According to H3G, such systematic retention and win-back policies are illegitimate inasmuch as they violate the regulatory provisions in force on MNP, which prohibit the recovery of customers using information on those who have migrated, which must be preserved with the utmost confidentiality by the operator giving up customers and used only for activation of the service.

Telecom Italia will defend the case, challenging every argument and claim against the Company.

Wind

Following the above-mentioned Antitrust Authority Case A/351, which ended with Telecom Italia being ordered to pay a fine of euro 115 million for alleged abuses of dominant position, Wind initiated an action in November 2007 before the Milan Court of Appeal against Telecom Italia with a view to obtaining damages of euro 545 million for anti-competitive conduct.

Wind alleges that Telecom Italia's abusive conduct prevented Wind from increasing its sales of fixed communication services (voice telephony and value-added services, data transmission, Internet access and services to other operators) and mobile telephony services to business customers.

Telecom Italia is defending the case, arguing that Wind's assertions and claims for damages are unfounded.

* * *

In January 2008 Wind initiated a proceeding under Article 82 of the EC Treaty before the Milan Court for damages of approximately euro 600 million as a result of allegedly abusive conduct by Telecom Italia in the market for the supply of wholesale services and the market for retail services to residential and micro-business customers.

In particular, Wind asserts that Telecom Italia engaged in illegitimate conduct consisting in aggressive retention and win-back campaigns aimed at retaining customers who were about to go over to Wind or recovering former customers who had already switched to Wind, including by means of the use of confidential commercial information, and in systematically preparing irregular commercial offers which often could not be promptly replicated by competitors. Telecom Italia will defend the case, contesting Wind's assertions and claims for damages.

Vodafone

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, initially quantified at approximately euro 525 million and subsequently revised to euro 759 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 residential customers and to have also involved violation of the law on the protection of personal data.

Telecom Italia has defended the case, contesting Vodafone's assertions and claims.

Appeals against the licence fee

Some appeals are still pending before the Lazio Regional Administrative Court, in which judgment is not expected in the near future. They were filed by Telecom Italia and Tim and concern the base for calculating the licence fee. In particular:

- the appeal submitted by Telecom Italia in 2003 for the annulment of the letter dated July 9, 2003 (ref. no. 16605) ordering the Company to pay euro 72 million as the balance of the licence fees for the years 1997-98, of which euro 31 million for 1997 and euro 41 million for 1998. The date for hearing the merits of the case has still to be fixed;
- the appeal submitted by Tim in 2003 for the annulment of the letter dated May 23, 2002, in which the Ministry of Communications had requested payment of the balance of the licence fees for the years 1996-98 amounting to euro 14 million.

Tax disputes

- Between October and November 2007 the Company received four reports from the Finance Police for the tax periods from 2002 to 2006 concerning Telecom Italia and the companies merged into it ("Telecom Italia; Tim and Tim Italia). The most important objections concerned the write-down of the Telecom Italia shares held by Olivetti (2002 financial statements), the criteria for deduction of the levy on telephony (2002 financial statements of Telecom Italia and Tim) and for the taxation of the prior-year profit stated in the 2004 financial statements after the Lazio Regional Administrative Court ruled that such levy was not due for the year 1999, and the tax treatment applied in 2003 to the disposal of the equity interest in the so-called "new Seat", fruit of the spin-off of Seat Pagine Gialle (now Telecom Italia Media).

  The competent offices of the tax authorities have decided not to pursue the objection concerning the deduction of the levy on mobile telephony in 2002 and is still examining the others.

  The objections set out in the reports, except for that concerning the deduction of the levy on mobile telephony in 2002, would involve additional income taxes of euro 2.5 billion.

  At all events, the Company considers that it can prove that it interpreted and applied the rules correctly.

- As already stated in the financial report for 2006, on January 26, 2007 the Company received the report containing the Revenue Agency's conclusions with regard to the tax audit of the 2002 merger of Blu into Tim.

  In this matter, on December 12, 2007 the Company received the consequent notice of assessment for corporate income tax and the regional tax on productive activities for 2002.

  The assessment notice calls for the payment of euro 436 million additional corporate income tax and regional tax on productive activities, plus fines and interest amounting to about euro 492 million. The Company, considering that its arguments are well-founded and sustainable, has filed an appeal before the Turin Provincial Tax Commission.

b) Potential assets

Licence fee for 1998

On February 21, 2008 the European Court of Justice issued a ruling in favour of the Telecom Italia Group on the question of the incompatibility with Community law of the provisions of Italian law (Article 20 of Law 488/1998) that, in an already liberalized market, had extended the obligation to pay the licence fee to 1998.

As is known, in May 2006 the Lazio Regional Administrative Court, acting on appeals submitted by Telecom Italia and Tim regarding their right to restitution of the licence fee they paid for 1998 (euro 386 million for Telecom Italia and euro 143 million for Tim, plus interest) had suspended the national proceeding and applied to the European Court of Justice for a ruling on the preliminary question, considering the above-mentioned provisions of Italian law to be potentially in conflict with Directive 97/13 regarding rights and charges for individual licences.

It is now expected that the Lazio Regional Administrative Court, upon resuming the administrative proceeding, will rule – in the sense indicated by the European Court of Justice – on the incompatibility of the provisions of national law challenged by the Telecom Italia Group with the provisions of Community law referred to above.

c) Commitments and other guarantees

Guarantees provided amounted to euro 21,334,018 thousand net of euro 173,319 thousand of counter-guarantees received, and consisted mainly of sureties provided by Telecom Italia on behalf of subsidiaries (of which euro 11,015,851 thousand for Telecom Italia Finance, euro 9,809,731 thousand for Telecom Italia Capital, euro 231,041 thousand for Olivetti Multiservices and euro 123,117 thousand for Telecom Italia Sparkle).

In addition, the 45.70% equity interest in Tiglio I has been pledged to the banks that financed the company.

Purchase and sale commitments at December 31, 2007 amounted to euro 391,287 thousand and euro 2,235 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 referred mainly to euro 374,600 thousand of DVB-H contracts concluded by Telecom Italia with the main domestic television operators, in particular the Mediaset Group and Sky Italia, in order to provide the “Tim-TV” service.

The sale commitments consisted mainly of the commitment to sell the equity interest in LI.SIT. to Lombardia Informatica at the maturity of the contract (September 15, 2009).

The Company issued “weak” letters of patronage for a total of euro 132,818 thousand, mainly on behalf of subsidiaries and affiliates, to guarantee insurance policies, credit lines and facilities.

Guarantees provided by third parties for obligations of Group companies referred to loans (euro 1,944,000 thousand) and the performance of contracts (euro 733,564 thousand).
The total includes sureties issued by BBVA for euro 867,000 thousand, by Intesa Sanpaolo for euro 420,000 thousand (of which euro 262,550 thousand for a loan that expired in December 2007 for which the guarantee expired in February 2008), by Sumimoto for euro 129,500 thousand, by Bank of Tokyo - Mitsubishi UFJ for euro 199,750 thousand, by Banco Santander for euro 86,250 thousand and by Banca Nazionale del Lavoro for euro 241,500 thousand in respect of EIB loans for the following projects developed by Telecom Italia and some subsidiaries: Tim Rete Mobile, Telecom Italia Breitband Infrastruktur Deutschland, Telecom Italia Media Digital Network, Telecom Italia Broadband France and Telecom Italia Banda Larga Mezzogiorno.

The expense fund created by the resolution of the shareholders’ meeting of June 21, 1999 to safeguard the holders of savings shares amounted to euro 1,931 thousand at December 31, 2007.

Note 25 - Revenues

Revenues amount to euro 22,847,037 thousand, an increase of euro 126,364 thousand compared to 2006. Details are as follows:

(thousands of euro)		2007	2006
Sales			
– of telephone equipment		1,465,608	1,505,797
– other sales		8,165	8,988
	(A)	**1,473,773**	**1,514,785**
Services			
– traffic		10,424,535	10,351,384
– subscription charges		7,755,388	7,851,077
– fees		402,852	372,355
– VAS - mobile telecommunications		2,024,612	1,439,734
– recharges of prepaid cards		162,113	608,799
– other services		592,783	590,981
	(B)	**21,362,283**	**21,214,330**
Revenues on construction contracts	(C)	**10,981**	**(8,442)**
Total	(A+B+C)	**22,847,037**	**22,720,673**

Revenues are presented gross of the amount of revenues due to other TLC operators (euro 3,273,931 thousand), included in “costs of services ".

The breakdown of revenues by geographical location of customers is as follows:

(thousands of euro)	2007	2006
Italy	21,752,655	21,841,741
Europe (excluding Italy)	700,215	606,013
Latin America	94,552	43,851
Other countries	299,615	229,068
Total	**22,847,037**	**22,720,673**

Note 26 - Other income

Other income amounts to euro 297,765 thousand, a decrease of euro 107,327 thousand compared to 2006. Details are as follows:

(thousands of euro)	2007	2006
Compensation for late payment of regulated telephone services	81,027	81,675
Release of provisions and other liabilities	44,610	107,684
Recovery of costs, employee benefits and services rendered	57,624	53,032
Capital grants and operating grants	30,303	35,453
Damage compensation and penalties	23,519	36,841
Other income	60,682	90,407
Total	**297,765**	**405,092**

Note 27 - Acquisition of goods and services

Acquisition of goods and services amounts to euro 9,471,286 thousand, an increase of euro 290,935 thousand compared to 2006. Details are as follows:

(thousands of euro)		2007	2006
Acquisition of goods and services	(A)	**1,906,980**	**1,723,797**
Costs of services			
– Revenues due to other TLC operators		3,273,931	3,568,094
– Interconnection costs		55,481	72,203
– Commissions, sales commissions and other selling expenses		1,019,375	938,887
– Advertising and promotion expenses		413,565	311,891
– Professional consulting and services		254,388	265,182
– Utilities		307,959	268,242
– Maintenance		195,685	187,322
– Outsourcing costs		396,989	324,421
– Mailing and delivery expenses for telephone bills, directories and other materials to customers		83,769	79,198
– Distribution and logistics		61,483	72,559
– Travel and lodging costs		61,964	59,244
– Insurance		28,505	28,572
– Other service expenses		605,875	584,686
	(B)	**6,758,969**	**6,760,501**
Lease and rental costs			
– Property lease costs		474,658	424,348
– TLC line lease rent and rent for satellite system use		162,682	149,043
– Other lease and rental costs		167,997	122,662
	(C)	**805,337**	**696,053**
Total	(A+B+C)	**9,471,286**	**9,180,351**

In particular:

- costs for the acquisition of raw materials and merchandise for resale increased by euro 183,183 thousand compared to 2006. The increase is principally due to higher costs for the acquisition of UMTS handsets for sale to customers and purchases of mobile telephone materials for inventories;
- the reduction in the amount due to other operators for telecommunications services can mainly be ascribed to lower revenues, mentioned previously, from customer calls to the (NGN) non-geographic numbers of other operators. This decrease was only absorbed in part by the increase in such amounts due as a result of changes in the termination rates of voice calls on the fixed and mobile networks of other operators;
- the increase in commissions, sales commissions and other selling expenses is mainly attributable to compensation paid to agents and vendors, bonuses paid for having reached targets and other expenses connected with sales;
- the increase in other lease and rental costs is principally due to higher lease installments for radio base stations for mobile telephony and costs for the use of television rights.

Note 28 - Employees benefits expenses

Employee benefits expenses amount to euro 3,111,781 thousand, an increase of euro 108,173 thousand compared to 2006. Details are as follows:

(thousands of euro)		2007	2006
Employees benefits expenses			
• Wages and salaries		2,155,822	2,081,557
• Social security expenses		785,869	640,493
• Employee severance indemnities		64,281	127,913
• Other employee benefits		43,299	36,341
	(A)	**3,049,271**	**2,886,304**
Temp work costs	**(B)**	**30,811**	**26,251**
Miscellaneous expenses for employees and other labor-related services rendered			
• Remuneration of staff other than employees		14,434	17,330
• Charges for termination benefit incentives		145,414	59,055
• Other		(128,149)	14,668
	(C)	**31,699**	**91,053**
Total	**(A+B+C)**	**3,111,781**	**3,003,608**

In particular:

- wages and salaries, social security expenses and employee severance indemnities in 2007 were affected by the application of the TLC national labor contract as a result of the increases in the new minimum contract terms (from October 2006 as established by the December 3, 2005 Agreement for the two-year economic period 2005-2006 and from October 2007 as established in the July 31, 2007 Agreement for two-year economic period 2007-2008);
- social security expenses increased by euro 145,376 thousand largely owing to the amounts recorded in social security expenses earmarked for supplementary pension funds and the INPS treasury fund (equal to euro 120,680 thousand), in keeping with the new law on supplementary social security benefits;
- "other miscellaneous expenses for employees and other labor-related services rendered" (– euro 128,149 thousand) include the profit bonus accrued in the second half of 2006 and no longer due following agreements reached with the unions in June 2007 supporting the alignment of the profit bonus of the Parent, Telecom Italia, with the payment criteria established for ex-TIM Italia (– euro 77,952 thousand). The caption also includes the positive effects on the actuarial calculations of the provision for employee severance indemnities due to the application of the new law on social security benefits (-euro 50,863 thousand).

The average equivalent number of salaried personnel, including those with temp work contracts, is 59,211 in 2007 (59,456 in 2006).

A breakdown by category is as follows:

(number)	2007	2006
Executives	1,016	1,045
Middle management	3,469	3,268
Clerical staff	53,740	54,287
Technicians	12	42
Employees on the payroll	**58,237**	**58,642**
People with temp work contracts	974	814
Organico complessivo	**59,211**	**59,456**

The number of employees at December 31, 2007 is 59,959 (62,400 at December 31, 2006) and includes 1,273 people with temp work contracts. The decrease of 2,441 people is mainly due to the difference between employees resigned (– 3,401) and hired (+795).

Note 29 - Other operating expenses

Other operating expenses amount to euro 1,259,511 thousand, an increase of euro 508,660 thousand compared to 2006. Details are as follows:

(thousands of euro)	2007	2006
Impairments for bad debts and charges for credit management	604,584	328,430
Charges for risks and charges	277,339	76,308
TLC operating fees	50,623	47,654
Duties and indirect taxes (including prior years)	107,983	88,060
Association fees, donations, scholarships and traineeships, books, newspapers and magazines	23,804	24,313
Penalties, compensations and administrative sanctions	59,890	48,769
Other expenses	135,288	137,317
Total	**1,259,511**	**750,851**
Of which included in the additional information on financial instruments	*604,584*	*328,430*

Additional details on Financial Instruments are provided in the Note "Information on other financial instruments".

In particular:

- the increase in "impairments for bad debts and charges for credit management" is mainly due to higher charges to the provision for bad debts (+euro 223,372 thousand) to cover risk positions for overdue mobile telephone receivables relating to post-paid contracts and the increase in receivables from fixed telephone customers where the contracts have been terminated (uncollectible receivables), in addition to higher losses due to settlement agreements reached with Eutelia (euro 22,349 thousand) and Tele2 (euro 24,000 thousand) to clear up transactions of a commercial nature;
- the increase in "charges for risks and charges" can mainly be ascribed to charges for disputes and settlements of a regulatory nature for a total euro 239,867 thousand.

Note 30 - Changes in inventories

The changes in inventories is a negative euro 27,065 thousand, a decrease of euro 32,456 thousand compared to 2006. The change is primarily due to higher usage of materials in inventories associated with fixed and mobile telephony promotional campaigns.
The amount takes into account the writedowns made to adjust the amount of fixed and mobile telecommunications equipment and handsets to estimated realizable value (euro 18,505 thousand).

Note 31 - Internally generated assets

Internally generated assets amount to euro 455,176 thousand, an increase of euro 41,590 thousand compared to 2006.
These costs refer to labor costs capitalized to "intangible assets with a finite useful life" (euro 267,367 thousand for technical staff dedicated principally to software development.
The caption also includes labor costs for technical staff dedicated to executive design activities, construction and testing of network installations capitalized in "tangible assets owned" (euro 187,809 thousand).

Note 32 - Depreciation and amortization

Depreciation and amortization charges amount to euro 4,258,951 thousand, an increase of euro 324,352 thousand compared to 2006. Details are as follows:

(thousands of euro)		2007	2006
Amortization of intangible assets with a finite useful life			
• Industrial patents and intellectual property rights		1,366,751	1,341,837
• Concessions, licenses, trademarks and similar rights		138,383	116,778
• Other intangible assets		121,132	35,253
	(A)	**1,626,266**	**1,493,868**
Depreciation of tangible assets owned			
• Buildings (civil and industrial)		39,051	43,752
• Plant and equipment		2,234,171	2,023,478
• Manufacturing and distribution equipment		23,364	21,317
• Other assets		210,166	227,824
	(B)	**2,506,752**	**2,316,371**
Depreciation of tangible assets held under finance leases			
• Buildings (civil and industrial)		100,534	98,916
• Plant and equipment		41	0
• Other assets		25,358	25,444
	(C)	**125,933**	**124,360**
Total	**(A+B+C)**	**4,258,951**	**3,934,599**

In particular:

- the increase in the depreciation of tangible assets mainly refers to costs capitalized for SAC (Subscriber Acquisition Costs) for certain mobile telephone marketing campaigns;
- the increase in the amortization of intangible assets is principally in respect of the assets of ex Tim Italia since the amortization charge for those assets in 2006 only had an impact from March 1, 2006 – the date the merger with Telecom Italia came into effect. In 2007, however, the amortization charge was for the entire year.

Note 33 - Gains (losses) on disposals of non- current assets

Gains (losses) on disposals of non-current assets amount to euro 1,050 thousand, a decrease of euro 109,091 thousand compared to 2006. Details are as follows:

(thousands of euro)		2007	2006
Gains on disposals of non-current assets			
• Gains on the retirement/disposal of intangible and tangible assets		12,729	155,802
	(A)	**12,729**	**155,802**
Losses on disposals of non-current assets			
• Losses on the retirement/disposal of intangible and tangible assets		11,679	45,662
	(B)	**11,679**	**45,662**
Total	**(A-B)**	**1,050**	**110,140**

Gains decreased by euro 143,074 thousand since the amount in 2006 included the gain, net of transaction costs, realized on the sale of properties to Olivetti Multiservices under the plan for the rationalization of the physical spaces occupied by network installations.

Note 34 - Impairment reversals (losses) on non-current assets

Impairment reversals (losses) on non-current assets total euro 37,754 thousand and refer to writedowns of non-current assets. It refers to software projects and unused equipment for euro 25,730 thousand and telephone equipment in the process of being replaced by new technologically-advanced equipment for euro 12,024 thousand.

Note 35 - Finance income

Finance income amounts to euro 1,360,079 thousand, a decrease of euro 1,522,262 thousand compared to 2006. Details are as follows:

(thousands of euro)		2007	2006
Income from investments	**(A)**	**300,725**	**2,037,035**
Other finance income			
• Income from financial receivables classified as non-current assets		5,386	5,620
• Income from financial receivables from subsidiaries classified as non-current assets		924	1,105
• Income from financial receivables from associates classified as non-current assets		1,240	916
• Income other than the above:			
• Interest incomei		138,810	130,378
• Interest income from subsidiaries		10,715	8,058
• Intterest income from associates		4	9
• Foreign exchange gains		26,339	9,460
• Income from fair value hedge derivatives		87,525	133,125
• Reversal of the Reserve for cash flow hedge derivatives (interest rate component) to the income statement		433,640	294,654
• Income from non-hedging derivatives		12,156	2,442
• Miscellaneous finance income		189,230	128,575
	(B)	**905,969**	**714,342**
Positive fair value adjustments to			
• Fair value hedge derivatives		36,190	8,259
• Underlying financial assets and liabilities of fair value hedge derivatives		90,468	114,425
• Non-hedging derivatives		26,727	8,280
	(C)	**153,385**	**130,964**
Total	**(A+B+C)**	**1,360,079**	**2,882,341**
Of which included in the additional information on financial instruments		*490,964*	*167,774*

Additional details on Financial Instruments are provided in the Note "Information on other financial instruments".

Income from investments (euro 300,725 thousand) decreased by euro 1,736,310 thousand compared to 2006 owing to the absence of dividends from ex Tim Italia; in 2006, dividends had been collected from Tim Italia for euro 2,051,219 thousand and recorded in the income statement for euro 1,923,326 thousand.

Income from investments include: dividends from subsidiaries (euro 135,929 thousand, of which euro 99,000 thousand refers to dividends paid out by Telecom Italia Sparkle); dividends from associates (euro 11,922 thousand, almost entirely for dividends distributed by Tiglio II); dividends from other companies (euro 4,027 thousand); gains on the sale of non-current investments (euro 148,839 thousand) mainly on the sale of Mediobanca shares (euro 109,138 thousand) and Capitalia shares (euro 37,594 thousand).

Foreign exchange gains (euro 26,339 thousand) increased by euro 16,879 thousand compared to 2006 (euro 9,460 thousand). This amount was reduced by euro 461,047 thousand for the foreign exchange losses originating from the Reversal of the Reserve for cash flow hedge derivatives to the income statement (euro 281,658 thousand in 2006). The counterpart of foreign exchange gains is represented by foreign exchange losses (euro 26,652 thousand in 2007; euro 39,429 thousand in 2006). Income from fair value hedge derivatives (euro 87,525 thousand) decreased by euro 45,600 thousand compared to 2006 (euro 133,125 thousand) and refers to CCIRS contracts.

The positive effect of the Reversal of the Reserve for cash flow hedge derivatives (interest rate component) to the income statement (euro 433,640 thousand) increased by euro 138,986 thousand compared to 2006 (euro 294,654 thousand) and refers to CCIRS contracts for euro 262,308 thousand and IRS contracts for euro 171,332 thousand, which comprise euro 54,585 thousand for the positive impact of the early closing of the cash flow hedge derivatives on euro 1,500 thousand of underlying debt relating to the Term Loan totaling euro 3,000 thousand expiring in 2010.

Income from non-hedging derivatives (euro 12,156 thousand) increased by euro 9,714 thousand compared to 2006 (euro 2,442 thousand) and refers to other derivative contracts.

Miscellaneous finance income (euro 189,230 thousand) increased by euro 60,655 thousand mainly due to the elimination of withholdings at source on interest accrued on loan contracts with Group companies residing in Europe (withholding tax, euro 143,493 thousand). This increase was partly offset by the absence of provisions that had been released to income in 2006 (euro 90,701 thousand) 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 hedge derivatives (euro 36,190 thousand) increased by euro 27,931 thousand compared to 2006 (euro 8,259 thousand). 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 38,520 thousand (euro 10,128 thousand in 2006).

Positive fair value adjustments to underlying financial assets and liabilities of fair value hedge derivatives (euro 90,468 thousand), decreased by euro 23,957 thousand compared to 2006 (euro 114,425 thousand). The counterpart of this amount is represented by negative fair value adjustments to the corresponding fair value hedge derivatives (euro 85,459 thousand; euro 119,568 thousand in 2006.

Note 36 - Finance expenses

Finance expenses amount to euro 3,268,407 thousand, a decrease of euro 146,080 thousand compared to 2006. Details are as follows:

(thousands of euro)		2007	2006
Charges to investments	**(A)**	**8**	**45.668**
Interest expenses and other finance expenses			
• Interest expenses and other costs relating to bonds		1,003,874	954,823
• Interest expenses to subsidiaries		942,636	865,637
• Interest expenses to associates		37,058	25,952
• Interest expenses to banks/credit institutions		274,858	269,435
• Interest expenses to others		203,595	220,879
• Commissions		10,035	21,853
• Foreign exchange losses		26,653	39,429
• Charges from fair value hedge derivatives		82,101	90,500
• Reversal of the Reserve for cash flow hedge derivatives (interest rate component) to the income statement		359,457	299,921
• Charges from non-hedging derivatives		8,749	1,043
• Miscellaneous finance expenses		120,605	120,825
	(B)	**3,069,621**	**2,910,297**
Negative fair value adjustments to			
• Fair value hedge derivatives		85,459	119,568
• Underlying financial assets and liabilities of fair value hedge derivatives		38,520	10,129
• Non-hedging derivatives		9,517	7,338
	(C)	**133,496**	**137,035**
Impairment losses on financial assets	**(D)**	**65,282**	**321,487**
TOTAL	**(A+B+C+D)**	**3,268,407**	**3,414,487**
Of which included in the additional information on financial instruments		*2,365,520*	*2,218,318*

Additional details on Financial Instruments are provided in the Note “Information on other financial instruments”.

Interest expenses and other costs relating to bonds include euro 395,927 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 441,146 thousand) and Telecom Italia Capital (euro 511,837 thousand).

Foreign exchange losses (euro 26,653 thousand) decreased by euro 12,776 thousand compared to 2006 (euro 39,429 thousand). The counterpart of foreign exchange losses is represented by foreign exchange gains (euro 23,339 thousand in 2007; euro 9,460 thousand in 2006). Charges from fair value hedge derivatives (euro 82,101 thousand) decreased by euro 8,399 thousand compared to 2006 (euro 90,500 thousand) and refer to CCIRS contracts.

The negative effect of the Reversal of the Reserve for cash flow hedge derivatives to the income statement (euro 359,457 thousand) increased by euro 59,536 thousand compared to 2006 (euro 299,921 thousand) and refers to CCIRS contracts for euro 245,931 thousand and IRS contracts for euro 113,525 thousand.

Charges from non-hedging derivatives (euro 8,749 thousand) increased by euro 7,706 thousand compared to 2006 (euro 1,043 thousand) and refer to other derivative contracts.

Negative fair value adjustments to fair value hedge derivatives (euro 85,459 thousand) decreased by euro 34,109 thousand compared to 2006 (euro 119,568 thousand).
The counterpart of this amount is represented by the positive fair value adjustments to the underlying financial assets and liabilities of fair value hedge derivatives (euro 90,468 thousand).

Negative fair value adjustments to underlying financial assets and liabilities of fair value hedge derivatives (euro 38,520 thousand) increased by euro 28,391 thousand compared to 2006 (euro 10,129 thousand). The counterpart of this amount is represented by the positive fair value adjustments to the corresponding fair value hedge derivatives (euro 36,190 thousand in 2007, euro 8,259 thousand in 2006). Impairment losses on financial assets refer to writedowns of investments, in particular, to the carrying amount of Olivetti (euro 58,887 thousand). These decreased by euro 256,205 thousand, compared to 2006, mainly because impairment losses were recorded in that year on the investments in Liberty Surf Group (euro 185,311 thousand) and Telecom Italia Finance (euro 88,564 thousand).

Note 37 - Income tax expense

The income tax expense for the year ended December 31, 2007 and 2006 is detailed as follows.

(thousands of euro)	2007	2006
IRAP taxes for current year	354,968	428,945
IRES taxes for current year	291,541	47,000
Expenses (+) /income (–) from consolidation	80,475	(39,913)
Higher (+) /lower (–) current taxes of prior years	33,589	(63,650)
Total current taxes	**760,573**	**372,382**
Deferred income taxes	961,233	1,713,650
Higher (+) /lower (–) deferred taxes of prior years	(77,875)	19,936
Total deferred taxes	**883,358**	**1,733,586**
Total income taxes for the year	**1,643,931**	**2,105,968**

The calculation of IRES taxes for the current year takes into account a charge to the provision for taxes of Euro 94,000 thousand set aside for the requirements originating from pending disputes.

Deferred income taxes include euro 909,522 thousand for IRES taxes (including euro 324,860 thousand for the utilization of deferred tax assets corresponding to tax loss carryforwards entirely absorbed by the taxable income for IRES tax purposes based on the 2007 financial statements) and euro 51,711 thousand relating to IRAP taxes.

The reconciliation between the theoretical tax charge, calculated on the basis of the nominal tax rate in effect in Italy at December 31, 2007, and effective tax charge in the financial statements is as follows:

(thousands of euro)	2007		2006	
Profit before tax	**3,526,352**		**6,249,545**	
Taxes calculated at the theoretical tax rate	1,163,696	33.0%	2,062,350	33.0%
– dividends recognized in income	(48,207)	(1.37%)	(673,185)	(10.8%)
– non-deductible writedowns and losses on investments	22,637	0.65%	122,977	2.0%
– non-deductible costs	22,152	0.63%	106,452	1.7%
– non-deductible depreciation	22,634	0.64%	11,631	0.2%
– non-taxable gains on investments and other income	(39,394)	(1.12%)	–	
– tax adjustment	(46,565)	(1.32%)	–	
– other	153,372	4.35%	12,929	0.2%
IRAP taxes	393,606	11.16%	462,814	7.4%
Total effective taxes booked to the income statement	**1,643,931**	**46,62%**	**2,105,968**	**33.7%**

The tax adjustment includes, among others, taxes relating to prior years and the effect of applying the new IRES tax rate (27.5%) and Irap tax rate (3.9%) established by Law 244/07 (State Budge Law 2008) to deferred taxes.

The negative effect on the income statement from the pre-existing balance of deferred tax assets and liabilities remaining at December 31, 2007 amounts to euro 465 thousand. The new deferred tax assets and liabilities recognized in the income statement reflect a positive effect of euro 55,789 thousand due to changes in the rates.

For purposes of a more meaningful understanding of the reconciliation, the impact of IRAP taxes is shown separately in order to avoid any distorting effect since this tax has a different taxable basis than the profit before taxes.

Moreover the company is also evaluating whether to take advantage of the regulations allowing the company to pay the differences between the book and tax amounts pursuant to the State Budget Law 2008.

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 income statements, the balance sheets and the cash flow statements for the years ended December 31, 2007 and 2006 are presented in the following tables.

	Transactions with related parties (amount)		Corresponding caption in financial statements (amount)		% impact of related parties	
(thousands of euro)	2007	2006	2007	2006	2007	2006
Revenues						
Of which attributable to transactions with:						
– subsidiaries	345,190	553,134				
– associates and joint ventures	267,008	263,651				
– companies controlled by associates	8,237	6,770				
– other related parties through directors, statutory auditors and key managers	103,173	12,259				
– pension funds						
	723,608	**835,814**	**22,847,037**	**22,720,673**	**3.2**	**3.7**
Other income						
Of which attributable to transactions with:						
– subsidiaries	31,941	25,243				
– associates and joint ventures	2,460	5,332				
– companies controlled by associates	-	1				
– other related parties through directors, statutory auditors and key managers	166	212				
– pension funds	204	234				
	34,771	**31,022**	**297,766**	**405,092**	**11.7**	**7.7**
Acquisition of goods and services						
Of which attributable to transactions with:						
– subsidiaries	1,119,373	1,252,282				
– associates and joint ventures	72,344	79,845				
– companies controlled by associates	14,477	22,486				
– other related parties through directors, statutory auditors and key managers	78,764	81,929				
– pension funds						
	1,284,958	**1,436,542**	**9,471,286**	**9,180,351**	**13.6**	**15.6**

(following)

(thousands of euro)	Transactions with related parties (amount) 2007	2006	Corresponding caption in financial statements (amount) 2007	2006	% impact of related parties 2007	2006
Employees benefits expenses						
Of which attributable to transactions with:						
– subsidiaries	927	1,916				
– associates and joint ventures						
– companies controlled by associates						
– other related parties through directors, statutory auditors and key managers	2,008					
– pension funds	74,271	20,927				
– compensi a dirigenti con responsabilità strategiche dell'impresa	42,068	32,498				
	119,274	**55,341**	**3,111,781**	**3,003,608**	**3.8**	**1.8**
Other operating expenses						
Of which attributable to transactions with:						
– subsidiaries	543	3,457				
– associates and joint ventures	20	61				
– companies controlled by associates						
– other related parties through directors, statutory auditors con resp. strategiche dell'impresa	200	6,000				
– pension funds						
	763	**9,518**	**1,259,511**	**750,851**	**0.1**	**1.3**
Finance income						
Of which attributable to transactions with:						
– subsidiaries	394,271	2,128,432				
– associates and joint ventures	13,208	3,880				
– companies controlled by associates	26	33				
– other related parties through directors, statutory auditors and key managers	13,695					
– pension funds						
	421,200	**2,132,345**	**1,360,079**	**2,882,341**	**31.0**	**74.0**
Finance expenses						
Of which attributable to transactions with:						
– subsidiaries	1,350,124	1,264,024				
– associates and joint ventures	37,515	26,844				
– companies controlled by associates						
– other related parties through directors, statutory auditors and key managers	35,248					
– pension funds						
	1,422,887	**1,290,868**	**3,268,407**	**3,414,487**	**43.5**	**37.8**
Capital expenditures for intangible and tangible assets						
Of which attributable to transactions with:						
– subsidiaries	42,152	24,301				
– associates and joint ventures	56,803	143,062				
– companies controlled by associates	212,596	282,713				
– other related parties through directors, statutory auditors and key managers	77,307	61,371				
– pension funds						
	388,858	**511,447**	**3,947,750**	**3,724,590**	**9.9**	**13.7**
Dividends paid to third parties						
Of which attributable to transactions with:						
– subsidiaries	17,436	17,436				
– associates and joint ventures						
– companies controlled by associates						
– other related parties through directors, statutory auditors and key managers	382,656	348,115				
– pension funds	266	230				
	400,358	**365,781**	**2,783,071**	**2,783,064**	**14.4**	**13.1**

NET FINANCIAL DEBT

(thousands of euro)	Transactions with related parties (amount) 12/31/2007	12/31/2006	Corresponding caption in financial statements (amount) 12/31/2007	12/31/2006	% impact of related parties 2007	2006
Financial receivables and other non-current financial assets						
Of which attributable to transactions with:						
– subsidiaries	111,087	116,104				
– associates and joint ventures	25,175	23,429				
– companies controlled by associates	16					
– other related parties through directors, statutory auditors and key managers						
– pension funds						
	136,278	**139,533**	**582,333**	**670,145**	**23.4**	**20.8**
Financial receivables and other current financial assets						
Of which attributable to transactions with:						
– subsidiaries	6,999	11,493				
– associates and joint ventures	32	557				
– companies controlled by associates	25					
– other related parties through directors, statutory auditors and key managers	1,186					
– pension funds						
	8,242	**12,050**	**243,543**	**265,704**	**3.4**	**4.5**
Cash and cash equivalents						
Of which attributable to transactions with:						
– subsidiaries	115,893	88,584				
– associates and joint ventures	1,073	874				
– companies controlled by associates						
– other related parties through directors, statutory auditors and key managers	15,723					
– pension funds						
	132,689	**89,458**	**4,383,255**	**5,207,976**	**3.0**	**1.7**
Non-current financial liabilities						
Of which attributable to transactions with:						
– subsidiaries	20,807,671	21,201,928				
– associates and joint ventures	279,618	239,125				
– companies controlled by associates	16					
– other related parties through directors, statutory auditors and key managers	531,111					
– pension funds						
	21,618,416	**21,441,053**	**39,332,249**	**40,069,092**	**55.0**	**53.5**
Current financial liabilities						
Of which attributable to transactions with:						
– subsidiaries	3,387,106	3,752,192				
– associates and joint ventures	141,649	147,696				
– companies controlled by associates	25					
– other related parties through directors, statutory auditors and key managers	158,394					
– pension funds						
	3,687,174	**3,899,888**	**6,019,340**	**6,689,236**	**61.3**	**58.3**
Total net financial debt						
Of which attributable to transactions with:						
– subsidiaries	23,960,798	24,737,939				
– associates and joint ventures	394,987	361,961				
– companies controlled by associates	-					
– other related parties through directors, statutory auditors and key managers	672,596					
– pension funds						
	25,028,381	**25,099,900**	**40,142,458**	**40,614,503**	**62.3**	**61.8**

OTHER BALANCE SHEET CAPTIONS

(thousands of euro)	Transactions with related parties (amount) 12/31/2007	12/31/2006	Corresponding caption in financial statements (amount) 12/31/2007	12/31/2006	% impact of related parties 2007	2006
Miscellaneous receivables and other non-current assets						
Of which attributable to transactions with:						
– subsidiaries	1,716	3,454				
– associates and joint ventures	6,629	10,370				
– companies controlled by associates						
– other related parties through directors, statutory auditors and key managers						
– pension funds						
	8,345	**13,824**	**488,648**	**541,742**	**1.7**	**2.6**
Trade and miscellaneous receivables and other current assets						
Of which attributable to transactions with:						
– subsidiaries	249,078	235,515				
– associates and joint ventures	155,455	198,040				
– companies controlled by associates	4,791	5,007				
– other related parties through directors, statutory auditors and key managers	287,641	3,450				
– pension funds	104					
	697,069	**442,012**	**6,871,409**	**6,852,642**	**10.1**	**6.5**
Miscellaneous payables and other non-current liabilities						
Of which attributable to transactions with:						
– subsidiaries	103,090	121,040				
– associates and joint ventures						
– companies controlled by associates						
– other related parties through directors, statutory auditors and key managers						
– pension funds						
	103,090	**121,040**	**1,397,232**	**1,679,960**	**7.4**	**7.2**
Trade and miscellaneous payables and other current liabilities						
Of which attributable to transactions with:						
– subsidiaries	579,134	574,554				
– associates and joint ventures	49,866	95,607				
– companies controlled by associates	20,489	29,547				
– other related parties through directors, statutory auditors and key managers	95,836	21,777				
– pension funds	27,716	18,463				
	773,041	**739,948**	**9,832,817**	**9,436,886**	**7.9**	**7.8**

The following table presents the major economic, balance sheet and financial transactions between Telecom Italia S.p.A. and subsidiaries, associates and joint ventures at December 31, 2007 compared with those at December 31, 2006

As a result of Telecom Italia's acquisition of the 50% stake in Shared Service Center S.r.l. from Pirelli, the company became a subsidiary starting from October 1, 2007. The related party transactions indicated below refer both to the economic transactions up to September 30, 2007 (period in which the company was classified as an associate) and transactions after October 1, 2007 (the date from which the company became a subsidiary).

(thousands of euro)	2007	2006	
Revenues	612,198	816,785	These mainly refer to revenues from Teleleasing, euro 232,968 thousand (euro 225,371 thousand in 2006) for product sales; Telecom Italia Sparkle, euro 157,321 thousand (euro 153,886 thousand in 2006) for international telecommunications services; Path.Net, euro 63,475 thousand (euro 89,793 thousand in 2006) for telecommunications services and infrastructures dedicated to the Public Administration; Shared Service Center, euro 14,263 thousand (euro 19,649 thousand in 2006) for telephone and data transmission services and software applications; LI.SIT., euro 13,115 thousand (euro 12,060 thousand in 2006) for the sale of health cards to the Lombardy region; Telecom Italia Media, euro 32,970 thousand (euro 11,361 thousand in 2006) mainly for the concession of sublicenses broadcasting soccer games and connectivity service to the digital terrestrial platform.
Other income	34,401	30,575	This mainly refers to cost recoveries for off-site personnel and cost reimbursements for services rendered to Telecom Italia Sparkle, euro 5,913 thousand (euro 6,022 thousand in 2006); Olivetti, euro 1,623 thousand (euro 3,490 thousand in 2006); Telecom Italia S.A.S., euro 4,242 thousand (euro 2,929 thousand in 2006); HanseNet, euro 2,240 thousand (euro 1,942 thousand in 2006); Telecontact euro 1,740 thousand (euro 893 thousand in 2006). In 2007 there was also income from Brasilco, euro 3,862 thousand, and Telecom Italia Deutschland Holding, euro 5,838 thousand.
Acquisition of goods and services	1,191,717	1,332,127	These mainly include the amount due to Telecom Italia Sparkle for telecommunications services and interconnection costs, euro 615,278 thousand (euro 557,700 thousand in 2006); costs from Telecom Italia Media euro 20,897 thousand (euro 6,275 thousand in 2006) for the supply of services and the acquisition of broadcasting rights connected with television content offerings on IPTV and DVB-H platforms as well as the Rosso Alice portal; purchases from Telenergia, euro 249,791 thousand (euro 216,594 thousand in 2006) for energy services; costs from Olivetti, euro 45,672 thousand (euro 54,320 thousand in 2006) for purchases of products and other services; costs from Shared Service Center, euro 22,178 thousand (euro 21,477 thousand in 2006) for supplying information systems and computer service; costs from Matrix, euro 27,799 thousand (euro 26,234 thousand in 2006) for advertising on owned portals and miscellaneous services; costs from Telecontact euro 73,936 thousand (euro 74,509 thousand in 2006) for the supply of services.
Employee benefits expenses	927	1,916	These mainly refer to costs for off-site personnel.
Other operating expenses	563	3,518	These mainly refer to industrial taxes.
Finance income	407,479	2,132,312	This mainly includes euro 99,000 thousand of dividends collected from Telecom Italia Sparkle (euro 85,000 thousand in 2006), other finance income from Telecom Italia Finance, euro 146,632 thousand (euro 9,234 thousand in 2006) mainly referring to prior period income on the elimination of withholding taxes at source on interest earned on loan contracts and from Telecom Italia Capital, euro 88,216 thousand (euro 89,449 thousand in 2006). In 2006 there was finance income of euro 1,923,326 thousand regarding dividends collected from Tim Italia S.p.A.
Finance expenses	1,387,639	1,290,868	These mainly include interest expenses to Telecom Italia Finance, euro 807,073 thousand (euro 839,700 thousand in 2006) connected with financial payables and the subscription of bonds issued by Telecom Italia, and interest expenses to Telecom Italia Capital, euro 511,837 thousand (euro 397,890 thousand in 2006), connected with financial payables. They also include interest expenses to Teleleasing, euro 36,971 thousand (euro 25,946 thousand in 2006) for building finance lease contracts.
Capital expenditures in tangible and intangible assets	98,955	167,363	These mainly refer to acquisitions of computer projects and equipment from Shared Service Center, euro 74,966 thousand (euro 76,912 thousand in 2006), design and development of portals from Matrix euro 14,522 thousand (euro 11,937 thousand in 2006), development of innovative software products for the mobile network from Movenda, euro 1,110 thousand. In 2006 there were acquisitions of computer projects and equipment from Siemens IT Solutions & Services for euro 64,323 thousand, no longer a related party.

(thousands of euro)	12/31/2007	12/31/2006	
Financial receivables and other non-current financial assets	136,262	139,533	These mainly include medium/long-term loans made to Aree Urbane, euro 25,129 thousand (euro 23,403 thousand at December 31, 2006), 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 of the digital terrestrial network.
Miscellaneous receivables and other non-current asset	8,345	13,824	These mainly include receivables from LI.SIT, euro 6,629 thousand (euro 10,370 thousand at December 31, 2006).
Trade and miscellaneous receivables and other current assets	404,533	433,555	These principally refer to receivables from Telecom Italia Sparkle, euro 81,775 thousand (euro 77,147 thousand at December 31, 2006), Teleleasing, euro 56,038 thousand (euro 64,239 thousand at December 31, 2006), Path.Net, euro 22,410 thousand (euro 37,442 thousand at December 31, 2006), LI.SIT, euro 93,393 thousand (euro 119,935 thousand at December 31, 2006), HanseNet, euro 18,787 thousand (euro 25,967 thousand at December 31, 2006), Matrix euro 11,812 thousand (euro 5,848 thousand at December 31, 2006), TI Media, euro 21,245 thousand (euro 12,356 thousand at December 31, 2006), Olivetti S.p.A., euro 9,802 thousand (euro 7,404 thousand at December 31, 2006), Tim Participacoes group, euro 19,780 thousand (euro 11,926 thousand at December 31, 2006) and Telecom Italia S.A.S. euro 19,125 thousand (euro 13,761 thousand at December 31, 2006) .
Financial receivables and other current assets	7,031	12,050	These mainly refer to receivables from Telecom Italia Media Broadcasting, euro 5,945 thousand (euro 6,062 thousand at December 31, 2006).
Cash and cash equivalents	116,966	89,458	These mainly include receivables from Telecom Italia Media, euro 101,193 thousand (euro 8,669 thousand at December 31, 2006).
Non-current financial liabilities	21,087,289	21,441,053	These mainly refer to financial payables to Telecom Italia Finance, euro 12,077,297 thousand (euro 11,472,426 thousand at December 31, 2006) for loans and subscriptions of bonds issued by Telecom Italia, and to Telecom Italia Capital, euro 8,730,024 thousand (euro 9,729,217 thousand at December 31, 2006) for loans.
Current financial liabilities	3,528,755	3,899,888	These mainly refer to the current portion of loans and subscriptions of bonds to Telecom Italia Finance, euro 1,892,702 thousand (euro 3,015,554 thousand at December 31, 2006), financial payables to Telecom Italia Capital, euro 822,235 thousand (euro 123,785 thousand at December 31, 2006) and current account transactions with Telecom Italia Sparkle, euro 475,942 thousand (euro 461,142 thousand at December 31, 2006). They also include the short-term portion of payables connected with building finance lease contracts with Teleleasing, euro 141,096 thousand (euro 142,956 thousand at December 31, 2006).
Trade and miscellaneous payables and other current liabilities	629,000	670,161	These mainly include payable positions with Telecom Italia Sparkle, euro 313,291 thousand (euro 337,678 thousand at December 31, 2006), Olivetti, euro 56,516 thousand (euro 56,415 thousand at December 31, 2006), Telecom Italia Media, euro 67,534 thousand (euro 52,488 thousand at December 31, 2006), Matrix, euro 35,683 thousand (euro 31,431 thousand at December 31, 2006), and Telenergia, euro 31,285 thousand (euro 20,141 thousand at December 31, 2006). At December 31, 2006 there was euro 47,676 thousand payable to Siemens IT Solutions & Services, no longer a related party at December 31, 2007.
Miscellaneous payables and other non-current liabilities	103,090	121,040	These mainly include payables for the consolidated tax return to Telecom Italia Media, euro 40,871 thousand (euro 46,875 thousand at December 31, 2006), Olivetti, euro 34,632 thousand (euro 39,818 thousand at December 31, 2006), and miscellaneous payables to Telecom Italia Media Broadcasting, euro 24,096 thousand (euro 26,604 thousand at December 31, 2006).

The following table presents transactions between Telecom Italia S.p.A. and companies controlled by associates and companies controlled by jointly controlled companies:
the companies of the Italtel group, related parties through the investment in the parent Italtel Group and the companies of the Telecom Argentina group related through Sofora Telecomunicaciones S.A..

(thousands of euro)	2007	2006	
Revenues	8,237	6,770	These refer to revenues for telephone services supplied to Italtel Group, euro 1,703 thousand (euro 2,269 thousand in 2006), and to the Telecom Argentina group, euro 6,534 thousand (euro 4,501 thousand i n 2006).
Acquisition of goods and services	14,477	22,486	These mainly refer to costs for maintenance and assistance contracts, almost entirely with Italtel Group, euro 12,768 thousand (euro 21,266 thousand in 2006).
Finance income	26	33	This refers to finance commission income with Italtel Group.
Capital expenditures in tangible and intangible assets	212,596	282,713	These refer to the purchase of telephone equipment from Italtel group.

(thousands of euro)	12/31/2007	12/31/2006	
Financial receivables and other current and non-current financial assets	41	-	These refer to the valuation at fair value of premiums to be collected from Italtel Group in connection with the release of financial guarantees provided.
Trade and miscellaneous receivables and other current assets	4,791	5,007	These refer to trade receivables from Italtel Group, euro 665 thousand (euro 1,529 thousand at December 31, 2006), and from the Telecom Argentina group, euro 4,126 thousand (euro 3,478 thousand at December 31, 2006).
Current and non-current financial liabilities	41	–	These refer to the valuation at fair value of premiums in connection with the release of financial guarantees provided to the Italtel Group.
Trade and miscellaneous payables and other current liabilities	20,489	29,547	These refer to payables for supply transactions connected with investment and operating activities with Italtel Group.

Telecom Italia has also provided guarantees on behalf of subsidiaries, associates and joint ventures and companies controlled by associates for a total of euro 21,503,165 thousand (euro 23,492,656 thousand at December 31, 2006) detailed as follows: euro 11,015,851 thousand on behalf of Telecom Italia Finance (euro 12,749,266 thousand at December 31, 2006); euro 9,809,731 thousand on behalf of Telecom Italia Capital (euro 10,250,107 thousand at December 31, 2006); euro 231,041 thousand on behalf of Olivetti Multiservices (euro 149,605 thousand at December 31, 2006); euro 70,211 thousand on behalf of Latin American Nautilus group (euro 83,062 thousand at December 31, 2006); euro 52,888 thousand on behalf of Tiglio I (euro 52,888 thousand at December 31, 2006); euro 19,145 thousand on behalf of Italtel group (euro 24,965 thousand at December 31, 2006).

Lastly, the following tables present the economic, balance sheet and financial transactions and balances between Telecom Italia S.p.A. and other parties related through directors, statutory auditors and key managers.

Furthermore, as a result of the expiration of the terms of office of the directors Vittorio Merloni and Massimo Moratti and the resignations of the directors Luciano Gobbi, Claudio De Conto, Carlo Alessandro Puri Negri and Diana Bracco, there are no longer any related party transactions with the companies of the Merloni group, the company F.C. Internazionale Milano S.p.A., the companies of the Bracco group and those with the companies of the Pirelli group and CamFin group. Consequently, the related party transactions show the income statement balances and capital expenditures up to June 30, 2007 with the companies of the Merloni group and the company F.C. Internazionale Milano S.p.A. and up to September 30, 2007 with the companies of the Bracco, Pirelli and CamFin groups.
Following the appointment of the new directors Stefano Cao, Renzo Capra, Aldo Minucci, Gaetano Miccichè, César Alierta Izuel and Julio Linares López, the following are considered related parties: respectively, the companies of the Eni, Asm and Generali groups, starting from April 1, 2007, the Intesa SanPaolo group, starting from July 1, 2007 and the Telefonica group starting from November 1, 2007.

(thousands of euro)	2007	2006	
Revenues	103,173	12,259	These mainly refer to revenues for telephone services supplied to the Pirelli group, euro 5,484 thousand (euro 5,736 thousand in 2006), to the Edizione Holding group, euro 6,829 thousand (euro 4,340 thousand in 2006), to the Generali group euro 19,260 thousand, to the ENI group euro 19,854 thousand, to the Intesa SanPaolo group euro 38,920 thousand, to the Mediobanca group euro 5,488 thousand and to the Telefonica group euro 2,946 thousand.
Other income	166	212	This mainly refers to miscellaneous income from the Pirelli group, euro 151 thousand (euro 155 thousand in 2006).
Acquisition of goods and services	78.764	81,929	These mainly refer to research and development activities, purchases of modems and ADSL equipment, consulting and services regarding intellectual property rights and real estate activities from the Pirelli group, euro 21,587 thousand (euro 58,685 thousand in 2006); sponsorship and content provider costs from F.C. Internazionale Milano S.p.A. - a related company through Mr. Moratti, euro 1,706 thousand (euro 2,371 thousand in 2006); sponsorship of companies and sports events and commissions paid for the sale of prepaid telephone cards to Autogrill S.p.A. (Edizione Holding group) euro 2,150 thousand, (euro 1,880 thousand in 2006), supply of gas from Camfin, euro 1,320 thousand (euro 1,358 thousand in 2006), supply of fuel for vehicles and gas for heating from the ENI group, euro 25,620 thousand, insurance premiums from the Generali group, euro 13,483 thousand, telecommunications services from the Telefonica group, euro 2,487 thousand, and costs for credit recovery activities and factoring commissions from the Intesa SanPaolo group, euro 8,432 thousand.
Employee benefits expenses	2,008	–	This mainly refers to non-mandatory personnel insurance signed with Generali group, euro 1,915 thousand.
Other operating expenses	200	6,000	In 2006 there were operating expenses relating to commercial settlements with Pirelli S.p.A..
Finance income	13,695	–	This mainly refers to income from derivative contracts with the Mediobanca group, euro 10,652 thousand and income from the Intesa SanPaolo group, euro 2,920 thousand.
Finance expenses	35,248	–	These refer to expenses on derivative contracts with Mediobanca group, euro 30,090 thousand and expenses with the Intesa SanPaolo group, euro 1,857 thousand.
Capital expenditures in tangible and intangible assets	77,307	61,371	These mainly refer to purchases of modems and ADSL equipment from the Pirelli group.

(thousands of euro)	12/31/2007	12/31/2006	
Trade and miscellaneous receivables and other current assets	287,641	3,450	These mainly refer to the Edizione Holding group, euro 2,140 thousand (euro 1,040 thousand at December 31, 2006), the Intesa SanPaolo group, euro 262,179 thousand, the Generali group, euro 8,288 thousand, the ENI group, euro 4,270 thousand and the Telefonica group, euro 9,591 thousand.
Financial liabilities and other current financial assets	1,186	–	These refer to fair value hedge derivatives put into place with the Mediobanca group.
Cash and cash equivalents	15,723	–	These refer to bank current accounts and deposits.
Non-current financial liabilities	531,111	–	These refer to non-current financial payables for the Term Loan Facility (euro 67,959 thousand) and the Revolving Credit Facility (euro 62,063 thousand) with the Mediobanca group. They also refer to non-current financial payables relating to the Term Loan Facility (euro 258,908 thousand), the Revolving Credit Facility (euro 125,716 thousand) and finance lease liabilities (euro 15,704 thousand) with the Intesa SanPaolo group.
Current financial liabilities	158,394	–	These mainly refer to current accounts, euro 65,858 thousand, payables to other lenders euro 40,021 thousand, loans, euro 1,395 thousand and finance lease liabilities, euro 6,543 thousand with the Intesa SanPaolo group. They also include payables for fair value hedge derivatives euro 44,577 thousand with the Mediobanca group.
Trade and miscellaneous payables and other current liabilities	95,836	21,777	These mainly refer to payables, for supply transactions connected with purchases and the performance of services mainly with the ENI group, euro 11,231 thousand, the Intesa SanPaolo group, euro 80,403 thousand and the Telefonica group, euro 1,854 thousand. At December 31, 2006 there were trade and miscellaneous payables to the Pirelli group for euro 15,718 thousand and Telepost S.p.A. for euro 4,215 thousand, no longer related parties.

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)	2007	2006	
Other income	204	234	These mainly refer to cost recoveries for off-site personnel at Fontedir.
Employee benefits expenses	74,271	20,927	These refer to the contribution made to pension funds of which euro 13,573 thousand for Fontedir and euro 59,905 thousand for Telemaco.

(thousands of euro)	12/31/2007	12/31/2006	
Trade and miscellaneous receivables and other current assets	104	–	These refer to above recovery of costs for off-site personnel at Fontedir.
Trade and miscellaneous payables and other current liabilities	27,716	18,463	These refer to contributions payable principally to Fontedir, euro 4,719 thousand and Telemaco euro 22,511 thousand.

The following is a brief description of the contents of the main contracts between Telecom Italia S.p.A. and subsidiaries, associates, joint ventures, companies controlled by associates, companies controlled by jointly controlled companies and related parties through directors, statutory auditors, key managers and pension funds.

Contracts with subsidiaries:

Advalso S.p.A.

Expense related

The contracts mainly refer to call center and back office services.

Hansenet Telekommunikation GmbH

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;
- supply of Provisioning and Assurance services which provide for the supply of specific hardware and software, guaranteeing their functioning;
- realization of CRM services (Virtual Application Project);
- sale of exchanges;
- cost recovery of off-site personnel.

IT Telecom S.r.l.

Revenue related

The main contracts refer to the supply of telephone services and administrative outsourcing.

Expense related

The main contracts refer to the Certification Authority service for Telecom Italia.

Latin American Nautilus USA Inc.

Expense related

The main contracts refer to costs for off-site personnel at Telecom Italia offices.

Matrix S.p.A.

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;
- Data Center and Business Continuity services;
- administrative outsourcing.

Expense related

The main contracts refer to:

- design, development and maintenance of the Single Portal Rosso Alice and the Telecom Italia S.p.A. Videocompany portal;
- management of the editorial services of the site and marketing;
- WiFi Web Service activities and other software development services;
- advertising presence on Matrix-owned portals of the Telecom Italia S.p.A. sites such as Rosso Alice, Alice, 187.it, TIM 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.;
- professional services rendered aimed at the purchase of advertising space on the Virgilio portal;
- services contracted out for assistance, connectivity, maintenance associated with the service contract with SEAT.

Loquendo S.p.A.

Revenue related

The main contracts refer to:

- cost recoveries for off-site personnel and other centralized expenses (welfare initiatives);
- telephone and data transmission services;
- laboratory test activities to verify the qualitative standards of equipment;
- 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.

MTV Italia S.r.l.

Revenue related

The main contracts refer to:

- the supply of telecommunications services and data transmission equipment;
- administrative outsourcing.

Expense related

The main contracts refer to:

- the acquisition of rights for re-broadcasting music and video-music of the MTV channels;
- supply of transmission and technical assistance for Mobile TV DVB-H experimentation.

Olivetti S.p.A.

Revenue related

The main contracts refer to:

- 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 premiums and relative management fees, convention expenses, commissions for providing sureties and welfare initiatives).
- telephone services and assistance and maintenance services relating to the new call center at Carsoli.

Expense related

The main contracts refer to:

- purchases of products destined for resale to Telecom Italia S.p.A.’s customers;
- R&D activities conducted on behalf of Telecom Italia S.p.A.;
- 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 data transmission connections 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 Group and the company's brands with institutions, companies, enterprises, public entities and single Italian and foreign individuals.

Telecom Italia America Latina S.A.
Expense related
The main contracts refer to 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 and the subscription of bonds issued by Telecom Italia.

Telecom Italia Media S.p.A.
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:
- re-broadcasting of Rosso Alice programs and the broadcasting of the new TG channel on IPTV;
- supply of broadcasting services using DVB-H technology;
- purchase of rights to broadcast the America's cup;
- purchase of filming services and making the video signal available for soccer games;
- purchase of consulting and know-how services for television content on IPTV and DVB-H platforms and on the Rosso Alice portal.

Telecom Media News S.p.A.
Revenue related
The main contracts refer to the supply of telecommunications services and data transmission equipment and to administrative outsourcing.

Expense related
The main contracts refer to:
- press agency commissions for the purchase of information and news flows to be text-messaged to the network of customers;
- commissions for the IDLE MODE service for BlackBerry handsets.

Telecom Italia San Marino S.p.A.
Revenue related
The main contracts refer to the supply of connection and telecommunications services.
Expense related
The main contracts refer to:
- conditioned access telecommunication services;
- interconnection services of the Telecom Italia S.p.A. network to the Telecom Italia San Marino network on San Marino territory.

Telefonia Mobile Sammarinese S.p.A.
Revenue related
The main contracts refer to interconnection services.

Telecom Italia Sparkle S.p.A.
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 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;
- supply and development of specific software for internal use;
- interconnection services for packet switched data traffic;
- 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;
- supply of interconnection services relating to packet switched data traffic;
- purchase of technical assistance services for the company ETECSA;
- purchase of interconnection kits;
- management of international accesses and interconnection accesses for:
  - 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 to the national call.

Telecom Italia S.A.S.
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.

Telecontact Center S.p.A.
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:
- building leases;
- purchase of call center services.

Telenergia S.r.l.
Revenue related
The main contracts refer to:
- outsourcing for the development of 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 the supply of electrical energy.

TI Media Broadcasting S.r.l.
Revenue related
The main contracts refer to:
- use of the network infrastructure for transporting TV signals;
- telephone and outsourcing services;
- costs recoveries of centralized expenses (insurance premiums, management fees on insurance and commissions for providing sureties).

Expense related
The main contracts refer to:
- development of interactive applications destined for resale to Telecom Italia S.p.A. customers in the digital terrestrial network;
- supply of broadcasting and technical assistance services for DVB-H mobile TV experimentation.

Tim Participaçoes group
Revenue related
The main contracts primarily refer to roaming and technical assistance.
Expense related
The main contracts refer to roaming services.

Shared Service Center S.r.l.
Revenue related
The main contracts refer to:
- supply of telephone, data transmission and computer and information systems services;
- operation and maintenance of the client's software applications at the Telecom Italia data center;
- cost recoveries of centralized expenses.

Expense related
The main contracts refer to:
- the supply of computer and information systems services relating to:
  - design, implementation, release, operation and management of portals, institutional sites, SAP and dedicated solutions;
  - SAP application maintenance and service management services;
- building lease.

Contracts with associates / other related parties:

Aree Urbane S.r.l.
Revenue related
These refer to a medium/long-term loan made and regulated by the shareholders' agreements.

Asscom Insurance Brokers S.r.l.
Expense related
This refers to an insurance broker and consulting contract regarding the risk coverage of the Italian and foreign companies of the Group.

ETECSA
Revenue related
The main contracts relate to:
- international roaming 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.

LI.SIT. S.p.A.
Revenue related
The contract refers to the information network for the social health system of the Lombardy Region, rendering online services available 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 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.

Movenda S.p.A.
Expense related
The main contracts refer to the development of innovative software products for the mobile network.

Nordcom S.p.A.
Revenue related
The main contracts refer to the supply of data network connections and software applications and the recovery of costs for off-site personnel.
Expense related
The contract refers to the development of systems and computer solutions.

Teleleasing S.p.A.
Revenue related
The contracts relate to the application of the cooperation agreement signed in 2000. By virtue of this agreement, Telecom Italia assigned Teleleasing the role of financial partner for its commercial offerings to customers that purchase by lease instead of by outright purchase. Telecom Italia sells the equipment to Teleleasing which, in turn, signs the lease contract with the customer; Telecom Italia sees to the collection of the lease payments after having acquired the rights.
Expense related
The contracts refer both to the finance lease of telephone systems to Telecom Italia 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, ADSL lines and the sale of video-communication equipment and services rendered for activities directed towards specific projects.
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:
- lease of buildings (also premises housing telecommunications equipment) with an expiration date in 2021 and the possibility of tacit renewal, unless notice of termination is given by Telecom Italia, for successive periods of six years, at the same terms and conditions as originally agreed;
- lease of buildings solely for office use, for standard lease periods.

Tiglio II S.r.l.
Revenue related
The main contracts call for the supply of telephone services.
Expense related
The main contracts refer to:
- lease of buildings (also premises housing telecommunications equipment) with an expiration date of 2021 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;
- lease of buildings solely for office use, for standard lease periods.

* * *

Telefonica group
Revenue related
The main contracts refer to international roaming services.
Expense related
The main contracts refer to international roaming services.

Telecom Argentina group
Revenue related
The main contracts refer to technical assistance provided by Telecom Italia for broadband development and for the study and implementation of Value Added Services.
Expense related
The contracts relate to international telecommunications services and roaming.

Italtel group
Revenue related
The main contracts provide for the supply of telephone, data transmission services and the sale of LAN and MAN networks.
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 group
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 the sponsorship of companies and sports events, commissions paid to Autogrill S.p.A. for the sale of prepaid telephone cards and occupancy charges for the public telephones located at their structures.

ASM group
Revenue related
The main contracts refer to the supply of telephone services.

Eni 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 of fuel for motor vehicles and gas for heating.

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. 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 equipment, 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.

Generali group
Revenue related
The main contracts provide for the supply of services for fixed and mobile telecommunications and data transmission among agencies and high-speed connections between offices and outsourcing of the relative services.
Under the agreement formalized in 2007, Telecom Italia is the sole provider of telecommunications equipment and services (fixed and mobile voice, data, equipment maintenance, etc.) for all the foreign companies of Generali (in France, Portugal, Germany, Belgium, Austria and Spain); the contract is for a period of five years.
Expense related
The main contracts refer to:
- insurance polices to cover company risks;
- property leases through Società Generali Properties S.p.A..

Intesa SanPaolo group
Revenue related
The main contracts refer to:
- current accounts and bank deposits by Telecom Italia;
- supply of telephone and data transmission services;
- marketing of ICT products and solutions.

Expense related
The contracts refer to the following:
- Term Loan Facility (maturing 1/28/2010) and Revolving Credit Facility (maturing 8/4/2014);
- loans, current accounts and finance lease liabilities with Telecom Italia S.p.A.;
- credit recovery activities;
- sale of trade receivables.

Mediobanca group
Revenue related
The main contracts refer to:
- fair value hedge derivatives relating to hedged items classified in current assets of a financial nature;
- supply of telephone services, data network outsourcing, video-surveillance and data network expansion at the branches.

Expense related

The main contracts refer to the following:

- Term Loan facility (maturing 1/28/2010) and Revolving Credit Facility (maturing 8/4/2014) where Mediobanca is one of the Initial Mandated Lead Arrangers and Bookrunners;
- fair value hedging derivatives relating to CCIRS on Telecom Italia Capital S.A. bonds for USD 1 billion, 4%, maturing November 15, 2008.

Merloni group

Revenue related

The main contracts provide for the supply of telephone and data transmission services and housing services.

Pirelli & C. S.p.A.

Revenue related

The main contracts refer to:

- Assistance and consulting services rendered for economic analyses and sector studies

  The purpose of this contract is the performance of assistance and consulting services for economic analyses and sector studies by Telecom Italia on behalf of Pirelli.
- Supply of telecommunications services

Expense related

The main contracts with Pirelli & C. and its wholly-owned subsidiaries, Pirelli Broadband Solutions S.p.A. and Pirelli Labs S.p.A., refer to the following:

- Contract for consulting and services for patent rights

  The contract refers to:
  - consulting and end-to-end services regarding patent rights and trademarks;
  - defining strategies regarding patent rights;
  - litigation and analyses of patents of the competition;
  - management of a database for patent data and relative reports;
  - raining of technicians.

  During the first quarter, a mutual resolution of the relationship was agreed starting from April 1, 2007 and continuing to the end of the year (natural expiration date of the contract) for certain initiatives.
- Contract for research and development

  The contract, signed in 2002, covers research projects and product development projects, but differently:
  - Research projects

    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;
       - subsystems, joint competence of Telecom Italia - 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 an exclusive license which can be sublicensed for patents for use in the “Networks and Services” area;
       - Telecom Italia 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 to Telecom Italia and the companies it controls, 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.

- Product development projects
  The main points of the new contract are as follows:
  - at the start of every project, the activities are planned, the requisites of the anticipated product and the increase in value from the relative development are agreed, in addition to a target price for the product under development;
  - as the project progress, if the product under development is no longer of interest to Telecom Italia due to changes in market conditions or technology, Telecom Italia may discontinue the project at pre-set times;
  - Telecom Italia shall acquire exclusive ownership of the rights to the outcome of the projects and, should it decide to buy the product, will assign Pirelli the first lot supplied.
- Contract for the supply of equipment
  These contracts call for the supply or user equipment for network access and broadband services.
- Cooperation contract concerning joint initiatives
  Under this contract, Pirelli is working on two research projects for Telecom Italia: one relating to the “Photovoltaic and energy consumption measurement systems” and the second to “Third-generation poles for the fixed network”. The agreements generally state that Telecom Italia 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 and b) characterized by the inclusion of specific chemical compositions and/or treatments using specific chemical processes. The license granted to Telecom Italia, with regard to the results obtained during the course of the activities conducted under the above two projects mentioned, is at no charge.

Pirelli & C. Real Estate S.p.A.

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), maintenance of technological plants and systems and total facility management (maintenance and operation of plants, security and cleaning services).
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.

* * *

Pension funds

Transactions regarding supplementary pension funds refer to:
- payment of contributions both by the employer and the employee (including the portion of employee severance indemnities);
- supply of personal information records of the associated employees with the relative contribution details.

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, during the course of 2007 were as follows:

Directors:	
Gabriele Galateri di Genola (1)	Chairman
Pasquale Pistorio (2)	Chairman
Guido Rossi (3)	Chairman
Franco Bernabè (1)	Chief Executive Officer
Carlo Orazio Buora (4)	Executive Deputy Chairman
Riccardo Ruggiero (4)	Chief Executive Officer General Manager
Managers:	
Enrico Parazzini	General Manager Head of Finance, Administration and Control Chairman of Telecom Italia Media S.p.A.
Antonio Campo Dall'Orto (7)	Chief Executive Officer of Telecom Italia Media S.p.A. Head of Media Business Unit
Stefano Pileri	General Manager Head of Technology
Massimo Castelli	General Manager Head of Domestic Fixed Services
Luca Luciani	General Manager Head of Domestic Mobile Services
Gustavo Bracco	Head of Human Resources, Organization and Industrial Relations
Francesco Chiappetta	Head of General Counsel & Corporate & Legal Affairs
Germanio Spreafico	Head of Purchasing
Franco Rosario Brescia (5)	Head of Public Affairs
Paolo Annunziato (6)	Head of Public Affairs
Filippo Bettini (7)	Head of Strategy
Giampaolo Zambeletti (7)	Head of International Affairs

(1) From December 3, 2007
(2) From April 17, 2007 to December 2, 2007
(3) To April 6, 2007
(4) To December 2, 2007
(5) From February 16, 2007 to May 24, 2007
(6) From May 25, 2007
(7) From February 16, 2007

The total remuneration recorded on the accrual basis by Telecom Italia for key managers was euro 42,068 thousand (euro 32,498 thousand in 2006) divided as follows:

(thousands of euro)	2007	2006
Short-term remuneration	23,925	18,645
Long-term remuneration	928	4,049
Employment termination benefit incentives	17,215	9,804

Note 39 - Stock option plans of Telecom Italia S.p.A.

During 2007 and 2006, the existing stock option plans relate to options that give, or have given, the right to the subscription of Telecom Italia ordinary shares (including shares from the options that had at one time been granted by TIM S.p.A., later merged in Telecom Italia S.p.A.). These plans have been used by the Company for retention purposes and as a long-term incentive for managers and personnel of the Company.
The stock option plans of Telecom Italia are described below.

With respect to the description of Telecom Italia stock option plans, account should be taken of the following mergers:

- merger of Telecom Italia S.p.A. in Olivetti S.p.A. in 2003: starting from August 4, 2003, the number of shares that could originally be subscribed under the Telecom Italia S.p.A. stock option plans (one share for each option) was changed on the basis of the new assignment ratio and now, each option allows the subscription of 3.300871 new post-merger Telecom Italia ordinary shares; the relevant subscription price of each Telecom Italia ordinary share resulting from the exercise of the option was adjusted for each plan, dividing the original exercise price of the options by the new assignment ratio;
- merger of TIM S.p.A. in Telecom Italia S.p.A. in 2005: starting from June 30, 2005, the number of shares that could originally be subscribed under the TIM S.p.A. stock option plans (one share for each option) was changed on the basis of the new assignment ratio and now, each option allows the subscription of 1.73 post-merger Telecom Italia S.p.A. ordinary shares; the relevant subscription price of each Telecom Italia ordinary share resulting from the exercise of the option was adjusted for each plan, dividing the original exercise price of the options by the new assignment ratio.

In the description of the stock option plans, in order to render the representation of the options homogeneous with that of the underlying subscribable shares and to facilitate their measurement on the basis of the relevant subscription prices, the Company has used the concept of "equivalent options", that means 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 are consistent and directly comparable among each other.

The main features of the Telecom Italia stock option plans existing at December 31, 2006 and 2007 are summarized below:

Stock Option Plans (Date of Shareholder Meeting)	BoD Grant Date (Grantees)	Lot	Exchange Ratio (1)	Exercise Price of Options (2) (euro)	Exercise Price for Equivalent Options (3) (euro)	Original Grant No. of Options	Original Grant No. of Equivalent Options	Exercise Period from	Exercise Period to	Equivalent Options Outstanding at 12/31/2006	Equivalent Options Outstanding at 12/31/2007
2000 Plan (12/15/1998 - 8/10/2000 - 5/3/2001- 5/26/2003)	**9/11/2000** (Managers of the Group)	1°	3.300871	13.815	4.185259	15,460,000	51,031,466	7/2/01	7/1/06	–	–
		2°	3.300871	13.815	4.185259	15,460,000	51,031,466	7/1/02	6/30/07	17,659,608	–
		3°	3.300871	13.815	4.185259	15,460,000	51,031,466	not vested (4)		–	–
		extra bonus	3.300871	13.815	4.185259	5,050,000	16,669,399	not vested (4)		–	–
2001 Plan (6/12/2001- 5/26/2003)	**7/27/2001** (Managers and Middle Managers of the Group)	1°	3.300871	10.488	3.177343	33,512,500	110,620,439	4/16/02	4/15/07	105,123,871	–
		2°	3.300871	10.488	3.177343	33,512,500	110,620,439	not vested (4)		–	
2002 Top Plan (6/12/2001 - 5/26/2003)	**2/13/2002** (16 Top Managers)	1°	3.300871	9.203	2.788052	3,540,000	11,685,083	2/18/03	2/18/08	8,714,294	6,535,721
		2°	3.300871	9.203	2.788052	3,540,000	11,685,083	2/18/04	2/18/09	8,714,294	6,535,721
		3°	3.300871	9.203	2.788052	4,720,000	15,580,111	2/18/05	2/18/10	13,863,655	10,958,889
2002 Plan granted in March (12/15/1998 - 8/10/2000 - 5/3/2001- 5/26/2003)	**3/26/2002** (Managers of the Group and new grantees)	1°	3.300871	9.665	2.928015	8,987,400	29,666,248	3/3/03	3/3/08	14,448,297	13,824,437
		2°	3.300871	9.665	2.928015	8,987,400	29,666,248	3/3/04	3/3/09	15,381,635	14,713,214
		3°	3.300871	9.665	2.928015	11,983,200	39,554,997	3/3/05	3/3/10	22,326,947	21,039,616
2002 Plan granted in August (12/15/1998 - 8/10/2000 - 5/3/2001- 5/26/2003)	**8/1/2002** (Managers of the Group and new grantees)	1°	3.300871	7.952	2.409061	252,000	831,819	3/3/03	3/3/08	663,473	663,473
		2°	3.300871	7.952	2.409061	252,000	831,819	3/3/04	3/3/09	663,473	663,473
		3°	3.300871	7.952	2.409061	336,000	1,109,093	3/3/05	3/3/10	884,631	884,631
2000-2002 Plan (12/18/1998 - 4/07/2005)	**12/22/1999** (Managers of the Group)	1°	1.730000	6.420	3.710983	7,070,000	12,231,100	5/1/00	12/31/08	–	–
		2°	1.730000	6.420	3.710983	7,070,000	12,231,100	6/1/01	12/31/08	8,198,461	8,002,395
		3°	1.730000	6.420	3.710983	7,070,000	12,231,100	6/1/02	12/31/08	8,747,930	8,471,136
2002-2003 Plan (10/10/2000 - 4/07/2005)	**2/12/2002** ((Managers of the Group and employees)	1°	1.730000	5.670	3.277457	12,755,000	22,066,150	12/17/02	12/31/08	15,046,675	14,449,825
		2°	1.730000	5.670	3.277457	12,755,000	22,066,150	12/1/03	12/31/08	15,046,675	14,449,825
2003-2005 Plan (10/10/2000 - 4/7/2005)	**5/6/2002** (Managers of the Group and new grantees)	1°	1.730000	5.070	2.930636	16,685,667	28,866,204	5/2/03	5/31/08	725,042	725,042
		2°	1.730000	5.070	2.930636	16,685,666	28,866,202	5/24/04	5/31/09	920,186	920,186
		3°	1.730000	5.070	2.930636	16,685,667	28,866,204	12/22/04	5/31/10	1,271,377	1,271,377
Total										**258,400,524**	**124,108,961**

(1) Number of Telecom Italia Ordinary Shares subscribable for the exercise of one option.
(2) Original exercise price determined for the exercise of one option.
(3) Exercise price of Telecom Italia Ordinary Shares that come from the exercise of the options.
(4) Lot not vested because of failure to reach the performance criteria.

Additional information in connection with the Telecom Italia stock option plans is briefly provided.

- "Stock Option Plan 2000" and "Stock Option Plan 2001": for each lot, 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.
  For the Stock Option Plan 2000, 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.
  For the Stock Option Plan 2001, 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.
  During 2007, the date for the exercise of the remaining exercisable options expired for both plans and, consequently, they expired.

- "Stock Option Plan 2002 Top": the options were not subject to reaching performance parameters.

- "Stock Option Plan 2002": 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, as an incentive and as a means of retaining management loyalty, and approved the introduction of the "Stock Option Plan 2002", for management of the Company 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 beforehand, could take part in the new plan. The options of the Stock Option Plan 2002 were not subject to reaching performance parameters.

- "Stock Option Plans 2000-2002": the options vested 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.

- "Stock Option Plans 2002-2003": the options were not subject to reaching performance parameters.

- "Stock Option Plans 2003-2005": 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" for management of the Company 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 options were not subject to reaching performance parameters.

During 2007, no new stock option plans were introduced.

Furthermore, during 2007 no stock options were exercised.

The market value of Telecom Italia ordinary shares at December 31, 2007 and 2006 was respectively euro 2.13 and euro 2.29, both lower than the exercise prices per equivalent option for all the stock option plans.

Aggregate movements in all Telecom Italia stock option plans in 2006 and 2007 are presented in the following table.

	Number of Equivalent Options	Weighted Average Price per Equivalent Option (euro)
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**
Lapsed (1)	(11,590,605)	2.91
Expired and Forfeited (2)	(122,700,958)	3.32
Options outstanding at December 31, 2007	**124,108,961**	**3.08**

(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 forfeited since they did not become vested due to failure to reach the performance parameters.

The following tables present, with reference to the Telecom Italia stock option plans existing at December 31, 2007 and 2006, grouped by the range of exercise price, the residual weighted average life and the weighted average grant price of the equivalent options:

	Equivalent Options Outstanding and Exercisable at December 31, 2007		
Range of Prices (euro)	**Equivalent Options**	**Residual Weighted Average Life** (anni)	**Weighted Average Grant Price** (euro)
2.41	2,211,577	1.27	2.41
2.78 - 2.94	76,524,203	1.33	2.88
3.27 - 3.72	45,373,181	1.00	3.43
	124,108,961		

	Equivalent Options Outstanding and Exercisable at December 31, 2006		
Range of Prices (euro)	**Equivalent Options**	**Residual Weighted Average Life** (anni)	**Weighted Average Grant Price** (euro)
2.41	2,211,577	2.27	2.41
2.78 - 2.94	86,365,727	2.34	2.88
3.17 - 3.72	152,163,612	0.82	3.26
4.19	17,659,608	0.50	4.19
	258,400,524		

Note 40 - Significant non-recurring events and transactions

Details of non-recurring items

The effect of non-recurring events and transactions on equity and net financial debt at December 31, 2007 and on profit and cash flows for the year 2007 of Telecom Italia is set out below in accordance with Consob communication DEM/6064293 dated July 28, 2006.

(thousands of euro)		Equity Netto	Profit for the year	Net financial debt	Cash flows (*)
Amount - financial statements	**(A)**	**23,615,424**	**1,882,421**	**40,142,458**	**(1,312,966)**
Antitrust fine charge		(20,000)	(20,000)	2,520	(2,520)
Gain on sale of Mediobanca shares		101,778	101,778	(235,801)	235,801
Gain on sale of Capitalia shares		35,609	35,609	(73,612)	73,612
Gains on sale of other investments		1,347	1,347	(2,117)	2,117
Other costs		(6,528)	(6,528)	–	–
Total effect	**(B)**	**112,206**	**112,206**	**(309,010)**	**309,010**
Figurative amount - financial statements	**(A - B)**	**23,503,218**	**1,770,215**	**40,451,468**	**(1,621,976)**

(*) 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 income statement is as follows:

(thousands of euro)	2007 (a)	2006 (b)
Other operating expenses:		
Antitrust fine	(20,000)	(2,500)
Other	(6,528)	–
Impact on EBITDA	**(26,528)**	**(2,500)**
Gains (losses) on non-current assets:		
Gains on transactions for disposals of properties	–	141,423
Loss on sale of “Radiomaritime activities”	–	(9,197)
Impact on EBIT	**(26,528)**	**129,726**
Finance income (expenses):		
Release of Avea I.H.A.S. provisions	–	90,701
Gain on sale of Mediobanca shares	109,138	–
Gain on sale of Capitalia shares	37,594	–
Gains on sale of other investments	1,422	–
Loss on sale of Telecom Italia Learning Services	–	(45,389)
Miscellaneous finance expenses	–	(4,100)
Impact on profit before tax from continuing operations	**121,626**	**170,938**
Effect of income taxes	(9,420)	(80,185)
Impact on profit for the year	**112,206**	**90,753**

Note 41 - Positions or transactions resulting from atypical and/or unusual operations

In accordance with Consob Communication dated July 28, 2006, a statement is made to the effect that in 2007 Telecom Italia S.p.A. has not taken part in any atypical and/or unusual operations, as defined by that Communication.

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 2007 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) indemnities at the end of the term of office.

Aggregate data is also presented for the remuneration paid, for whatsoever reason and in whatsoever form, by Telecom Italia S.p.A. and by the companies which it controls, to key managers who, during 2007 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 remune-ration**
Gabriele GALATERI di GENOLA	Chairman	12/3 - 12/31/2007	9			
Franco BERNABÈ	CEO	12/3 - 12/31/2007	9			
Cesar Izuel ALIERTA	Director	11/8 - 12/31/2007	19			
Paolo BARATTA	Director	1/1 - 12/31/2007	203 (1)			
Gilberto BENETTON	Director	1/1 - 12/31/2007	114			
Stefano CAO	Director	4/17 - 12/31/2007	107 (2)			
Renzo CAPRA	Director	4/17 - 12/31/2007	107 (2)			
Domenico DE SOLE	Director	1/1 - 12/31/2007	198 (3)			
Luigi FAUSTI	Director	1/1 - 12/31/2007	203 (4)			
Jean Paul FITOUSSI	Director	1/1 - 12/31/2007	127 (5)			
Julio LINARES LOPEZ	Director	11/8 - 12/31/2007	19			
Gaetano MICCICHÈ	Director	7/24 - 12/31/2007	47			
Aldo MINUCCI	Director	4/17 - 12/31/2007	80			
Gianni MION	Director	1/1 - 12/31/2007	114 (6)			
Renato PAGLIARO	Director	1/1 - 12/31/2007	127 (5)(7)			
Cesare Giovanni VECCHIO	Director	4/17 - 12/31/2007	127 (8)			
Luigi ZINGALES	Director	4/17 - 12/31/2007	107 (2)			
John Robert BOAS	Director	1/1 - 4/16/2007	34			
Diana BRACCO	Director	1/1 - 12/2/2007	145 (8)			
Carlo Orazio BUORA	Executive Deputy Chairman	1/1 - 12/2/2007	2,136	80	5,805 (9)	
Claudio DE CONTO	Director	4/17 - 10/25/2007	61 (10)			
Francesco DENOZZA	Director	1/1 - 4/16/2007	52 (8)			
Guido FERRARINI	Director	1/1 - 4/16/2007	58 (11)			
Luciano GOBBI	Director	4/17 - 7/6/2007	23 (10)			
Vittorio MERLONI	Director	1/1 - 4/16/2007	34			
Massimo MORATTI	Director	1/1 - 4/16/2007	34			
Marco ONADO	Director	1/1 - 4/16/2007	58 (3)			
Pasquale PISTORIO	Director Chairman	1/1 - 4/16/2007 4/17 - 12/2/2007	54 (12) 1,197	 6	 5 (13)	
Carlo Alessandro PURI NEGRI	Director	1/1 - 10/25/2007	95			
Guido ROSSI	Chairman	1/1 - 4/6/2007	616	3	2 (13)	
Luigi ROTH	Director	1/1 - 4/16/2007	34			
Riccardo RUGGIERO	CEO/ General Manager	1/1 - 12/2/2007	711 (14)	11	3,770 (15)	12,871 (16)
Paolo GOLIA	Chairman of Board of Statutory Auditors	1/1 - 12/31/2007	171			
Enrico Maria BIGNAMI	Acting Auditor	1/1 - 12/31/2007	128 (17)			
Ferdinando SUPERTI FURGA	Acting Auditor	1/1 - 12/31/2007	147 (18)			
Salvatore SPINIELLO	Acting Auditor	1/1 - 12/31/2007	128			32 (19)
Gianfranco ZANDA	Acting Auditor	1/1 - 12/31/2007	128			7 (20)
Massimo CASTELLI	General Manager	2/16 - 12/31/2007		6	366 (21)	585 (22)
Luca LUCIANI	General Manager	2/16 - 12/31/2007		14	324 (21)	520 (22)
Enrico PARAZZINI	General Manager	2/16 - 12/31/2007		7	531 (21)	1,338 (23)
Stefano PILERI	General Manager	2/16 - 12/31/2007		6	453 (24)	574 (22)

(1) The amount includes remuneration paid as a member of the Remuneration Committee, the Committee for Internal Control and Corporate Governance, the Strategies Committee and the Supervisory Panel under Legislative Decree 231/2001.

(2) The amount includes remuneration paid as a member of the Remuneration Committee.

(3) The amount includes remuneration paid as a member of the Committee for Internal Control and Corporate Governance and the Strategies Committee.

(4) The amount includes remuneration paid as a member of the Committee for Internal Control and Corporate Governance and the Remuneration Committee.

(5) The amount includes remuneration paid as a member the Strategies Committee.

(6) Remuneration not received but paid over to Edizione Holding.

(7) Remuneration not received but paid over to Mediobanca.
(8) The amount includes remuneration paid as a member of the Committee for Internal Control and Corporate Governance.
(9) The amount includes variable remuneration linked to 2006 targets (paid in 2007), the extraordinary remuneration paid for the individual's professional and management contribution to the Group starting from October 1, 2001 and a one-off payment for "Sundry Occasional" services.
(10) Remuneration not received but paid over to Pirelli & C. S.p.A.
(11) The amount includes remuneration paid as a member of the Committee for Internal Control and Corporate Governance and the Supervisory Panel under Legislative Decree 231/2001.
(12) The amount includes remuneration paid as a member of the Remuneration Committee and as a member the Strategies Committee.
(13) One-off payment for "Sundry Occasional" services.
(14) The amount of euro 105,230.77, relative to remuneration under ex art. 2389, first paragraph of the Italian Civil Code, is not received by the individual.
(15) The amount includes remuneration paid in respect of a one-off "Retention" incentive, Management By Objectives (MBO) and Long-Term Incentives (LTI).
(16) The amount includes the remuneration for the general settlement regarding gross compensation as an employee, traveling expenses, employment termination benefit incentives and remuneration of euro 20,312.32 under ex art. 2389, first paragraph of the Italian Civil Code for the position of Chairman of Telecom Italia Sparkle S.p.A. not received but paid over to Telecom Italia S.p.A..
(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 in the subsidiary Telecom Italia Media S.p.A.
(20) The amount includes remuneration for the position of Chairman of the board of statutory auditors in the subsidiary IT Telecom S.r.l.
(21) The amount includes remuneration paid in respect of one-off "Sundry Occasional" services, Management By Objectives (MBO) and Long-Term Incentives (LTI).
(22) The amount includes remuneration paid in respect of gross compensation as an employee and travel expenses.
(23) The amount includes remuneration paid as a pension bonus, gross compensation as an employee, traveling expenses, remuneration of euro 58,611.75 under ex art. 2389, first paragraph of the Italian Civil Code for the position of Chairman in the subsidiary Telecom Italia Media S.p.A. and director in the subsidiary Telecom Italia Audit & Compliance Services Scarl, not received but paid over to Telecom Italia S.p.A..
(24) The amount includes remuneration paid in respect of Management By Objectives (MBO) and Long-Term Incentives (LTI).

Moreover:

– Mr Carlo Buora signed a non-competition agreement with Telecom Italia S.p.A. for an amount equal to euro 4,000,000.00 with payment in four deferred semiannual installments during the period 2008/2009;
– Mr Carlo Buora did not receive the variable remuneration linked to 2007 targets equal to euro 1,400,000.00, voted by the Telecom Italia S.p.A. board of directors on July 24, 2007;
– Mr Pasquale Pistorio did not receive the variable remuneration linked to 2007 targets equal to euro 700,000.00, voted by the Telecom Italia S.p.A. board of directors on July 24, 2007.

* * *

In 2007, the total remuneration paid to key managers for whatsoever reason in whatsoever form by Telecom Italia S.p.A. and by companies controlled by it amounted to euro 40,993 thousand and included euro 32,010 thousand of remuneration paid as members of the board of directors and general managers as already 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 additions. It presents the stock options granted by Telecom Italia S.p.A. to all individuals who held, during the course of 2007, for the whole year or a part thereof, the position of member of the board of directors and general manager and, in the aggregate and divided by plan, the stock options granted by Telecom Italia S.p.A. to key managers who during the course of 2006 held, even for a part thereof, such role.

		Options held at the beginning of 2007			Options granted during 2007			Options exercised during 2007			Options expired or forfeit in 2007	Options held at the end of 2007		
(A)	(B)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)= 1+4 -7-10	(12)	(13)
Name	Position held	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	CEO/ General Manager	750,000	3.177343	2007							750,000			
		200,000	2.788052	2010								200,000	2.788052	2010
Massimo Castelli	General Manager	40,000	2.928015	2010								40,000	2.928015	2010
Luca Luciani	General Manager	75,000	3.177343	2007							75,000			
		54,000	2.928015	2008								54,000	2.928015	2008
		54,000	2.928015	2009								54,000	2.928015	2009
		72,000	2.928015	2010								72,000	2.928015	2010
Enrico Parazzini	General Manager	360,000	2.788052	2008								360,000	2.788052	2008
		360,000	2.788052	2009								360,000	2.788052	2009
		480,000	2.788052	2010								480,000	2.788052	2010
Stefano Pileri	General Manager	300,000	3.177343	2007							300,000			
		108,000	2.928015	2008								108,000	2.928015	2008
		108,000	2.928015	2009								108,000	2.928015	2009
		144,000	2.928015	2010								144,000	2.928015	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 that come from exercising the options.

		Options held at the beginning of 2007			Options granted during 2007			Options exercised during 2007			Options expired or forfeit in 2007	Options held at the end of 2007		
(A)	(B)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)= 1+4 -7-10	(12)	(13)
Plan	Position held	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
2002 Plan	Key manager	620,000	2.509504	2009								620,000	2.509504	2009
2002 TOP Plan	Key manager	2,000,000	2.788052	2009								2,000,000	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 that come from exercising the options.

b) Research and development

During the year 2007, research and development activities by Telecom Italia were mainly carried out by Telecom Italia Lab research center, also in collaboration with Pirelli Labs, and by Olivetti S.p.A..

The total costs incurred in 2007 amount to approximately euro 122 million (euro 133 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 83 million (euro 76 million in 2006). The development costs capitalized, euro 39 million (euro 57 million in 2006), 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 contracts for the lease of direct connections, in particular numeric and analog lines, offered under wholesale plans to interconnecting operators. At December 31, 2007, the amount of lease installments receivable on non-cancelable lease contracts is equal to euro 5,064 thousand (euro 9,582 thousand at December 31, 2006), all due within one year.

Expense-related

Telecom Italia has signed lease contracts for buildings (for periods from 6 to 9 years) and lines. At December 31, 2007, the amount of lease installments payable on non-cancelable lease contracts is the following:

(thousands of euro)	**12/31/2007**	**12/31/2006**
Within 1 year	375,022	278,261
From 2 to 5 years	603,671	621,721
Beyond 5 years	169,290	262,600
Total	**1,147,983**	**1,162,582**

d) Summary of the fees to the audit firm the firms in its network

Pursuant to art. 149 - duodecies of the Consob Regulation of Issuers (Resolution 11971/1999, as amended), the following schedule reports the fees charged in 2007 for audit and other services rendered to Telecom Italia by Reconta Ernst & Young and firms that are part of its network.

	Telecom Italia		
(in euro)	**Reconta Ernst & Young S.p.A.**	**Firms in the Ernst & Young network**	**Total**
Audit services	3,595,760	–	3,595,760
Verification services with issue of certification:			
• Issue of comfort letters	90,000	–	90,000
• Certifications for participation in bids and other	43,000	–	43,000
Other services:			
• Agreed upon procedures on regulatory accounting areas	53,000	482,500	535,500
• Agreed upon procedures on areas pertaining to the internal control system	76,500	–	76,500
Total	**3,858,260**	**482,500**	**4,340,760**

Note 43 - Events subsequent to december 31, 2007

Sale of the residual investment in ATESIA

On January 22, 2008, Telecom Italia finalized the sale of the remaining 19.9% stake in Atesia S.p.A. to AlmavivA Contact S.p.A. for euro 1.5 million after the sale option was exercised pursuant to the Share Purchase and Sale Contract signed on July 2, 2004.

Repurchase of bonds

On February 4, 2008, the board of directors authorized the repurchase of bonds issued by Telecom Italia S.p.A., for a maximum amount of euro 1 billion over the next 18 months.

Sale of the investment in Liberty Surf Group S.A.s.

In the early months of 2008, steps were take to sell the investment in Liberty Surf Group S.a.s. (Broadband activities in France).

TLC operating fee 1998

By order of February 21, 2008, the EU Court of Justice ruled in favor of the Telecom Italia Group on the question of the incompatibility of internal laws (art. 20 of Law 488/98) with community regulations. Such law had extended the obligation to pay the TLC operating fee for 1998 even though the market that had already been deregulated.

In May 2006, the Regional Administrative Court (TAR) of Lazio, based on the appeals filed by Telecom Italia and TIM to ascertain its right to the reimbursement of the operating fee for the year 1998 (amounting to euro 386 million for Telecom Italia and euro 143 million for TIM, in addition to interest), had in fact suspended the national judgment and sent the case to the Court of Justice to rule on the preliminary question, believing the above national laws were potentially at variance with the community directive 97/13 concerning the rights and expenses for individual licenses.

It is believed that once the TAR of Lazio summarizes the administrative decision, it will rule – the same way as the EU Court of Justice – on the incompatibility of the internal laws contested by the Telecom Italia Group with the mentioned community directives.

Note 44 - Investments

The list of investments in subsidiaries, associates and joint ventures at December 31, 2007 and the movements during the year are presented on the following pages.

NON-CURRENT ASSETS - INVESTMENTS

	12/31/2006			Changes during year									12/31/2007		
(thousands of euro	Cost	Write-downs	Carrying amount	Merger effect Progetto Italia	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	Write-downs	Carrying amount
Investments in subsidiaries															
DOMUS ACADEMY	2,400	(1,885)	515				(515)					(515)	–	–	–
EMSA SERVIZI (in liquidation)	5,000	–	5,000									–	5,000	–	5,000
IT TELECOM	23,938	(9,472)	14,466						(330)			(330)	23,938	(9,802)	14,136
IRIDIUM ITALIA (in liquidation)	545	–	545									–	545	–	545
LIBERTY SURF GROUP	475,011	(185,311)	289,700									–	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	(435)	–									–	435	(435)	–
OFI CONSULTING	78,940	(43,831)	35,109									–	78,940	(43,831)	35,109
OLIVETTI GESTIONI IVREA	2,667	(508)	2,159				(1,731)					(1,731)	528	(100)	428
OLIVETTI MULTISERVICES	41,042	(639)	40,403									–	41,042	(639)	40,403
OLIVETTI	204,000	(52,559)	151,441		30,000				(58,887)			(28,887)	188,436	(65,882)	122,554
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	318		318				(90)		(221)			(311)	7		7
SHARED SERVICES CENTER	–	–	–								2,188	2,188	2,188		2,188
TECNO SERVIZI MOBILI	53	–	53									–	53	–	53
TECO SOFT ARGENTINA (in liquidation)	6,685	(6,685)	–		75	(75)						–	6,760	(6,760)	–
TELECOM ITALIA AMERICA LATINA	13,220	(13,220)	–		4,769							4,769	17,989	(13,220)	4,769
TELECOM ITALIA AUDIT AND COMPLIANCE SERVICES	2,250	–	2,250									–	2,250	–	2,250
TELECOM ITALIA CAPITAL	2,388	–	2,388									–	2,388	–	2,388
TELECOM ITALIA DEUTSCHLAND HOLDING	243,201	–	243,201		665,015							665,015	908,216	–	908,216
TELECOM ITALIA INTERNATIONAL	4,629,735	(2,381,110)	2,248,625									–	4,629,735	(2,381,110)	2,248,625
TELECOM ITALIA MEDIA	998,955	(654,089)	344,866						(43)			(43)	998,955	(654,132)	344,823
TELECOM ITALIA SAN MARINO	–	–	–									–	–	–	–
TELECONTACT CENTER	489	–	489									–	489	–	489
TELENERGIA	50	–	50									–	50	–	50
TELSY	14,512	–	14,512									–	14,512	–	14,512
TELECOM ITALIA FINANCE	1,786,234	(337,844)	1,448,390									–	1,786,234	(337,844)	1,448,390
TELECOM ITALIA LAB	2,678	(1,264)	1,414						(728)			(728)	2,678	(1,992)	686
TELECOM ITALIA SPARKLE	784,765	–	784,765									–	784,765	–	784,765
TIM INTERNATIONAL	8,689,080	(4,102,000)	4,587,080									–	8,689,080	(4,102,000)	4,587,080
TRAINET (in liquidation)	674	(674)	–		1,700	(1,700)						–	–	–	–
	18,226,484	**(7,799,392)**	**10,427,092**	**(1,000)**	**701,559**	**(1,775)**	**(2,336)**	**–**	**(60,209)**	**–**	**2,188**	**638,427**	**18,876,443**	**(7,810,924)**	**11,065,519**

(1)	DOMUS ACADEMY	OLIVETTI GESTIONI IVREA	OLIVETTI	SATURN VENTURES PARTNERS	TRAINET
Cost	2,400	2,139	45,564	311	2,374
Writedowns	(1,885)	(408)	(45,564)	(221)	(2,374)
	515	1,731	–	90	–

	12/31/2006			Changes during year									12/31/2007		
(thousands of euro	Cost	Write-downs	Carrying amount	Merger effect Progetto Italia	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	Write-downs	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	146	–	146						(139)			(139)	146	(139)	7
IN.VA.	206	(45)	161				(161)					(161)	–	–	–
LI.SIT.	1,573	–	1,573									–	1,573	–	1,573
LUNA ROSSA CHALLENGE 2007	1,982	–	1,982									–	1,982	–	1,982
LUNA ROSSA TRADEMARK	10,000	–	10,000						(674)			(674)	10,000	(674)	9,326
NORDCOM	29,045	(26,902)	2,143									–	29,045	(26,902)	2,143
OCN TRADING (in liquidation)	1	–	1									–	1	–	1
PERSEO	19	(1)	18									–	19	(1)	18
SHARED SERVICES CENTER	1,018	–	1,018		1,170						(2,188)	(1,018)	–	–	–
SIEMENS IT SOLUTIONS AND SERVICES (EX SIEMENS INFORMATICA)	2,417	(1,717)	700								(700)	(700)	–	–	–
SOFORA TELECOMUNICACIONES	1	–	1										1	–	1
TELBIOS	1,384	(539)	845		931				(554)			377	1,451	(229)	1,222
TELEGONO (in liquidation)	413	–	413				(320)					(320)	93	–	93
TIGLIO I	86,954	(20,958)	65,996				(5,484)		(2,607)			(8,091)	79,728	(21,823)	57,905
TIGLIO II	3,114	–	3,114									–	3,114	–	3,114
Consorzio EO (in liquidation)	16	(16)	–		22				(22)			–	38	(38)	–
Consorzio NAVIGATE CONSORTIUM	300	(300)	–									–	–	–	–
Consorzio Scuola Superiore Alta Formazione Università Federico II	26	–	26									–	26	–	26
Consorzio S.I.A.R.C. (in liquidation)	1	–	1		8				(9)			(1)	–	–	–
Consorzio TEMA.MOBILITY	–	–	–		175							175	175		175
Consorzio TURISTEL	26	–	26									–	26	–	26
	144,251	**(50,895)**	**93,356**	**–**	**2,306**	**–**	**(5,965)**	**–**	**(4,005)**	**–**	**(2,888)**	**(10,552)**	**133,027**	**(50,223)**	**82,804**

(1)	**TIGLIO I**	**IN.VA**	**TELBIOS**	**TELEGONO**	**SIEMENS IT SOLUTIONS**	**NAVIGATE CONSORTIUM**	**CONSORZIO S.I.A.R.C. (in liquidation)**
Cost	7,226	206	864	320	1,403	300	9
Writedowns	(1,742)	(45)	864)		(1,403)	(300)	(9)
	5,484	161	–	320	–	–	–

	12/31/2006			Changes during year									12/31/2007		
(thousands of euro	Cost	Write-downs	Carrying amount	Merger effect Progetto Italia	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	Write-downs	Carrying amount
Investments in other companies															
ANCITEL	257	–	257									–	257	–	257
ASSICURAZIONI GENERALI (*)	5,470	–	5,470							101		101	5,571	–	5,571
ATESIA	662	–	662									–	662	–	662
BANCA UBAE	1,898		1,898									–	1,898	–	1,898
BIOINDUSTRY PARK DEL CANAVESE	52	–	52									–	52	–	52
CAF ITALIA 2000	–	–	–									–	–	–	–
CAPITALIA (*)	74,771	–	74,771								(74,771)	(74,771)	–	–	–
CEFRIEL	69	–	69									–	69	–	69
CONSORTIUM	286	–	286				(286)					(286)	–	–	–
EMITTENTI TITOLI	423	–	423									–	423	–	423
FIN. PRIV.	15,375	–	15,375									–	15,375	–	15,375
FONDO ABITARE SOCIALE 1	122	–	122									–	122	–	122
Fratelli ALINARI	483	–	483						(29)			(29)	454	–	454
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
MEDIOBANCA (*)	266,997	–	266,997								(266,997)	(266,997)	–	–	–
MIX	10	–	10		5							5	15	–	15
mTLD TOP LEVEL DOMAIN	600	–	600						(450)			(450)	600	(450)	150
NEW SATELLITE RADIO	7,000	–	7,000									–	7,000	–	7,000
PROGETTO NUOVO SANT'ANNA	225	–	225									–	225	–	225
PROGETTO VALLATA	150	–	150									–	150	–	150
QXN	25	–	25									–	25	–	25
SIA – SSB	11,278	–	11,278									–	11,278	–	11,278
SIEMENS IT SOLUTIONS AND SERVICES (ex SIEMENS INFORMATICA)	–	–	–								700	700	1,014	(314)	700
SODETEL	4	–	4									–	4	–	4
Consorzio ABI LAB	1	–	1									–	1	–	1
Consorzio COREP	10	(10)	–									–	10	(10)	–
Consorzio DISTRETTO AUDIOVISIVO E dell'ICT	5	–	5									–	5	–	5
Consorzio ELIS	3	–	3										3		3
Consorzio GAL - PMI	–	–	–		2							2	2	–	2
Consorzio IRIS	15	–	15									–	15	–	15
Consorzio MIP	–	–	–										–	–	–
Consorzio Nazionale Imballaggi - CONAI	3	–	3									–	3	–	3
Consorzio Univers. Ingegneria per la Qualità e l'Innovazione	–	–	–									–	–	–	–
Consorzio TECHNAPOLI	220	–	220									–	220	–	220
Consorzio TOPIX	100	–	100									–	100	–	100
	394,194	**(1,434)**	**392,760**	**–**	**7**	**–**	**(534)**	**–**	**(479)**	**101**	**(341,068)**	**(341,973)**	**52,985**	**(2,198)**	**50,787**
Total investments	**18,764,929**	**(7,851,721)**	**10,913,208**	**(1,000)**	**703,872**	**(1,775)**	**(8,835)**	**–**	**(64,693)**	**101**	**(341,768)**	**285,902**	**19,062,455**	**(7,863,345)**	**11,199,110**

(1)	CONSORTIUM	INSULA	Fratelli ALINARI
Cost	286	248	29
Writedowns			(29)
	286	248	–

(*) Investmetns valued at fair value.

LIST OF INVESTMENTS IN SUBSIDIARIES, ASSOCIATES AND JOINTLY CONTROLLED COMPANIES AT DECEMBER 31, 2007

(thousands of euro)	Head office		Share capital (1)	Equity (1) (2)	Net Net income/ (loss) (1)	% owner-ship (%)	Share of equity (A) (3)	Carrying amount (B) (4)	Difference (B-A)
Investments in subsidiaries									
EMSA SERVIZI (in liquidation)	Rome		5,000	5,549	116	100.00%	5,549	5,000	(549)
IT TELECOM	Pomezia (RM)		7,000	14,136	20	100.00%	14,136	14,136	–
IRIDIUM ITALIA (in liquidation) [8]	Rome		767	1,505	(37)	65.00%	978	545	(433)
LIBERTY SURF GROUP	Paris		282,559	403,725	(4,651)	100.00%	208,274 [6]	289,700	497,974
LOQUENDO	Turin		3,574	7,630	1,752	99.98%	7,628	3,224	(4,404)
MATRIX	Milan		1,100	50,312	17,212	100.00%	50,312	162,640	112,328
NETESI (in liquidation)	Milan		435	(112)	(89)	100.00%	(112) [5]	–	112
OFI CONSULTING	Ivrea (To)		95	44,913	698	100.00%	44,913	35,109	(9,804)
OLIVETTI GESTIONI IVREA	Ivrea (To)		100	423	(5)	100.00%	423 [5]	428	5
OLIVETTI MULTISERVICES	Milan		20,337	66,730	2,827	100.00%	66,730	40,403	(26,327)
OLIVETTI	Ivrea (To)		154,000	127,406	(60,513)	100.00%	122,554 [6]	122,554	–
PATH.NET [8]	Rome		7,724	12,678	1,985	100.00%	11,128	7,746	(3,382)
SAIAT	Turin		35,745	47,163	1,246	100.00%	47,163	34,743	(12,420)
SATURN VENTURE PARTNERS	Delaware (USA)	US$ (.000)	25,136	85	(1,594)				
			17,075	58	(1,083)	17.85%	10	7	(3)
SHARED SERVICES CENTER	Milan		1,757	6,041	17	100.00%	6,041	2,188	(3,853)
TECNO SERVIZI MOBILI	Rome		26	(8,006)	(1,180)	51.00%	(4,083) [5]	53	4,136
TECO SOFT ARGENTINA (in liquidation)	Bueno Aires	Pesos Arg. (.000)	12	(892)	–				
	(Argentina)		3	(192)	–	99.99%	(192) [5]	–	192
TELECOM ITALIA AMERICA LATINA	San Paolo	R $ (.000)	56,014	16,216	(469)		–		
	(Brazil)		21,482	6,219	(180)	99.99%	6,218	4,769	(1,449)
TELECOM ITALIA AUDIT AND COMPLIANCE SERVICES	Milan		2,750	2,644	264	81.82%	2,163 [5]	2,250	87
TELECOM ITALIA CAPITAL	Luxembourg		2,336	(24,763)	(20,476)	100.00%	(24,763)	2,388	27,151
TELECOM ITALIA DEUTSCHLAND HOLDING	Hamburg (Germany)		25	932,655	6,255	100.00%	932,655	908,216	(24,439)
TELECOM ITALIA INTERNATIONAL	Amsterdam (The Netherlands)		2,399,483	3,048,022	346,789	100.00%	3,048,022	2,248,625	(799,397)
TELECOM ITALIA MEDIA [7]	Rome		100,510	356,736	(79,445)	65.71%	177,578 [6]	344,823	167,245
TELECOM ITALIA SAN MARINO	San Marino		1,808	3,478	1,382	0.0001%	–	–	–
TELECONTACT CENTER	Naples		770	6,476	586	100.00%	6,476	489	(5,987)
TELENERGIA	Rome		50	10,782	3,601	100.00%	8,782	50	(8,732)
TELSY	Turin		390	16,923	2,213	100.00%	16,923	14,512	(2,411)
TELECOM ITALIA FINANCE	Luxembourg		542,090	1,488,321	(30,870)	100.00%	1,488,321	1,448,390	(39,931)
TELECOM ITALIA LAB	Luxembourg		370	831	(583)	99.99%	831	686	(145)
TELECOM ITALIA SPARKLE	Rome		200,000	1,014,266	121,767	100.00%	867,442 [6]	784,765	(82,677)
TIM INTERNATIONAL	Amsterdam (The Netherlands)		555,431	5,233,135	65,786	100.00%	5,233,135	4,587,080	(646,055)
								11,065,519	**(863,170)**

(following) **List of investments in subsidiaries, associates and jointly controlled companies at december 31, 2007**

(thousands of euro)	Head office	Share capital (1)	Equity (1) (2)	Net income/ (loss) (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	15,773	(619)	31.65%	4,992	5,172	180
ASSCOM INSURANCE BROKERS	Milan	100	706	441	20.00%	141	20	(121)
IM.SER	Milan	367	311	(56)	40.00%	124	7	(117)
LI.SIT.	Milan	6,500	15,718	3,014	24.20%	3,804	1,573	(2,231)
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	9,326	19
NORDCOM	Milan	5,000	5,919	221	42.00%	2,486	2,143	(343)
OCN TRADING (in liquidation)	Ivrea (TO)	41	(60)	(1)	40.00%	(24) (5)	1	25
PERSEO	Milan	20	255	121	50.00%	128	18	(110)
SOFORA TELECOMUNICACIONES S.A.	Buenos Aires (Argentina)	Pesos Arg. (.000) 439,702 94,826	589,818 127,200	65,707 14,170	32.50%	41,340 (6)	1	(41,339)
TELBIOS	Milan	2,458	2,501	(1,649)	32.86%	1,479 (9)	1,222	(257)
TELEGONO (in liquidation)	Rome	1,000	1,223	23	40.00%	169 (9)	93	(76)
TIGLIO I	Milano	5,256	141,421	(7,135)	45.70%	59,144 (9)	57,905	(1,239)
TIGLIO II	Milan	6,185	32,315	23,938	49.47%	4,144 (9)	3,114	(1,030)
Consorzio EO (in liquidation)	Roma	16	15	(1)	50.00%	8	–	(8)
Consorzio Scuola Superiore Alta Formazione Università Federico II (in liquidation)	Naples	127	106	(11)	20.00%	21 (5)	26	5
Consorzio TEMA.MOBILITY	Turin	350	304	(46)	50.00%	152 (5)	175	23
Consorzio TURISTEL	Rome	77	77	0	33.33%	26	26	0
							82,804	**(53,961)**

(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, 2007 is equal to euro 517,767 thousand.

(8) Share capital is net of receivables from shareholders for payments still due.

(9) The "corresponding equity" is taken from the last approved financial statements, adjusted only by capital transactions which took place during 2007, for purpose of comparison with the carrying amount.

Certification of the separate financial statements pursuant to art. 81-ter of Consob Regulation 11971 dated May 14, 1999, with amendments and additions

- The undersigned, Franco Bernabè as the Chief Executive Officer and Enrico Parazzini, as the Manager responsible for preparing Telecom Italia S.p.A.'s financial reports, certify, having also considered the provisions of art. 154-bis, paragraph 3 and 4, of Legislative Decree 58 dated February 24, 1998:
  - the adequacy in relation to the characteristics of the company and
  - the effective application

  of the administrative and accounting procedures used in the preparation of the separate financial statements for the 2007 fiscal year.

- Telecom Italia has adopted as its framework for the definition and assessment of its internal control system, with particular reference to the internal controls surrounding the preparation of the financial statements, the Internal Control - Integrated Framework model issued by the Committee of Sponsoring Organizations of the Treadway Commission.

- The undersigned also certify that the separate financial statements at December 31, 2007:
  - agree with the results of the accounting records and entries;
  - are prepared in conformity with International Financial Reporting Standards adopted by the European Union, as well as the legislative and prescribed provisions in effect in Italy, and based on their knowledge, fairly and correctly present the financial condition, results of operations and cash flows of the issuer.

March 6, 2008

Franco Bernabè
Chief Executive Officer

Enrico Parazzini
Manager responsible for preparing
the Company's financial reports

ERNST & YOUNG

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Independent auditors' report
pursuant to Article 156 of Legislative Decree No. 58 of February 24, 1998
(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, 2007, 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.

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 our opinion on the financial statements of the prior year, which are presented for comparative purposes, reference should be made to our report dated March 26, 2007.

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, 2007, and for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the standards issued in accordance with article 9 of the Italian Legislative Decree n° 38/2005.

Milan, Italy
March 26, 2008

Reconta Ernst & Young S.p.A.
Signed by: Nadia Locati, Partner

Report of the Board of Statutory Auditors to the Shareholders' Meeting of Telecom Italia S.p.A. pursuant to Article 153 of Legislative Decree 58/1998

Dear shareholders,

During the year ended December 31, 2007 the Board of Statutory 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 activity of the board of statutory auditors.

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 strategic transactions and those having the greatest 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 related party transactions", first adopted by the Company on a self-regulatory basis in 2002 and now incorporated into its Self-Regulatory Code.

In addition, 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. This was in accordance with the procedure, adopted by the Company on a self-regulatory basis, governing the flow of information to directors and statutory auditors so as to regulate and coordinate all the mechanisms serving the common purpose of providing them with the information they need on a continuous basis to perform their management and control functions properly. In fact the procedure governs the collection and transmission to directors and statutory 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.

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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:

   - on February 28, 2007 the purchase from the Time Warner Group of the Internet assets of AOL Germany by the Telecom Italia Group was completed for a consideration of euro 669 million;
   - on June 7, 2007 the sale of Telecom Italia S.p.A.'s 67.33% interest in Domus Academy S.p.A. to Fantastic S.r.l. was completed for a consideration of euro 1.2 million;
   - on July 3, 2007 the sale of the subsidiary TIM International's 10.36% interest in Oger Telecom to Saudi Oger was completed for a consideration of USD 477 million (corresponding to euro 351 million);
   - in September and October 2007, as part of the winding up of the partnership with Pirelli in the consortium company Shared Service Center (SSC), the business unit devoted to the dedicated supply of services to the Pirelli Group was contributed (on the basis of an independent appraisal) to Pirelli Sistemi Informativi (PSI) s.r.l. and SSC's interest in PSI

was sold to Pirelli & C. S.p.A.; in November 2007 Telecom Italia purchased Pirelli's 50% interest in SSC for a consideration of euro 1.072 million. Subsequently, in December 2007, Telecom Italia purchased the remaining 4.55% interest in Shared Service Center from Olivetti for a consideration of euro 98,000, thus becoming the sole shareholder;

- on November 29, 2007 Telecom Italia International sold 1,319,945 ordinary shares and 2,803,679 preference shares of Brasil Telecom Participaçoes S.A. for a total of euro 48 million;
- on December 5, 2007 Brasilco S.r.l., a company held in trust by Credit Suisse for the exclusive benefit of Telecom Italia International, sold its 38% interest in Solpart Participaçoes S.A. to Techold, a partner of Brasilco in Solpart, for a consideration of USD 515 million.
- in 2007 the Company sold 10,453,051 Capitalia ordinary shares, equal to 0.403% of the share capital, for a total of euro 74 million;
- in 2007 the Company sold 15,003,207 Mediobanca ordinary shares, equal to 1.835% of the share capital, for a total of euro 236 million.

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In 2007 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:

- ion June 7, 2007 a dual tranche issue for a total of respectively (a) EUR 850 million (coupon 3-month Euribor + 0.20%, issue price 99.915, maturity June 7, 2010); and (b) EUR 400 million (coupon 3-month Euribor + 0.79%, issue price 100%, maturity June 7, 2016);
- on July 19, 2006, an issue of EUR 500 million (coupon 3-month Euribor + 0.63%, issue price 100%, maturity July 19, 2013).

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The above transactions are all described in the notes to the financial statements for 2007 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 during 2007 of atypical and/or unusual transactions entered into with third parties or related parties (including Group companies).

   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 2007 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 practices aimed at ensuring the 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 "Rules of Conduct for Related Party Transactions", which since March 2007 have been incorporated into the Company's Self-Regulatory Code at Point 11, Related party transactions (for more details, see the Corporate Governance section of the 2007 Annual Report).

3. The information given in the notes to the financial statements of the Telecom Italia Group and Telecom Italia S.p.A. 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, 2008 the audit firm, Reconta Ernst & Young, issued the reports referred to in Article 156 of Legislative Decree 58/1998 attesting that the financial statements of Telecom Italia S.p.A. and the Telecom Italia Group for the year ended December 31, 2007 complied with the provisions governing the preparation of financial statements, had been drawn up clearly and gave a true and fair view of the Company's and the Group's balance-sheet situation, financial position and results for the year.

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In fulfilling the obligations deriving from the Board of Statutory 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 Statutory Auditors/Audit Committee.

5. In 2007 we received three complaints under Article 2408 of the Civil Code.

In particular, during the shareholders' meeting held on April 16, 2007 we received a complaint from two shareholders who disputed the legitimacy of the manner of conducting the discussion in the meeting, which, as provided for by the Chairman, addressed all the items on the agenda of the ordinary session together, and noted that the behaviour of the Chairman, although it did not constitute a violation of any specific provisions, could nonetheless be considered as the arbitrary exercise of powers granted to him by the bylaws and the meeting regulations that was incompatible with the purpose (and the rationale) of those provisions, to protect shareholders' right to participate in shareholders' meetings.

Again with reference to the shareholders' meeting held on April 16, 2007, we received another complaint under Article 2408 of the Civil Code, this time from a corporate shareholder engaged in an ongoing dispute with the Company.
The shareholder complained that having put some questions during the meeting to its Chairman and the Chairman of the Board of Statutory Auditors (concerning the Company's wiretapping and investigation activity, which might have involved matters related to legal actions against Telecom Italia and its failure to make adequate allocations to provisions), it had received no reply from the Chairman of the Board of Statutory Auditors and contested the content of the replies from the Chairman of the meeting. It should also be noted that subsequently the same shareholder submitted a complaint to Consob about "irregularities in the financial statements and other corporate communications" and informed us accordingly.

In 2007 another shareholder sent us a statement of violations alleging a censurable fact consisting in the Company's failure to adapt the bylaws to Law 262/2005 and Legislative Decree 303/2006 within the prescribed time limit (June 30, 2007), since Board of Directors did not approve the necessary amendments until July 24, 2007.

In addition, in February 2008 the Board of Statutory Auditors received a complaint from a shareholder under Article 2408 of the Civil Code concerning some aspects of the Company's operations (the reference is to disposals of buildings, the manner of concluding facility management contracts, data security and wiretapping, the manner of purchasing products from companies belonging to the Pirelli Group, and the manner of disposing of 38% of Brasil Telecom). Such complaint had been preceded by two requests for information from the same shareholder, having substantially the same content.

We have carried out appropriate inquiries into all the reports without as yet finding any omissions, censurable facts or irregularities to report to the shareholders' meeting.

6. During the year we received 53 petitions, basically concerning technical, commercial, accounting and administrative problems. With the assistance of the person responsible for internal control and the Group Compliance Officer, we have carried out appropriate inquiries into all the petitions without as yet finding irregularities to report to the shareholders' meeting.

7. During the 2007 fiscal year the Company engaged Reconta Ernst & Young to perform services other than the statutory audit. The table below shows the fees for this work, excluding out-of-pocket expenses and VAT.

(euro)	
Agreed procedures for the issue of comfort letters in respect of the euro 15,000,000,000 Euro Medium Term Note Programme	90,000.00
Audit procedures performed in relation to the Telecom Italia Group's minority interests and holdings giving joint control at December 31, 2006	140,000.00
Performance of SAS 70 Type II tests and issue of a report for the fiscal year ended December 31, 2006 (exclusively with reference to the period 07.01-12.31.2006) on Telecom Italia's management in outsourcing of the service of running and maintaining the SAP R/3 system on behalf of Endesa Italia	76,500.00
Engagement to perform agreed test procedures on the Multilocation Company Training Plan LA/PIFAM/06/660 so as to produce a report to be issued to Fondimpresa, in accordance with the requirement contained in "Guide to the management of and reporting on Company Training Plans"	15,000.00
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 of voice networks within buildings, local network equipment and related services for governmental bodies"	10,000.00
Assistance and accounting advisory services provided in connection with the review of Telecom Italia's Form 20-F 2005 conducted by the Securities and Exchange Commission (SEC)	65,000.00
Agreed test procedures with reference to some costs for professional services and advisory services incurred by the Security Function of the Telecom Italia Group in prior fiscal years	140,000.00
Agreed test procedures for the issue of the attestation of sales revenue for the tender organized by Consip S.p.A. for the "Supply of Microsoft Office user licences, CD-Roms, manuals and related services for governmental bodies"	2,000.00
Agreed test procedures for the issue of the attestation of specific sales revenue declared by Telecom Italia for the tender organized by Consip S.p.A. for the "Award of mobile telephony services for governmental bodies"	2,000.00
Agreed test procedures with reference to data prepared by Telecom Italia for the "Mobile termination cost procedure for 2005, in accordance with the request made by Agcom in Resolution no. 03/06/CONS"	3,000.00
Agreed test procedures with reference to the reclassified income statement and balance sheet for the "mobile network services" for the year ended December 31, 2005	20,000.00
Agreed test procedures with reference to the reclassified income statement and balance sheet for the "fixed network services" for the year ended December 31, 2005	30,000.00
Assistance and accounting advisory services provided in connection with Consob's request pursuant to Article 115.1a) of Legislative Decree 58/1998 on Telecom Italia's consolidated financial statements for the year ended December 31, 2006 and the review of Telecom Italia's Form 20-F 2006 conducted by the Securities and Exchange Commission (SEC)	146,000.00
Agreed procedures for testing the compliance with IFRS and/or US GAAP of the accounting standards and policies adopted by Telecom Italia in relation to some "matters of interest (accounting treatment of Subscriber Acquisition Costs ("SAC"), the reorganization of the shareholdings in Brazil, the disposal of the shareholding in Solpart to Brasilco S.r.l., various derivative contracts, change to the useful lives of tangible assets, ...)"	200,000.00
Agreed test procedures for the issue of the attestation of specific sales revenue declared by Telecom Italia for the tender organized by Consip S.p.A. for the "Supply, installation and maintenance of private telephony systems and products and related services for governmental bodies"	3,000.00
Audit of the Progetto Italia S.p.A. interim financial statements for the period ended September 30, 2007	18,500.00
Agreed test procedures for the issue of the attestation of specific sales revenue declared by Telecom Italia as requested by the tender for the "Award of the service of broadband network connectivity between branches of the Treviso no. 9 Local Health Unit	11,000.00
Agreed procedures for testing the security of the systems for treating traffic data and managing activities carried out on behalf of the judicial authorities	900,000.00
Total	**1,872,000.00**

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8. In 2007 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:

(euro)	
Support for compliance of the 2005 and 2006 regulatory framework and accounting separation with the new Agcom resolutions and IAS rules	350,000.00
Support for the analysis and testing of the evolutionary aspects of reporting for regulatory accounting and processing for accounting separation	100,000.00
Opinion on the methodological approach adopted by Telecom Italia S.p.A. with reference to the new regulatory framework for the introduction of accounting separation and regulatory accounting for 2005, considering the external certification process that Agcom can activate	32,500.00
Total	**482,500.00**

9. During the year we issued two opinions pursuant to the third paragraph of Article 2389 of the Civil Code concerning the remuneration of directors entrusted with particular duties

10. In 2007 the Board of Directors of the Company held 9 meetings, in all of which we participated. The Internal Control and Corporate Governance Committee met 11 times, the Remuneration Committee 6 times and the Strategy Committee 4 times.

    We met 29 times; depending on the problems to be addressed, many of these meetings were held jointly with the Internal Control and Corporate Governance Committee. We also took part in all of the meetings held by the Internal Control and Corporate Governance Committee with the participation of our Chairman (or at least one statutory auditor designated by him).

    We participated in the shareholders' meeting of the Company held on April 16, 2007.

11. For matters within its sphere of authority, the Board of Statutory Auditors monitored compliance with the principles of proper management by organizing hearings, carrying out 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 150.3 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.

At December 31, 2007 the Telecom Italia Group was organized into: Business Units responsible for the growth of the various businesses; TLC Business Departments and Functions, responsible for the results of the related activities, especially through the running and development of the business of fixed and mobile telephony and Internet services; Group Functions, responsible for (i) ensuring direct control over the telecommunications business support system and the coordination, direction and control at Group level of the activities for which they are competent, and in particular for the formulation of policies and the overall governance of matters of transversal interest to Departments, Functions and Business Units; (ii) promoting a governance model within the Group that will guarantee the guidance of the Professional Families, with special reference to developing, enhancing and coordinating the specific competences and to creating paths of intragroup mobility; and (iii) ensuring the governance across the Group of any transversal operations serving the business.

The following report to the Chairman (who, in order to ensure that the activity of the Board of Directors is efficient and effective, is responsible for overseeing the formulation of strategic, business and financial plans, the definition of the organizational arrangements, the economic and financial performance of the Group, and the overall governance of the internal control system): the Group Functions General Counsel & Corporate and Legal Affairs, and Public Affairs, as well as Telecom Italia Audit & Compliance Services.

The following report to the CEO (who is responsible for the overall governance of the Group, with special reference to the definition, development and implementation of strategic, business and financial plans, the definition of organizational arrangements, and the development and management of the business): the Group Functions Administration and Control, Human Resources, Organization and Security, Domestic Legal Affairs and Judicial Authorities Services, International Legal Affairs, Purchasing, External Relations, International Affairs, Investor Relations and Strategy, the Departments/Functions of the TLC business, TIM Brasil and the Olivetti and Media Business Units.

As of January 1, 2008 the Telecom Italia Group has reorganized some of its activities. In particular, the Security Function has been placed directly under the CEO, so that the Human Resources, Organization and Security Group Function has been renamed Human Resources, Organization and Industrial Relations. In addition, a Business Strategies & International Development Department has been created (to which the following Functions report: Strategy, Business Development, National Wholesale Services, International Wholesale & Broadband Services, International Affairs and International Legal Affairs) and a Technology & Operations Department.

In addition, the Business Management & Intellectual Property Rights Function has been abolished, while the position of Executive Assistant has been created.

The creation of the Business Strategies & International Development Department led to a change in the list of Telecom Italia managers with strategic responsibilities to take account of the new arrangements. The head of the new department was deemed to qualify, while the Strategy and International Affairs Functions have been merged into the new structure and their heads are no longer recognized as having strategic responsibilities.

Accordingly, at February 4, 2008 the following persons had strategic responsibilities: the executive directors (the Chairman and the CEO), the general managers, the pro tempore heads of the following Group Functions: Public Affairs, Finance Administration and Control, General Counsel & Corporate and Legal Affairs, Human Resources, Organization and Industrial Relations, and Purchasing, and the heads of the Business Strategies & International Development Department and the Media Business Unit.

The purpose of 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) is to:

– monitor the implementation of strategies, the development of plans and the results obtained;

- ensure the overall coordination of business activity and governance of matters of transversal interest;
- enhance the necessary operational synergies between the various functions involved in technological, business and support processes.

The system of Group Committees is currently under review. At December 31, 2007 the situation was as follows:

- the “Information Technology Governance Committee” (reconfigured in 2007) defines the information technology guidelines for the Group, guides the technological choices and IT 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” (reconfigured in 2007) identifies, assesses and manages Group risks, establishes guidelines for IT and data security, coordinates the contingency plans serving to ensure business continuity and monitors the effectiveness of the measures adopted;
- the “Security Committee” provides integrated coordination of the Group’s security and crisis management activities and monitors the progress of the main projects and the effectiveness of the solutions adopted;
- the “Steering Committee for Relations with Telefónica” identifies areas and activities offering scope for synergies between the two Groups, proposes plans for their realization, and verifies their consistency with national and international legislation, the rules of regulatory authorities and self-regulatory measures.

In January 2008 the “Quality Governance Committee” was established to guide and supervise initiatives and activities aimed at achieving end-to-end improvement in the quality of processes, by monitoring the results obtained, and by analyzing these in light of the quality requirements of regulatory authorities, the most important complaints of customers and, more generally, the feedback coming from all the Company’s stakeholders. In addition, the committee oversees the process of creation and quality certification and the launch of new customer products and services, especially those that have the greatest impact in terms of image and competitive positioning in the market, without prejudice to the operational responsibilities of the technical and business structures involved.

13. In 2007 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 Statutory Auditors with that Committee (depending on the subjects to be discussed) and the acquisition of documents.

    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 Statutory Auditors, the Internal Control and Corporate Governance Committee and the Managing Director in charge of the internal control system (until December 3, 2007 the Executive Deputy Chairman and then the 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. The person responsible for internal control reports periodically on the results obtained to the director responsible for the internal control system, the Board of Statutory Auditors and the Internal Control and Corporate Governance Committee.

The Group Compliance Officer, a position created within Telecom Italia in 2005, is 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 have been appointed as Compliance Managers to play a supporting role.

Moreover, to ensure the centralized coordination of risk management, the Risk Management Committee was "redefined" in 2007 in connection with IT and data security.

Further progress was made in revising and implementing the two transversal projects involving the internal control system of the entire Group:

- the "404 Project" is intended to ensure the traceability and documentation of the controls serving to provide basic 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" 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. During 2007 the 231 Organizational Model was updated and progressively improved; some interventions were made necessary by changes in the law and others deemed desirable in the light of experience with the Model.

Monitoring of the functioning of and compliance with the Model is performed by a Supervisory Panel made up of a statutory auditor, 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.

As noted in our report to the 2006 annual shareholders' meeting and in our comments on the half-year report as of June 30, 2007, management informed us of the engagement awarded to a leading independent advisor to:

– identify the parts of the Company's 231 Organizational Model to be updated (Gap Analysis);
– draw up a detailed plan involving the structures of the Group for the implementation of the amendments and updates decided (Master Plan);
– participate in the performance of the implementation activities carried out by the structures of the Group.

We were informed by management that the activities involved in the first two stages of the consultancy engagement had been completed with the identification of some parts of the model that could be improved (mostly of minor importance) and the specification of a plan for implementing the recommendations put forward in relation to the parts to be improved. In the early months of 2008 we took note of the work the Company is doing to implement the above-mentioned Master Plan and expressed a positive opinion thereon while recommending management do everything possible to carry out the necessary and/or desirable measures.

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The internal control system, considered as a whole and allowing for its necessarily "evolutionary" nature, did not show major problems.

Pursuant to Article 153 of Legislative Decree 58/1998, in our report to the 2006 annual shareholders' meeting we described the weaknesses of the system in the Group Security sector and technical and organizational shortcomings in the Company's management of compliance with the rules on privacy. We also described the corrective action taken by the Company and the analyses that we performed in the 2006 report referred to above and in our comments on the half-year report as of June 30, 2007 (published on October 31, 2007 and to be understood as referred to in full).

It is worth highlighting here that in the last few months of 2007 and the first few months of 2008 we continued to perform our supervisory activity on the security of the network and the management of traffic data, as well as other aspects connected with the judicial affairs in which the former head of the Group Security Function and some of its managers were involved.

In particular, we checked that the weaknesses found in the working of the internal control system in the Group Security sector and highlighted by the test procedures agreed with the audit firm were progressively reduced and then virtually eliminated during 2007 by the corrective measures of a procedural and organizational nature implemented by the Company.

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In our report to the 2006 annual shareholders' meeting we noted that, for precautionary purposes and at our request, the person responsible for internal control had begun an audit of expenses for consultancy and professional services registered in the cost centre of the executive officers.

We have examined the results of the work done by the person responsible for internal control; it revealed only a few weaknesses in the application of the procedures, which we consider not to be significant.

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. As regards the impairment test, we have been informed by management that the recoverability of the value of goodwill was confirmed by later tests that took account of the recent decline in the price of the Company's shares on the stock exchange, although this occurred after the approval of the draft financial statements by the Board of Directors.

We also took note of the results of the checks performed by the external auditor, Reconta Ernst & Young, concerning the correct use of the applicable accounting standards 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.

    The "Procedure for the management and public disclosure of inside information" 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 instructions to all subsidiaries for the purpose of promptly obtaining the information needed 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 – on the basis of information obtained from management and the audit firm, Reconta Ernst & Young – the Company's compliance with 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.

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 Telecom Italia Board of Directors (with 17 members at present) has 15 non-executive directors, 8 of whom the Board considers to qualify as independent. It should be noted in this respect that the Company has adopted the criteria established by Borsa Italiana's Corporate Governance Code for determining whether directors qualify as independent and that, on the basis of the information in the Company's possession, the Board verified that each of the directors classified as independent satisfied the independence requirements at the time of their appointment. It was not considered necessary to repeat the assessment in view of the imminent termination of the Board' term of office.

    The assessment of the independence of the members of the Board of Directors, the results of which were communicated to the market, was followed by the Board of Statutory Auditors, which also carried out the checks for which it was competent, finding compliance with the requirements for the membership of the Board of Directors (the presence of at least two members satisfying the independence requirements established by law for statutory auditors).

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 providing advice and making proposals. The Board has also had a Remuneration Committee since 2000; it too is made up exclusively of independent directors and is entrusted with proposing the remuneration of directors who hold particular offices and the criteria for the remuneration of the Company's senior management. Since 2004 it has had a Strategy Committee, entrusted with assisting the Board 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, to provide a point of reference and coordination for the needs and inputs of the independent directors and, inter alia, 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 considers that the slate voting system meets the need otherwise served by the creation of a nominations committee. Moreover, formalizing an existing practice, since 2007 the Company's Self-Regulatory Code charges the Internal Control and Corporate Governance Committee with the task of proposing candidates when it is necessary to co-opt an independent director. In such cases the committee passes the names of candidates to the Board of Directors for it to choose a replacement to fill the vacancy.

We refer you to the Corporate Governance section of the 2007 Annual Report for more details on the Company's system and inform you that we were constantly involved in the analysis, implementation and revision of the Company's corporate governance arrangements, 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 regulatory authorities and control bodies.

    We also report that no objections came to light in the information we received on the activity performed by the boards of statutory 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 statutory 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, 2007, 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 April 16, 2007 expires with the shareholders' meeting called to approve the financial statements for the year ended December 31, 2007. We therefore invite you to take the necessary steps.

Milan, March 27, 2008

The Board of Statutory Auditors
The Chairman

Motions for resolutions

Telecom Italia S.p.A. shareholders' meeting April 12-13-14, 2008

Agenda

Ordinary meeting

- Financial statements for the year ended 31 December 2007 - related and consequent resolutions.
- Appointment of the Board of Directors - related and consequent resolutions.
- Stock-option plan reserved to the Company's executive directors - authorization to purchase and dispose of treasury shares - related and consequent resolutions.

Extraordinary meeting

- Amendment of the following articles of the Company's bylaws: 9 (Board of Directors); 17 (Board of Auditors); and 18 (Shareholders' Meeting) - related and consequent resolutions.

Financial statements for the year ended 31 December 2007 - related and consequent resolutions

Dear Shareholders,

The draft financial statements submitted for approval by the shareholders' meeting show net income for the year of € 1,882,420,520.78.

This result makes it possible to propose the distribution of a dividend of € 0.080 for each ordinary share and € 0,091 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 subscribable 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 24 April 2008, while 21 April 2008 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 2007;
- 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 13,722,809,598 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 2007, which show net income for the year of euro 1,882,420,520.78;
2. with regard to the net income for the year,
   a. to allocate to the legal reserve a maximum of euro 37,626,989.18 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 euro 1,646,099,986.88 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:
   - € 0.080 for each ordinary share,
   - € 0.091 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;

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 24 April 2008, ex dividend on 21 April 2008.

Appointment of the Board of Directors - related and consequent resolutions

Dear Shareholders,

You are called upon to renew the Company's Board of Directors, appointed by the shareholders' meeting on 16 April 2007, whose term of office expires with today's meeting. Specifically, the shareholders' meeting is called upon to determine the number of Directors (from seven to twenty-three), to establish the term of office of the new Board (up to a maximum of three fiscal years), to appoint the Directors using the slate voting system, and to determine their annual compensation.
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 the current version of Article 9 of the Company's bylaws since the proposed amendments to be submitted for your approval in the extraordinary shareholders' meeting are not yet applicable.
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 adopt the resolutions for which it is competent to appoint the Board of Directors in accordance with the law and the bylaws.

Stock-option plan reserved to the Company's executive directors - Authorization to purchase and dispose of treasury shares - related and consequent resolutions

Dear shareholders,

We invite you to approve a proposal for the award of stock options pursuant to Article 114-*bis* of Legislative Decree 58/1998 (hereinafter "the Plan") by means of the purchase and disposal of treasury shares.
For the purposes of the Plan, we also invite you to approve an authorization to purchase and dispose of Telecom Italia S.p.A. ordinary shares (the "Shares") pursuant to the procedures and time limits set out below (the "Authorization"), in addition to the already existing authorization approved by the shareholders' meeting held on 16 April 2007 for the award of treasury shares free of charge under the 2007-2010 Plan.

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.

The request for the Authorization is therefore not part of a plan to reduce the Company's share capital by cancelling 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 19,406,914,853 shares, of which 13,380,794,192 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 11,400,000 Shares (corresponding to 0.085% of the capital of that class and to 0.059% 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 (taking into account the shares purchasable under the separate authorization granted by the shareholders' meeting held on 16 April 2007 referred to above and to date not used) 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 2007, which are submitted for approval by the same shareholders' meeting as is invited to approve this Authorization, show available reserves for a total amount slightly less than € 8 billion.

Whenever Shares are purchased or sold appropriate entries must be made in the accounting records in accordance with applicable law and accounting standards.

4. Duration of the Authorization
The Authorization is requested for the maximum period permitted by applicable law (18 months from the date of the resolution adopted by the shareholders' meeting).
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 with 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 in compliance with any applicable regulations or accepted market practices and 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 to the beneficiaries of the Plan on a pro rata basis subject to satisfaction of the conditions laid down therein and at the price described below.

6. Manner of carrying out the transactions
The Board proposes that the Authorization be granted for 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 sales to the beneficiaries of the Plan, where the conditions for this are satisfied and on the terms established.

7. The Plan

The Plan is the subject of an information document prepared pursuant to Article 84-*bis* of the regulation implementing the provisions on issuers of Legislative Decree 58/1998 (Consob Regulation 11971/1999, as amended).

Shareholders are referred to the above-mentioned document for further details, but it should be noted here that the aim of the Plan is to provide support for improvements in the long-term performance of the Company and the creation of shareholder value by aligning the interests of the present executive directors – Gabriele Galateri di Genola and Franco Bernabé in the event that they are confirmed in the position of Chairman and Managing Director respectively after the election of the new Board of Directors (hereinafter “the Beneficiaries”) – with those of the investors in the Company’s capital by introducing a significant equity-based variable component of compensation.

In fact the Plan provides for the award to the Beneficiaries of options for the purchase of Shares (hereinafter “the Options”) - 3,000,000 for the Chairman and 8,400,000 for the Managing Director - at a price per share equal to the higher of:

- € 1.95, the intermediate value between the Telecom Italia share price in December 2007 (when the present executive directors of the Company took up their positions) and its price on the day this proposal was approved by the Board of Directors (6 March 2008), and
- the arithmetic mean of the prices of the Shares during the 30 days preceding the date of the assignment of the options.

The Plan provides for the right to buy shares to become vested three years after the assignment of the Options, subject to the Beneficiary continuing to be a director of the Company and without prejudice to the cases of early vesting described below. The exercise period of the Options will last for three years. Subject to maintenance of the directorships, for one year from the vesting date a maximum of 50% of the Shares acquirable by exercising the exercisable Options will be available to the Beneficiaries.

The exercisability of 75% of the Options will not be subject to the achievement of performance parameters, while the remaining 25% will depend on the performance of the Total Shareholder Return (TSR) of Telecom Italia in relation to that of the 10 main companies of the Dow Jones STOXX Telecommunications index. In other words, the following will become exercisable at the vesting date:

- 100% of the portion of performance-based Options if Telecom Italia’s TSR reaches the third quartile of the reference panel;
- 50% of the portion of performance-based Options if Telecom Italia’s TSR reaches the median of the reference panel.

The entire portion of performance-based Options will expire if Telecom Italia’s TSR does not reach the median of the reference panel.

To this end the TSR is calculated assuming that the dividends paid on the Shares are reinvested in the incentive period (so-called “Compound TSR”).

75% of the Options (equal to the portion not subject to performance conditions) will become exercisable immediately – in the manner governed in detail in the implementing rules of the Plan, which will be approved in due course by the Board of Directors – in the event of:

– a cash and/or exchange tender offer for the Shares;
– termination of the relationship with a Beneficiary by the Company without good cause;
– resignation of a Beneficiary with good cause.

In addition, a portion of the Options not subject to performance conditions, pro rated on the basis of the fraction of the three years that have passed before the event will become immediately exercisable in the event of:

– early termination of the appointment of the entire Board of Directors;
– the death of a Beneficiary.

The Board of Directors may make any adjustments to the time limits and conditions of the Plan in the event of changes in the applicable legislation or extraordinary events likely to influence the Plan itself.

In light of the foregoing, the Board of Directors invites you to approve the following

Proposal

The ordinary shareholders' meeting of Telecom Italia S.p.A., having examined the report of the Board of Directors (the "Report"),

resolves

1. 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 11,400,000 Telecom Italia S.p.A. ordinary shares and thus of up to 0.059% 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;
2. to approve the stock-option plan reserved to the Company's executive directors as set out in the Report and information document published pursuant to the applicable rules and regulations (the "2008 Top Plan");
3. to authorize, within the time limits necessary for the implementation of the 2008 Top Plan and on the conditions contemplated in the 2008 Top Plan, the disposal to its beneficiaries, 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;
4. to confer all the necessary and appropriate powers on the Board of Directors to make the purchases of treasury shares and implement the 2008 Top Plan and, in general, to carry out all the transactions that are the subject of this resolution, including the mandate to make the consequent entries in the accounting records, in accordance with the statutory provisions and accounting standards applicable on each occasion.

Amendment of the following Articles of the Company's bylaws: 9 (Board of Directors); 17 (Board of Auditors) and 18 (shareholders' meetings) - related and consequent resolutions

Dear Shareholders,

In this extraordinary meeting you are called upon to examine some proposed amendments to the following articles of the Company's bylaws concerning the appointment of the Board of Directors (Article 9) and the Board of Auditors (Article 17) and the calling of shareholders' meetings (Article 18).

Board of Directors (Article 9)
In the first place there is a proposal to reduce the maximum number of Directors from 23 to 19 (paragraph 1). This is purely a choice designed to enhance efficiency, consistent with best practice and with the recent decisions taken by the shareholders' meeting when determining the size of the Board of Directors.
This is followed by a proposal to insert suitable reminders of the need to comply with the applicable laws and regulations in the part of the procedure for appointing the Board of Directors that precedes the shareholders' meeting (paragraphs 2 and 9(b)), while at the same time aligning the bylaw mechanisms with the rules laid down by Consob for the election of the Board of Auditors. For this body it is worth recalling that the applicable regulatory provisions were incorporated into the bylaws with a resolution adopted by the Board of Directors on 24 July 2007, since in that case the alignment with the new legislation was mandatory.

For the Board of Directors, there is also a proposal to simplify the procedures for publishing the slates of candidates and to eliminate their publication in daily newspapers at shareholders' expense (paragraph 4); at the same time it is proposed to eliminate the difference between the time limit for filing slates and that for demonstrating ownership of the shares needed to legitimate the filing (paragraph 6).

Board of Auditors (Article 17)
A numerical change is also proposed for the Board of Auditors, involving not the number of members (which continues to be 5) but the number of alternates, which is increased to four, of whom two are to be chosen from the Majority Slate and two from the Minority Slates. The amendment serves to facilitate compliance with the principle of the necessary representation of the minorities in the manner provided for in the bylaws (i.e. with the shareholders' meeting "confirming" the alternate chosen from the Minority Slates to replace the member of the Board of Auditors chosen from the same slates whose appointment terminates).
The change in the number of alternates (paragraph 1) impinges on the procedures of the slate voting system (paragraph 10) and on the mechanisms for the selection of the alternate (according to age) and replacement pursuant to Article 2401 of the Civil Code (paragraph 13).

Shareholders' meeting (Article 18)
Article 18.1 is incompatible with a new provision of the Consolidated Law on Finance (Article 154-*ter*, which makes it obligatory for issuers to approve their annual financial statements and publish their annual report within 120 days of the close of their fiscal year). It is therefore proposed that it be eliminated and the following paragraphs renumbered accordingly.

None of the proposed amendments will result in dissenting shareholders being entitled to withdraw.

* * *

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.,

resolves

1. to approve Articles 9, 17 and 18 of the bylaws as in the version shown below with the proposed amendments highlighted:

CURRENT TEXT	**PROPOSED TEXT (with the changes highlighted)**
Article 9	**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 a different number is established.	9.1 - The Company shall be managed by a Board of Directors consisting of not less than seven and not more than nineteen ~~twenty-three~~ members. The Shareholders' Meeting shall establish the number of members of the Board of Directors, which shall remain unchanged until a different number is established.
9.2 - The Board of Directors shall be appointed on the basis of slates presented by 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, in accordance with the applicable laws and regulations, on the basis of slates presented by shareholders pursuant to the following paragraphs or by the outgoing Board of Directors~~, on which the candidates shall be listed by serial number~~.
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.	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.

9.4 - The slates presented by 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 days prior to the date set for the Shareholders' Meeting on the first call.

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.

9.6 - Only shareholders who alone or together with other shareholders hold a total number of shares representing at least 0.5% (or such other amount established by 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.

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 in which they 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 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 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.

9.8 - Each person entitled to vote may vote for only one slate.

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 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.

9.4 - The slates presented by 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 days prior to the date set for the Shareholders' Meeting on the first call.

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.

9.6 - Slates may be submitted only by ~~Only~~ shareholders who alone or together with other shareholders hold a total number of shares representing at least 0.5% (or such other amount established by Consob regulations) of the share capital entitled to vote at the Ordinary Shareholders' Meeting, to be proved by filing appropriate certifications. ~~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.~~

9.7 - 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 in which they 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 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 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.

9.8 - Each person entitled to vote may vote for only one slate.

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 (the Majority List), 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) without prejudice to compliance with the applicable laws and regulations concerning the limits to the link with the Majority List 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 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.

9.10 - 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.

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.

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 17
17.1 - The Board of Auditors shall consist of five auditors. The Shareholders' Meeting shall also appoint two alternates.

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 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.

17.3 - The appointment of the Board of Auditors shall be in compliance with the applicable laws and regulations on the basis of slates presented by shareholders, filed at the Company's registered office at least fifteen days prior to the date set for the Shareholders' Meeting on the first call.

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.

17.5 - Only shareholders who alone or together with other shareholders hold a total number of shares representing at least 0.5% (or such other amount established by Consob regulations for the appointment of the Board of Directors) of the voting share capital, may submit slates.

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.

9.10 - 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.

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.

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 17
17.1 - The Board of Auditors shall consist of five auditors. The Shareholders' Meeting shall also appoint ~~two~~ four alternates.

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 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.

17.3 - The appointment of the Board of Auditors shall be in compliance with the applicable laws and regulations on the basis of slates presented by shareholders, filed at the Company's registered office at least fifteen days prior to the date set for the Shareholders' Meeting on the first call, except as extended in cases provided for by applicable laws and regulations.

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.

17.5 - Only shareholders who alone or together with other shareholders hold a total number of shares representing at least 0.5% (or such other amount established by Consob regulations for the appointment of the Board of Directors) of the voting share capital, may submit slates.

17.6 - Together with each slate, it is necessary to file individual candidates' acceptances of their candidacy and declarations in which they 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 by applicable law 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.

17.8 - 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 shall 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 auditors shall be chosen in the order in which they are listed on the slate;

b) two auditors shall be chosen from the other slates (the Minority Slates);

To this end the votes obtained by the Minority Slates shall be divided first by one and then by two. The quotients thus obtained shall be assigned to the candidates of the corresponding section of 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 two 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 obtains the simple majority of the votes shall be elected.

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.

17.6 - Together with each slate, it is necessary to file individual candidates' acceptances of their candidacy and declarations in which they 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 by applicable law 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.

17.8 - 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 shall 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 auditors and two alternates shall be chosen in the order in which they are listed on the slate;

b) without prejudice to the applicable laws and regulations concerning the limits to link with the Majority Slate two auditors and as many alternates shall be chosen from the other slates (the Minority Slates);
To this end the votes obtained by the Minority Slates shall be divided first by one and then by two. The quotients thus obtained shall be assigned to the candidates of the ~~corresponding~~ one and the other section of each slate in the order specified thereon. On the basis of the quotients assigned, the candidates on the various slates shall be arranged respectively in a single decreasing ranking for the appointment of the auditors and a single decreasing ranking for the appointment of the alternates and those who have obtained the two 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 obtains the simple majority of the votes shall be elected.

~~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 of an auditor chosen from the Majority Slate or from 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 approved by the Shareholders' Meeting with the affirmative vote of the absolute majority of those voting and in compliance with the principle of the necessary representation of the minority shareholders. The principle of the necessary representation of the minority shareholders shall be deemed to be complied with in the event of the appointment of the alternate chosen from the Minority Slates to take the place of an auditor chosen from the same slates.

17.14 - After notifying the Chairman of the Board of Directors, the Board of 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.

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.

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.

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.

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 of ~~an~~ auditors chosen from the Majority Slate or from one of the Minority Slates, ~~the~~ alternates chosen respectively from the Majority Slate or the Minority Slates shall take their ~~his/her~~ place in declining order of age. Appointments to fill vacancies on the Board of Auditors pursuant to Article 2401 of the Civil Code shall be approved by the Shareholders' Meeting with the affirmative vote of the absolute majority of those voting and in compliance with the principle of the necessary representation of the minority shareholders. In the event of the termination of the appointment of an auditor chosen from the Minority Slates, ~~T~~the principle of the necessary representation of the minority shareholders shall be deemed to be complied with in the event of the appointment of an ~~the~~ alternate chosen from the Minority Slates ~~to take the place of an auditor chosen from the same slates~~.

17.14 - After notifying the Chairman of the Board of Directors, the Board of 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.

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.

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.~~

18.1~~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.

18.2~~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.	18.3~~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.
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.	18.4~~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.

2. 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 substantial nature that may be requested by the competent authorities, while taking note and establishing that the new bylaws for the appointment of directors (Article 9) and for the appointment of two additional alternate auditors (Article 17) shall apply as amended above with effect from the renewal of respectively the Board of Directors and the Board of Auditors subsequent to the introduction of the amendments to the bylaws in question.

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 2007 Annual Report and obtain information about Telecom Italia and its products and services at the following address: http://www.telecomitalia.it
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