FIRST HALF 2006 REPORT

CONTENTS

TELECOM ITALIA GROUP

CORPORATE BOARDS AT JUNE 30, 2006

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

The ordinary shareholders' meeting held on May 6, 2004 appointed the board of directors of the company for three years up to the approval of the financial statements for the year ended December 31, 2006, establishing that the board should be composed of 19 members. The shareholders' meeting held on April 7, 2005 had, among other things, revised the number of members of the board of directors from 19 to 21 and appointed Marco De Benedetti and Enzo Grilli as directors.
The shareholders' meeting held on April 13, 2006 appointed Diana Bracco and Vittorio Merloni as directors following the resignations of Marco De Benedetti (on October 5, 2005) and Giovanni Consorte (on January 23, 2006).

Top management was appointed by the board of directors in its meetings held on May 6, 2004 (Chairman, Deputy Chairman, Chief Executive Officers Carlo Buora and Riccardo Ruggiero) and on July 26, 2005 (Chief Executive Officer Marco De Benedetti, who subsequently tendered his resignation from the post of director of the company).

In the meeting held on September 9, 2004, the board of directors chose the director Guido Ferrarini, Chairman of the Committee for Internal Control and Corporate Governance, as the lead independent director. He was attributed, among other things, the right to call specific and separate meetings of the independent directors to discuss matters considered of interest to the functioning of the board of directors or to the management of the company.

Remuneration Committee — Luigi Fausti (Chairman), Paolo Baratta, Pasquale Pistorio

<u>Remuneration Committee</u>	Luigi Fausti (Chairman) Paolo Baratta Pasquale Pistorio

Members of the Remuneration Committee (a committee within the board of directors envisaged by the Self-Regulatory Code of the Company) were appointed by the board of directors in the meeting held on May 6, 2004.

<u>Committee for Internal Control and Corporate Governance</u>	Guido Ferrarini (Chairman) Domenico De Sole Francesco Denozza Marco Onado

Members of the Committee for Internal Control and Corporate Governance (a committee within the board of directors envisaged by the Self-Regulatory Code of the Company) were appointed by the board of directors in the meeting held on May 6, 2004.

<u>Strategies Committee</u>	Marco Tronchetti Provera Carlo Orazio Buora Domenico De Sole Marco Onado Pasquale Pistorio

The Strategies Committee was set up by resolution of the board of directors on September 9, 2004.

<u>Board of Statutory Auditors</u>	Chairman	Paolo Golia
	Acting Auditors	Ferdinando Superti Furga Stefano Meroi Salvatore Spiniello Gianfranco Zanda
	Alternate Auditors	Enrico Bignami Enrico Laghi

The board of statutory auditors was appointed by the shareholders' meeting held on April 13, 2006.

<u>Common representatives</u>

- savings shareholders	Carlo Pasteris
- "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium"	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"	Francesco Pensato
- "Telecom Italia S.p.A. Euro 750,000,000 notes 4.50% due 2011"	Francesco Pensato
- "Telecom Italia S.p.A. Euro 1,250,000,000 notes 5.375% due 2019"	Francesco Pensato

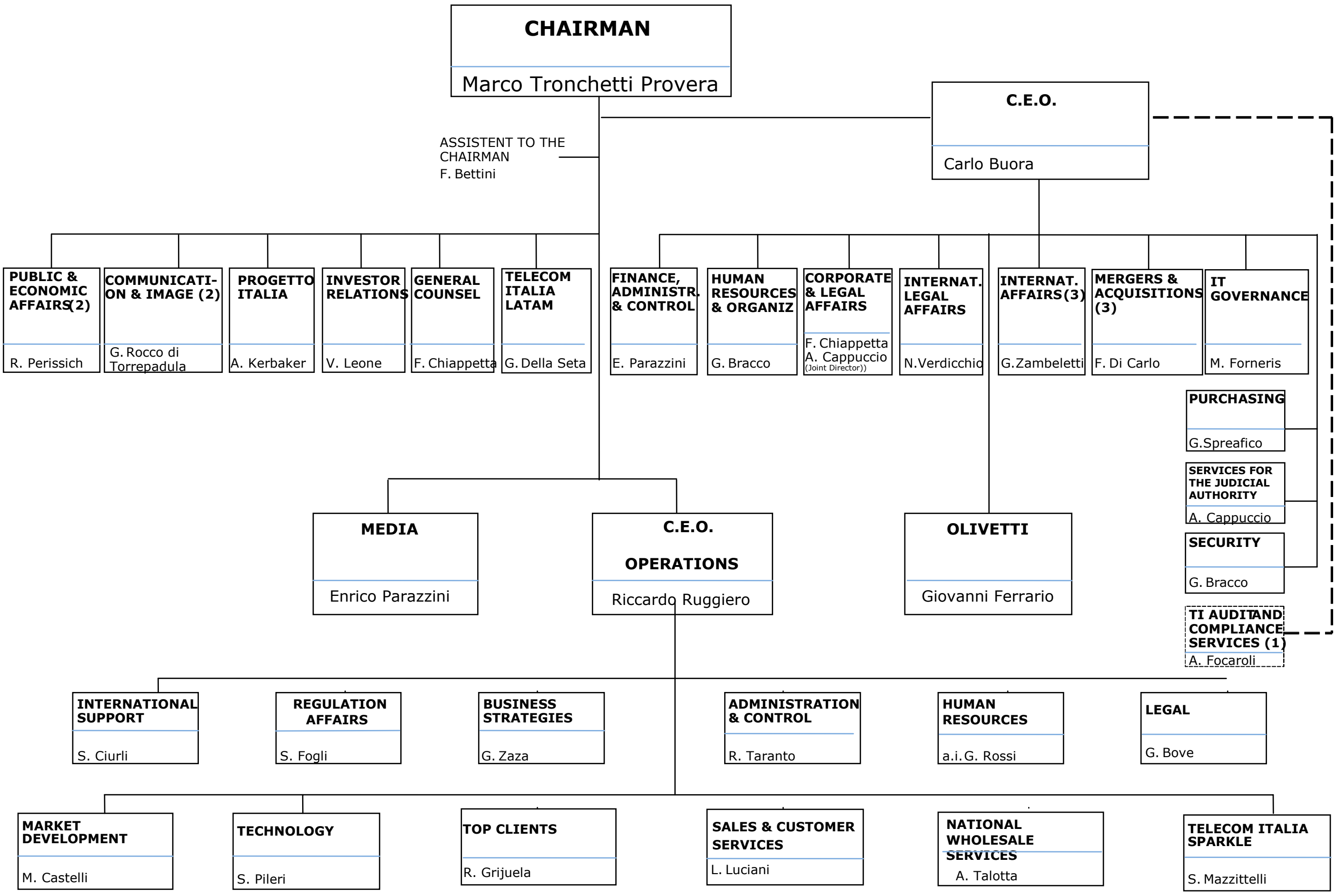
The common representative of the savings shareholders was appointed for the three-year period 2004-2006 by the special shareholders' meeting held on October 26, 2004.

Following the impossibility of conducting the meetings of the bondholders for the aforesaid bonds, the Milan Court decreed the appointment of the common representative of the bondholders for each of the above bond issues.

Independent Auditors Reconta Ernst & Young S.p.A.

Appointment of the audit firm was conferred by the shareholders' meeting held on May 6, 2004 for the three years 2004-2006. For Reconta Ernst & Young S.p.A., this was the first three-year renewal of its appointment, after expiry of the mandate voted by the shareholders of the then Olivetti in their meeting held on July 4, 2000.

MACRO-ORGANIZATION CHART - TELECOM ITALIA GROUP AT JUNE 30, 2006



(1) The consortium company is entrusted with the internal auditing activities of the Group. Beginning on April 20, 2006, the consortium took the name of *Telecom Italia Audit and Compliance Services*.

(2) As from July 5, 2006, Giancarlo Rocco di Torrepadula, head of the Communication and Image function took over as Chief Executive Officer of Telecom Italia Latam.

On the same date:

- the *Public and Economic Affairs and External Relations* Central Function - which reports directly to the Chairman – was set up and is headed by Riccardo Perissich. The organizational areas of Public and Economic Affairs and the Media and Opinion Maker Relations function of Communication and Image were transferred to this function. In the Public and Economic Affairs and External Relations function, Massimiliano Paolucci took up the position of Deputy Director of the Communication Area and reports directly to the Chairman for his sphere of responsibility;
- the Advertising function in Communication and Image changed its name to ***Advertising and Image***, but kept its organizational structure and responsibility positions, and reports directly to the Chairman.

At the same time, the Public and Economic Affairs and Communication and Image Central Functions ceased to exist.

(3) As from July 19, 2006, the International Affairs Central Function, headed by Giampaolo Zambeletti, took the name of *Corporate Development*; at the same, the Mergers & Acquisition function became part of Corporate Development.

The Telecom Italia Group has adopted an organizational system according to the rationale of a “one company model” and is developing its strategies upon an integrated model based on the convergence of the different areas of business and on the integration of the fixed and mobile platforms.

The Group is organized as follows:

Central Functions, which are in charge of directing the operations of the Telecom Italia Group;
Operations, which is responsible for guaranteeing the management and development of fixed telecommunications, mobile telecommunications and internet services;
Business Units, which are responsible for the development of the Media and Olivetti businesses.

Specifically, the following report to the Chairman, Marco Tronchetti Provera:

- the *Chief Executive Officer*, Carlo Buora, who is responsible for guaranteeing the activities connected with the direction and control of the business as well as the overall management of cross-over business issues;
- the *Chief Executive Officer of Operations*, Riccardo Ruggiero

The following also report directly to the Chairman:

- the Central Functions of *Public and Economic Affairs, Communication and Image, Progetto Italia, Investor Relations, Telecom Italia Latam* and *General Counsel*;
- the ***Media*** Business Unit – with its principal areas of business being journalistic information, TV production, TV and web content offerings – headed by Enrico Parazzini.

The ***Olivetti*** Business Unit, headed by Giovanni Ferrario, instead, reports directly to the CEO, Carlo Buora. This Business Unit operates in the market of specialized applications for the banking field and retail, information and computer systems for gaming, lotteries and e-voting systems as well as in the research/development/production of products using silicon technology (from ink-jet heads to Micro-Electro-Mechanical Systems).
More particularly, the *Central Functions* – with Operations and Business Units still having responsibility for economic results and businesses – are divided into ***Group Functions*** and/or ***Service Units*** for the purpose of ensuring a more direct focus on cross-over activities in relation to their role of *strategic governing and/or common operating service*.

Committees

One of the most important tools for the management and the operational integration of the Group is the *Committee System* of the Group, which has recently been revised with the aim of:

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

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

- the *Management Committee*, which coordinates the Group's activities and ensures a unitary approach to the development and implementation of business strategies;
- the *Investments Committee*, which is entrusted with approving investments that exceed specific delegated limits;
- the *Business Reviews Committee for Operations*, *Media* and *Olivetti* which, for each structure, analyzes forecasts, results and operating progress and examines the advances made on the most important projects and action plans;

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

INTERNATIONAL PRESENCE AT JUNE 30, 2006

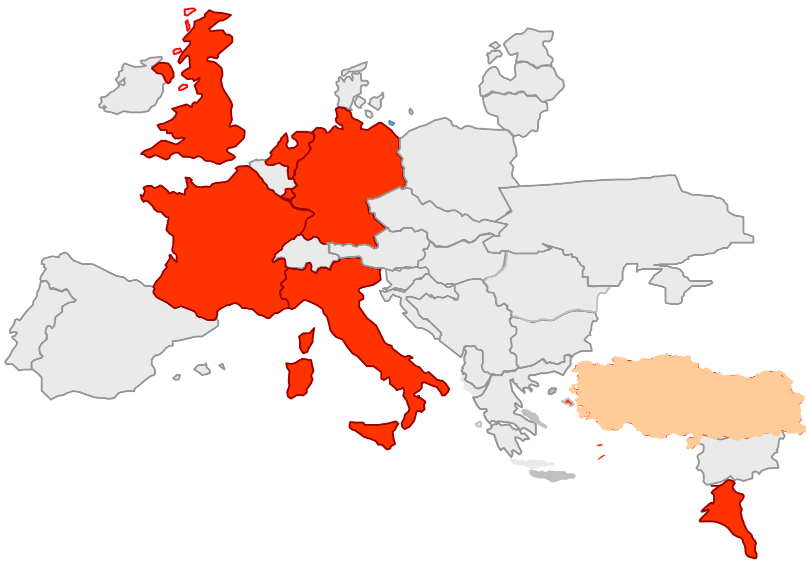
SOUTH AMERICA

Major subsidiaries

Entel Bolivia Group
Latin American Nautilus Group (Latin America)
TIM Brasil Group (Brazil)

Major associates

ETECSA (Cuba)
Telecom Argentina Group
Brasil Telecom Group



MEDITERRANEAN BASIN

Major subsidiaries

Mediterranean Nautilus Group (Mediterranean Basin)
Med-1 Group (Mediterranean Basin)

Major associates

Avea I.H.A.S. (Turkey)

EUROPE

Major subsidiaries

Telecom Italia Sparkle Group
HanseNet Telekommunikation GmbH
BBNed Group (Holland)
Liberty Surf Group (France)
Telecom Italia Finance (Luxembourg)
Telecom Italia Capital (Luxembourg)

Presence through subsidiaries

Presence through associates

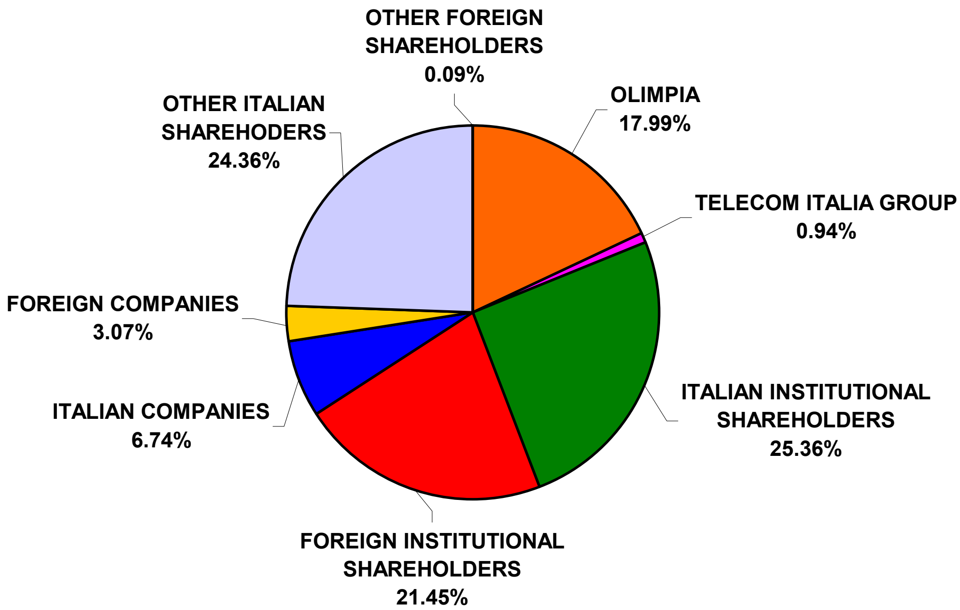
SHAREHOLDER INFORMATION

TELECOM ITALIA S.p.A. SHARE CAPITAL AT JUNE 30, 2006

Share capital (issued)	euro 10,673,752,381.05
Number of ordinary shares (par value of euro 0.55 each)	13,380,701,850
Number of savings shares (par value of euro 0.55 each)	6,026,120,661
Number of Telecom Italia ordinary treasury stock	1,272,014
Number of Telecom Italia ordinary shares held by Telecom Italia Finance	124,544,373
Market capitalization (based on June 2006 average prices)	euro 41,485 million

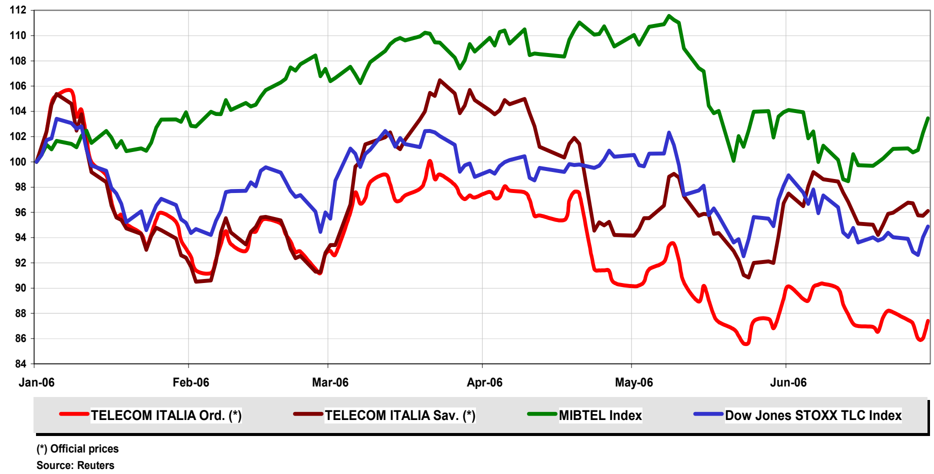
SHAREHOLDERS

Composition of Telecom Italia S.p.A. shareholders according to the Shareholders Book at June 30, 2006, supplemented by communications received and other sources of information (ordinary shares)

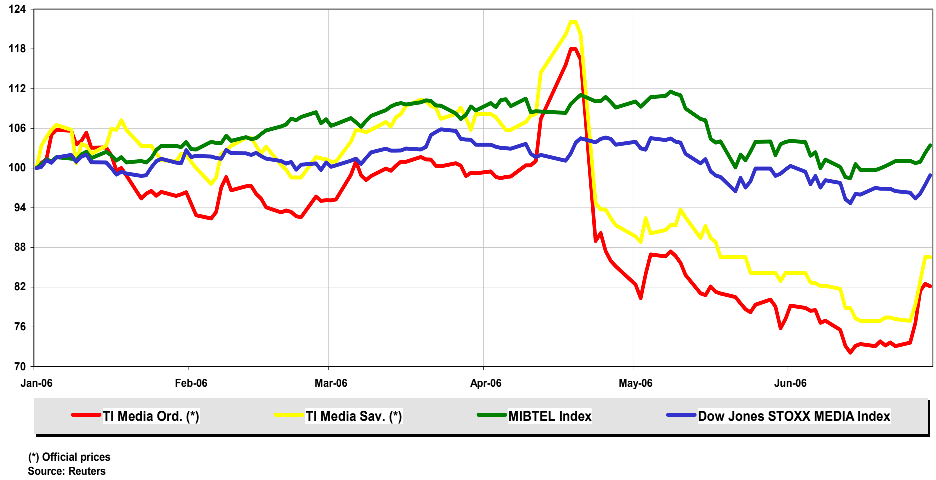


PERFORMANCE OF THE STOCKS OF THE MAJOR COMPANIES IN THE TELECOM ITALIA GROUP

Relative performance TELECOM ITALIA S.p.A.
1/1/2006 – 6/30/2006
vs. MIBTEL and DJ Stoxx TLC Indexes



Relative performance TELECOM ITALIA MEDIA S.p.A.
1/1/2006 – 6/30/2006
vs. MIBTEL and DJ Stoxx MEDIA Indexes (ordinary shares)



RATINGS AT JUNE 30, 2006

		OUTLOOK
STANDARD & POOR'S	BBB+	Negative
MOODY'S	Baa2	Stable
FITCH IBCA	BBB+	Stable

On March 30, 2006, Standard and Poor’s confirmed its rating at BBB+ and modified the outlook from “Stable” to “Negative” and also stated that it might be possible to change the outlook back to stable starting from the second half of 2007. On April 11, 2006, Fitch Ratings changed the Issuer Default Rating (“IDR”) to BBB+ from A-, with a stable outlook, deeming that Telecom Italia’s financial flexibility has been reduced as result of both the pressure exerted on revenues, on profits and on cash flows owing to higher competition caused by changes in regulations and technologies and higher dividends announced on March 7, and 8, 2006.
As for Moody’s, the last ratings update was made on December 7, 2004.

FIXED AND MOBILE TELECOMMUNICATIONS INTEGRATION PROCESS

During the first half of 2006, the corporate transactions relating to the process to integrate the fixed and mobile telecommunications activities were concluded. This process began in December 2004 with the resolutions passed by the Telecom Italia and TIM boards of directors' meetings which had approved a course of action for the integration of the companies with a view towards ensuring the Group the simplification of the ownership structure and the optimization of the balance sheet and financial structure of the company after the merger.

The major stages of this process can be summarized as follows:

- Tender offer for TIM ordinary and savings shares launched and concluded by Telecom Italia in January 2005, followed by additional purchases of TIM shares on the market in the early months of 2005;

- Contribution of the corporate operations of the mobile telecommunications business in Italy by the direct parent (100%) TIM S.p.A. to TIM Italia S.p.A. in February 2005 and with effect on March 1, 2005, by increasing share capital on the part of TIM S.p.A.;

- Merger of TIM S.p.A. in Telecom Italia S.p.A. with effect on June 30, 2005;

- Merger of Tim Italia S.p.A. in Telecom Italia S.p.A. with effect on March 1, 2006.

ACCOUNTING EFFECTS

- Tender offer and merger of TIM S.p.A. in Telecom Italia S.p.A.:

  Under the merger transaction, the interest owned prior to the tender offer was recorded at the carrying amount in both the consolidated financial statements and in the separate financial statements at December 31, 2005, prepared in accordance with IFRS, since the acquired company is already controlled by the acquiring company and thus the conditions for the application of IFRS 3 (*Business combinations*) do not exist.

  The purchase of the remaining TIM shares through the tender offer, purchases on the market and merger, considered a purchase of a minority interest, is not regulated either by IFRS 3 or any other IFRS. Therefore, this transaction was treated, in both the consolidated financial statements and in the separate financial statements of Telecom Italia at December 31, 2005, prepared in accordance with IFRS, at fair value using the parent-entity extension method which resulted in the recognition of goodwill (the difference between the fair value of the shares purchased and the new share issue and the share of equity acquired).

  In the separate financial statements, the merger was recorded at June 30, 2005 and from that date the assets, liabilities, costs and revenues of TIM were included in the financial statements of Telecom Italia. The dividends received in 2005 and relating to the TIM shares acquired in the tender offer were deducted from the amount of the investment; the remaining dividends represent the earnings to which the Parent is entitled and were recognized in the statement of operations.

  The accounting treatment described had the following effects:

- in the consolidated financial statements at December 31, 2005 of the Telecom Italia Group, recognition of goodwill for euro 16,654 million - of which euro 11,804 million refers to the tender offer and additional purchases and euro 4,850 million to the TIM share exchange;

- in the separate financial statements at December 31, 2005 of Telecom Italia S.p.A., recognition of goodwill for euro 39,184 million.

• Merger of Tim Italia S.p.A. in Telecom Italia S.p.A.:

The merger transaction was recorded at the carrying amount in both the consolidated financial statements and the separate interim financial statements at June 30, 2006 prepared in accordance with IFRS, since the acquired company is entirely owned by the acquiring company and therefore the conditions for the application of IFRS 3 (*Business combinations*) do not exist.

In the interim consolidated financial statements at June 30, 2006, prepared in accordance with IFRS, the transaction did not have any effect since the acquired company was already included in the scope of consolidation, being a 100%-owned company of Telecom Italia;

In the separate financial statements at June 30, 2006, the merger was recorded at March 1, 2006 and from that date the assets, liabilities, costs and revenues of Tim Italia were included in the financial statements of Telecom Italia. The recognition of the merger resulted in a cancellation surplus (being the difference between the equity of the acquired company and the carrying amount of Tim Italia in the financial statements of the acquiring company), equal to euro 379 million, basically representing the earnings reported by Tim Italia for the months of January and February 2006. The dividends received in 2006 by Telecom Italia represent the earnings to which the acquiring company is entitled and are recognized in the statement of operations.

SELECTED OPERATING AND FINANCIAL DATA – TELECOM ITALIA GROUP

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

At June 30, 2006, the changes in the scope of consolidation compared to June 30, 2005 and December 31, 2005 are as follows:

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

Furthermore, for purposes of comparison with the first half of 2006, the operating and financial data for the first half of 2005 was restated compared to the published first half report at June 30, 2005, as a result of also considering Tim Perù and Gruppo Buffetti as discontinued operations.

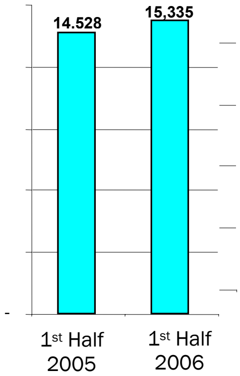
Segment information

The integration of fixed and mobile operations begun at the end of 2005, followed by the merger of Tim Italia S.p.A. in Telecom Italia S.p.A. on March 1, 2006, and still in progress, has resulted in an overall reorganization of the Group. Accounting representation by business segment, starting in the first half at June 30, 2006, is as follows:

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

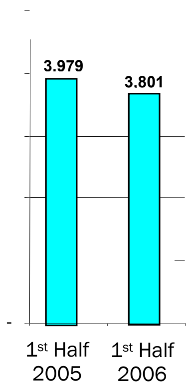
In order to facilitate the comparability of the data, segment information for prior periods presented have been restated on a consistent basis.

Revenues
(euro/millions)



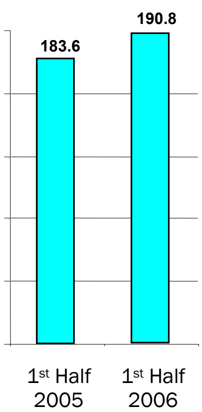
	1st Half 2006	1st Half 2005
Operating and Financial Data (millions of euro)		
Revenues	15,335	14,528
EBITDA(*)	6,518	6,485
EBIT(*)	3,801	3,979
Income from continuing operations before taxes	2,732	3,106
Net income from continuing operations	1,427	1,754
Net income (loss) from discontinued operations/assets held for sale	46	425
Net income for the period	1,473	2,179
Net income attributable to the equity holders of Parent and Minority interests	1,496	1,775
Capital expenditures:		
- Industrial	2,216	2,168
- Financial	1	14,456

EBIT
(euro/millions)



	6/30/2006	12/31/2005
Balance Sheet Data (millions of euro)		
Total assets	86,168	96,010
Total equity	25,560	26,985
- attributable to the equity holders of the Parent	24,472	25,662
- attributable to the Minority interests	1,088	1,323
Net financial debt	41,315	39,858
Debt Ratio (Net financial debt/Net invested capital) (1)	61.8	59.6
Employees, number at period-end (2)		
Employees (excluding employees relating to discontinued operations/assets held for sale)	84,695	85,484
Employees relating to discontinued operations/assets held for sale	-	1,047

Revenues/Emplyees
(euro/thousands)



	1st Half 2006	1st Half 2005
Employees, average number (2)		
Employees (excluding employees relating to discontinued operations/assets held for sale	80,353	79,140
Employees relating to discontinued operations/assets held for sale	558	8,477
Profit and Financial Ratios		
EBITDA(*) / Revenues	42.5	44.6
EBIT(*) / Revenues (ROS)	24.8	27.4
Revenues/Employees (average number in Group, thousands of euros)	190.8	183.6

(*) For details, please refer to the section “Alternate performance measures”
(1) Net invested capital = Total equity + Net financial debt
(2) The number includes persons with temp work contracts

ALTERNATIVE PERFORMANCE MEASURES

In this press release, in addition to the financial performance measures established by IFRS, certain non-IFRS measures are presented for purposes of a better understanding of the trend of operations and financial condition of the Telecom Italia Group; however, such measures should not be construed as a substitute for the operating and financial information required by IFRS.

Specifically, the non-IFRS measures presented are described below:

- EBITDA. This financial measure is used by the Telecom Italia Group as the financial target in internal and external presentations and represents a useful unit of measurement for the evaluation of the operating performance of the Group as a whole and of the Business Units, in addition to EBIT. These measures are calculated as follows:

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

- Organic Growth of Revenues, EBITDA and EBIT. This measures show changes (percentage or amount) in Revenues, EBITDA and EBIT, excluding the effects of exchange differences, the change in the scope of consolidation as well as other operating income and expenses (other non-organic changes).
  Telecom Italia deems that the presentation of such additional information allows the operating performance of the Group (as a whole and of the Business Units) to be interpreted in a more effective manner.

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

COMMENTS ON OPERATING AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP

CONSOLIDATED STATEMENTS OF INCOME

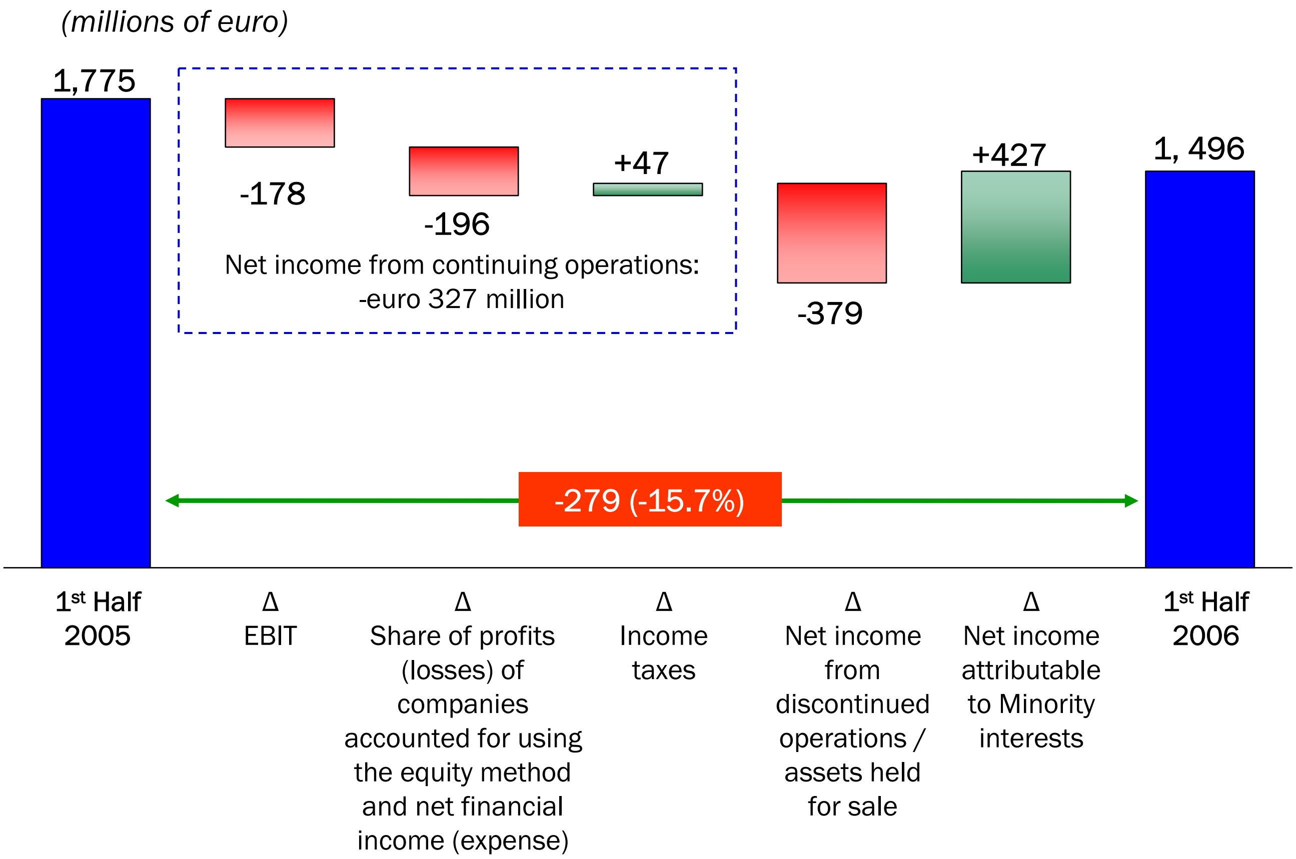
(millions of euro)	1st Half 2006 (a)	1st Half 2005 (b)	Change (a-b)	Change %
Revenues	15,335	14,528	807	5.6
Other income	311	223	88	39.5
Total operating revenues and other income	**15,646**	**14,751**	**895**	**6.1**
Purchases of materials and external services	(6,769)	(5,978)	(791)	13.2
Personnel costs	(1,992)	(1,929)	(63)	3.3
Other operating expenses	(666)	(642)	(24)	3.7
Change in inventories	69	72	(3)	(4.2)
Capitalized internal construction costs	230	211	19	9.0
OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS (EBITDA)	6,518	6,485	33	0.5
Depreciation and amortization	(2,843)	(2,496)	(347)	13.9
Gains (losses) on disposals of non-current assets (1)	152	(1)	153	°
Impairment reversals (losses) on non-current assets	(26)	(9)	(17)	188.9
OPERATING INCOME (EBIT)	3,801	3,979	(178)	(4.5)
Share of profits (losses) of associates and joint ventures accounted for using the equity method	25	(15)	40	°
Financial income	1,649	2,000	(351)	(17.6)
Financial expenses	(2,743)	(2,858)	115	(4.0)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	2,732	3,106	(374)	(12.0)
Income taxes	(1,305)	(1,352)	47	(3.5)
NET INCOME FROM CONTINUING OPERATIONS	1,427	1,754	(327)	(18.6)
Net income from discontinued operations/assets held for sale	46	425	(379)	(89.2)
NET INCOME FOR THE PERIOD	1,473	2,179	(706)	(32.4)
of which:				
· **Net income attributable to equity holders of the Parent**	**1,496**	**1,775**	**(279)**	(15.7)
· Net income (loss) attributable to Minority interests	(23)	404	(427)	°

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

Consolidated net income attributable to the equity holders of the Parent in the first half of 2006 is euro 1,496 million (euro 1,473 million before Minority interests). In the first half of 2005, the consolidated net income attributable to the equity holders of the Parent was euro 1,775 million (euro 2,179 million before Minority interests).
The change in the consolidated net income (-euro 279 million) is due to the following:

- *operating income,* -euro 178 million;
- higher *share of profits (losses) in associates and joint ventures accounted for using the equity method,* +euro 40 million;
- higher *financial expenses*, net of financial income, euro 236 million. The first half of 2005 included the release of provisions of euro 343 million booked in respect of sureties issued to banks which had financed the associate AVEA, as well as euro 61 million of gains on the sale of C-Mobil; the first half of 2006 includes the gain on the sale of Neuf Télécom (euro 110 million);
- lower *income taxes,* euro 47 million;
- lower *net income from discontinued operations/assets held for sale,* euro 379 million. The first half of 2005 included net gains on discontinued operations for a total of euro 395 million; the first half of 2006 includes net gains of euro 31 million;
- lower *net income attributable to Minority interests* (+euro 427 million), mainly in connection with the TIM merger transaction (tender offer and merger). In the first half of 2005, control over the mobile business was not complete since the merger became effective on June 30, 2005 (at the end of January 2005, only the tender offer had been concluded).

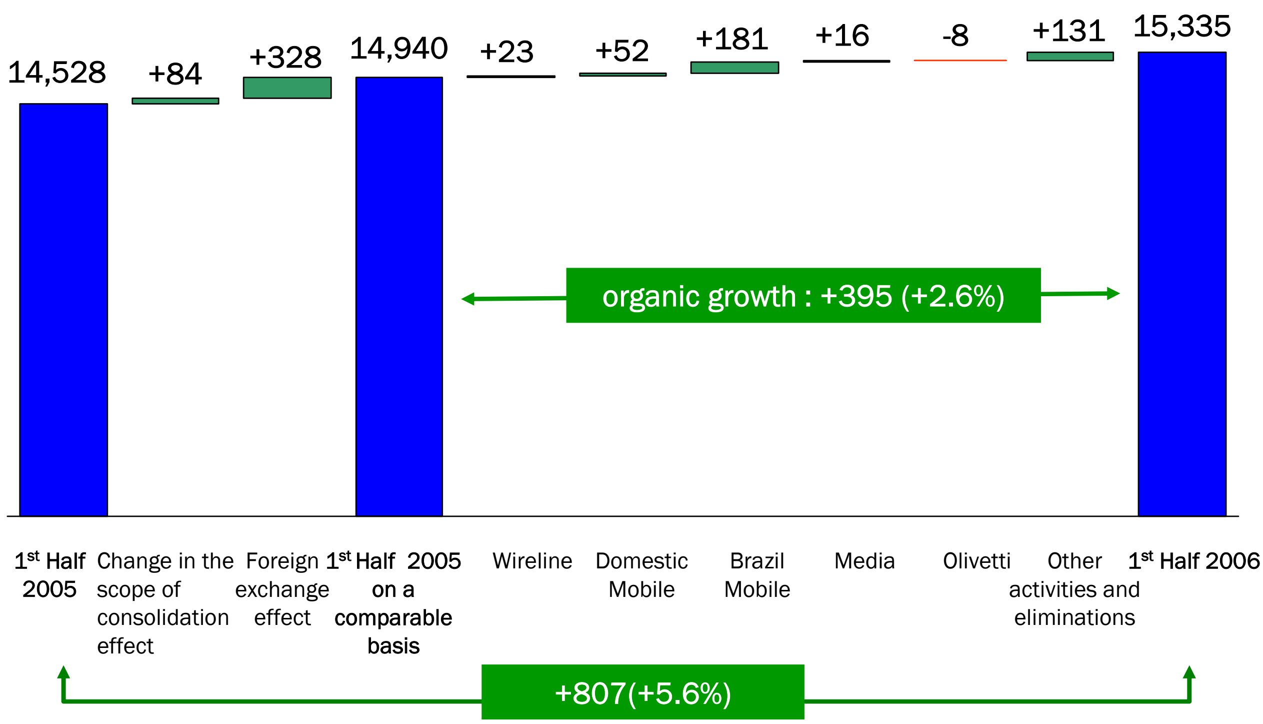
The following chart summarizes the major items which had an impact on the consolidated net income of the Group in the first half of 2006:



Revenues amount to euro 15,335 million, with an increase of 5.6% compared to euro 14,528 million in the first half of 2005. Excluding the positive foreign exchange effect (+euro 328 million, mainly due to the Brazil Mobile Business Unit) and the change in scope of consolidation (+euro 84 million), organic growth is equal to 2.6% (euro 395 million). Revenues in the first half of 2006, compared to the corresponding period of the prior year, were impacted by the cut in termination rates starting from the second half of 2005.

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

(millions of euro)



The organic growth of revenues particularly reflects:

- an increase in the revenue of the Wireline Business Unit (+euro 23 million), achieved thanks to the expansion of the national and European broadband market and wholesale services, countered by a decline in the traditional telephony market which was also hurt by the impact of the reduction in fixed-mobile termination rates and the migration of voice traffic from the fixed to the mobile network;
- a positive contribution by the Domestic Mobile Business Unit (+euro 52 million), with an increase of 1.1% compared to the first half of 2005. This growth is particularly due to the negative impact of the new fixed-mobile and mobile-mobile termination rates that came into effect, countered by the expansion of value-added services, the positive trend of revenues from outgoing voice traffic and the growth of revenues from handset sales;
- an important contribution by the Brazil Mobile Business Unit (+euro 181 million), driven by the expansion of its customer base, and a positive input recorded by value-added services which, as a percentage of revenues from services of the Business Unit, rose from 5.7% in the first half of 2005 to 7.6% in the first half of 2006;
- an increase in the revenues of the Media Business Unit (+euro 16 million) which showed a positive trend compared to the first half of 2005 thanks to national advertising which grew at a faster pace than the market and the contribution by digital terrestrial Pay-per-View

revenues;

- a reduction in the invoicing of the Olivetti Business Unit (-euro 8 million) due to the decline in traditional Ink-jet sales and Gaming revenues, which was partly compensated by the growth in new Ink-jet products;
- an increase in Other activities and eliminations (+euro 131 million) due to the increase in revenues from Other activities and lower eliminations on transactions between the Wireline and Domestic Mobile Business Units, mainly as a result of the reduction in termination rates and the migration of voice traffic from the fixed to the mobile network.

Revenues from telecommunications services is shown gross of the amount of revenues due to third-party operators of euro 2,556 million (euro 2,251 million in the first half of 2005, +13.5%).

Foreign revenues amount to euro 3,644 million (euro 2,660 million in the first half of 2005); 50.9% of the total is localized in the area of South America (50.3% in the first half of 2005).

Other income amounts to euro 311 million (euro 223 million in the first half of 2005) and includes:

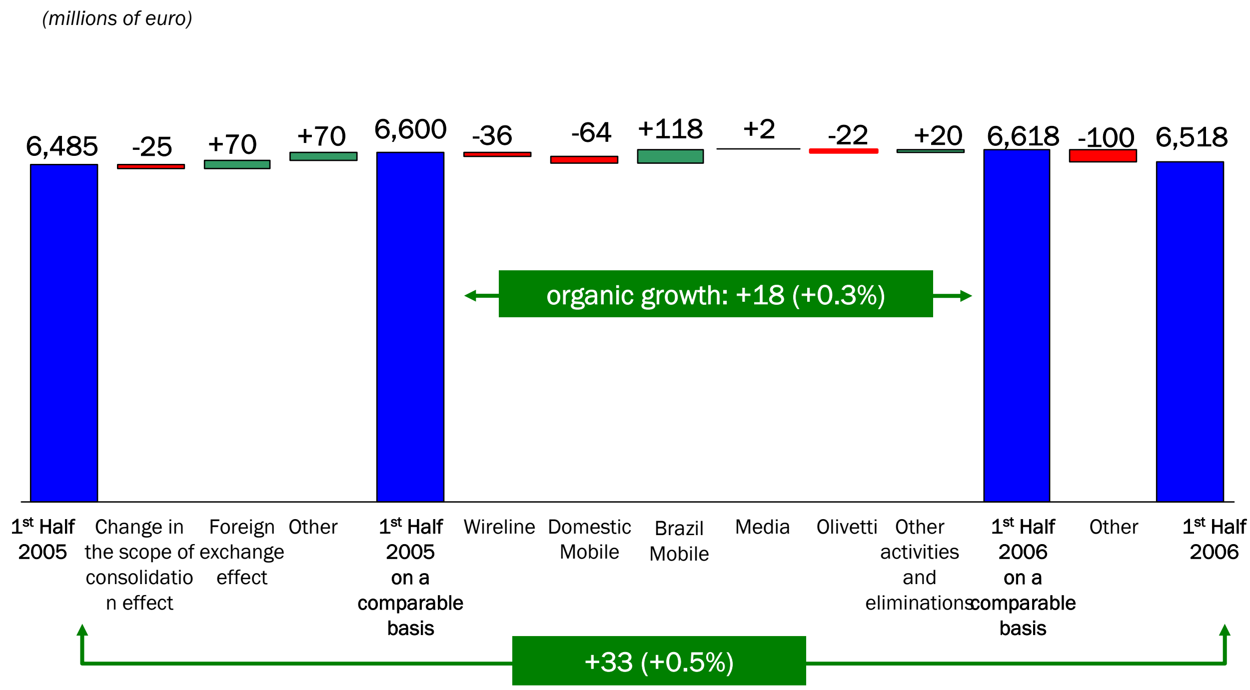
(millions of euro)	1st Half 2006 (a)	1st Half 2005 (b)	Change (a - b)
Late payment fees charged for regulated telephone services	48	49	(1)
Release of provisions and liability items	80	10	70
Recovery of costs of personnel and services rendered	11	16	(5)
Capital grants	18	19	(1)
Damage compensation	7	17	(10)
Sundry income	147	112	35
Total	311	223	88

EBITDA amounts to euro 6,518 million and grew compared to the first half of 2005 by euro 33 million (+0.5%). The organic change in EBITDA was a positive 0.3% (+euro 18 million) and was particularly calculated excluding the following effects:

- foreign exchange effect (euro 70 million);
- change in the scope of consolidation (-euro 25 million);
- net change of -euro 30 million, mainly due, in the first half of 2006, to company restructuring costs (euro 75 million), expenses connected with transactions to reorganize the Brazil Mobile Business Unit (euro 9 million), and other expenses (euro 16 million); in the first half of 2005, the items that were not included to calculate the organic growth of EBITDA totaled euro 70 million and related to expenses for the settlement with Opportunity, for Brasil Telecom, and with customers.

The percentage of EBITDA to revenues went from 44.6% in the first half of 2005 to 42.5% in the first half of 2006; the percentage of organic EBITDA to revenues is equal to 43.2% in the first half of 2006 (44.2% in the first half of 2005).

The following chart summarizes the major changes in EBITDA (Operating income before depreciation and amortization, capital gains (losses) realized and impairment reversals (losses) on non-current assets):



In greater detail, in addition to changes associated with revenues, EBITDA in the first half of 2006 is impacted by the following:

- **purchases of materials and external services,** euro 6,769 million, with an increase of 13.2% compared to the first half of 2005 (euro 5,978 million). This increase is mainly due to the expansion of Broadband, higher interconnection costs as a result of the growth of traffic managed as well as costs for purchases of products and content. The percentage of purchases to revenues is 44.1% (41.1% in the first half of 2005);
- **personnel costs,** equal to euro 1,992 million, with an increase of 63 million (+3.3%) compared to the first half of 2005 (euro 1,929 million). The increase is due almost entirely to the increase in the foreign component (+euro 62 million). For Italian companies, personnel costs have remained basically unchanged as a result of the reduction in the average number of salaried staff (-1,592 persons) and the increase in other cost items.

Employees at June 30, 2006 number 84,695. Additional details are as follows:

(number)	6/30/2006 (a)	12/31/2005 (b)	Change (a – b)
Italy	70,637	71,987	(1,350)
Abroad	14,058	13,497	561
Total (excluding discontinued operations/assets held for sale)	**84,695**	**85,484**	**(789)**
Discontinued operations/assets held for sale:			
Italy	-	*184*	*(184)*
Abroad	-	*863*	*(863)*
Total discontinued operations/assets held for sale	-	*1,047*	*(1,047)*
Total employees (1)	**84,695**	**86,531**	**(1,836)**

(1) Includes persons with temp work contracts: 2,828 at 6/30/2006 and 3,382 at 12/31/2005.

The reduction in employees of 1,836 compared to December 31, 2005 is due to:

- the sale of Gruppo Buffetti (183), Wirelab (54), Eustema (134) and Digitel Venezuela (915);
- the hiring of 3,371 employees, mainly abroad (119 of whom relating to discontinued operations), the termination of employment of 3,367 employees (67 of whom relating to discontinued operations) as well as a reduction in the number of people with temp work contracts of 554;

- **other operating expenses**, equal to euro 666 million (euro 642 million in the first half of 2005), include:

(millions of euro)	1st Half 2006 (a)	1st Half 2005 (b)	Change (a - b)
Impairments and expenses connected with non-financial receivables management	263	230	33
Accruals to provisions for risks and future charges	17	22	(5)
Telecommunications fees and charges	113	82	31
Taxes on revenues of South American companies	101	73	28
Indirect duties and taxes	74	63	11
Other expenses	98	172	(74)
Total	**666**	**642**	**24**

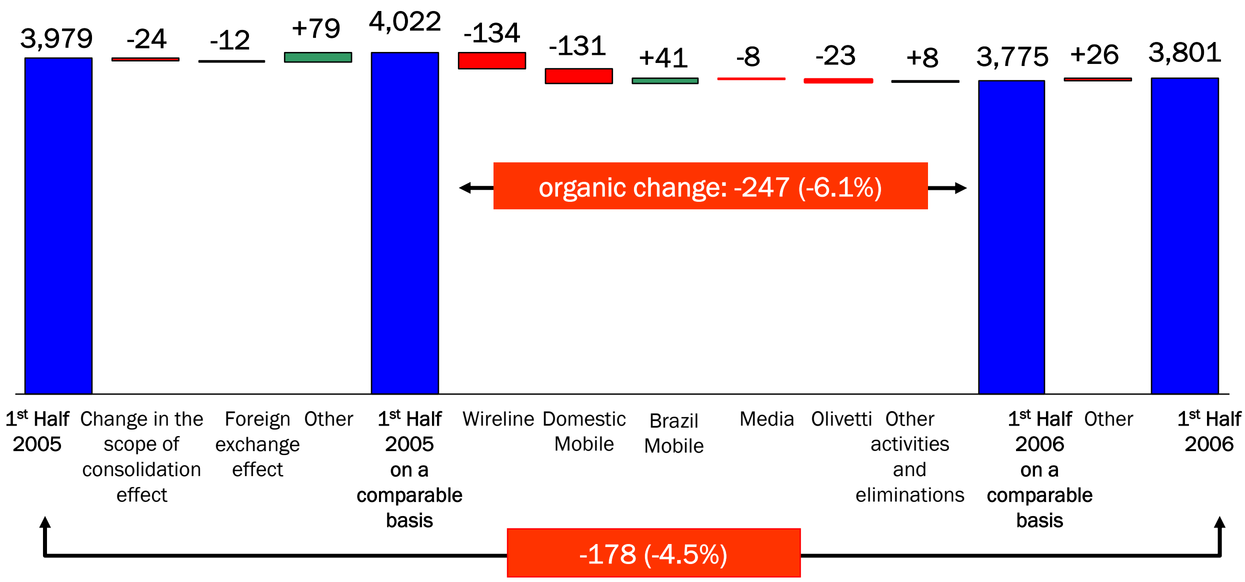
EBIT amounts to euro 3,801 million, with a decrease of euro 178 million compared to the first half of 2005 (-4.5%). The organic change in EBIT is negative and equal to 6.1% (-euro 247 million) and was particularly calculated excluding the following effects:

- foreign exchange effect (-euro 12 million);
- effect of the change in the scope of consolidation (-euro 24 million);
- net change of euro 105 million which, besides what was already mentioned in the comments on EBITDA, is due to the gain on the disposal of real estate properties (euro 123 million), the gain on the sale of the investment in Ruf Gestion (euro 27 million) and the writedown of the investment in Telecom Italia Learning Services to adjust the carrying amount to the sales price (euro 25 million). In the first half of 2005, the items that were not included to calculate the organic growth of EBIT totaled euro 79 million and included, besides what was already mentioned in the comments on EBITDA, writedowns and expenses on consolidated companies.

The percentage of EBIT to revenues went from 27.4% in the first half of 2005 to 24.8% in the first half of 2006; the percentage of organic EBIT to revenues is equal to 24.6% in the first half of 2006 (26.9% in the first half of 2005).

The following chart summarizes the changes in EBIT in the first half of 2006:

(millions of euro)



In greater detail, EBIT is impacted by:

- **depreciation and amortization** of euro 2,843 million (euro 2,496 million in the first half of 2005), with an increase of euro 347 million. The increase is mainly attributable to higher capital expenditures for the development of network infrastructures and to support the business, the foreign exchange effect of the Brazilian companies in the Mobile Business Unit, as well as the change in the calculation method, introduced starting from the 2003 financial statements, relating to the starting date for the amortization of software (established as the date the asset effectively comes into use instead of the start of the year), and which affects the year 2006 (euro 179 million in the first half of 2006);
- **capital gains (losses) realized on non-current assets** equal to euro 152 million. This amount includes euro 123 million of gains net of incidental charges, referring to additional transactions for the sale of real estate properties by the Group to the closed-end real estate investment funds Raissa and Spazio Industriale during the first half of 2006. The sales took place as part of the property sales program approved by the board of directors' meeting on December 21, 2005. It also comprises euro 27 million for the disposal of the entire investment held in Ruf Gestion and other net gains equal to euro 2 million;
- **impairment reversals (losses) on non-current assets** equal to euro 26 million (euro 9 million in the first half of 2005). They particularly include the writedown of euro 25 million to adjust the entire investment in Telecom Italia Learning Services to the sales price; the sale was concluded on July 17, 2006. In the first half of 2005, this item included the writedowns of the property, plant and equipment of the company Maxitel (now named Tim Nordeste S.A.).

The **share of profits (losses) of investments in associates and joint ventures accounted for using the equity method** shows profits of euro 25 million (losses of euro 15 million in the first half of 2005). Details are as follows:

(millions of euro)	1st Half 2006 (a)	1st Half 2005 (b)	Change (a – b)
ETECSA	26	19	7
Solpart Partecipaçoes	1	64	(63)
Avea I.H.A.S.	-	(95)	95
Other	(2)	(3)	1
Total	25	(15)	40

Financial income and expenses shows a net expense balance of euro 1,094 million. Details are as follows:

(millions of euro)	1st Half 2006 (a)	1st Half 2005 (b)	Change (a – b)
Financial management balance	(1,226)	(1,269)	43
Investment management	115	68	47
Avea provisions released to income	17	343	326
Total	(1,094)	(858)	(236)

The main changes are due to:

- the improvement in the financial management balance of euro 43 million mainly as a result of the reduction in the net average exposure during the first half of 2006 compared to the same period of the prior year;
- the reduction of euro 47 million in investment management. In the first half of 2006, the item includes the gain of euro 110 million on the sale of the entire 4.99% investment held in Neuf Télécom. In the first half of 2005, the item particularly included the gains on the disposals of C-Mobil (euro 61 million) and the investment in Intelsat by Entel Bolivia (euro 2 million).

Income taxes for the period amount to euro 1,305 million, with a decrease of euro 47 million compared to the first half of 2005.

Net income from discontinued operations/assets held for sale amounts to euro 46 million and includes euro 31 million relating to the gain, net of incidental expenses, on the sale of Digitel Venezuela in May 2006; it also includes the positive contribution to net income by the same Digitel Venezuela for the first four months of 2006, equal to euro 15 million.
The first half of 2005 included the gain on the sale of Tim Hellas (euro 410 million), losses and incidental charges on the sales of the Finsiel group and the Entel Chile group (euro 15 million) and the net income of the discontinued operations/assets held for sale for a total of euro 30 million.

CONSOLIDATED BALANCE SHEETS

(millions of euro)	6/30/2006 (a)	12/31/2005 (b)	Change (a-b)
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Goodwill and other intangible assets with an indefinite life	43,939	43,980	(41)
Intangible assets with a finite life	6,644	6,810	(166)
	50,583	50,790	(207)
Tangible assets			
Property, plant and equipment owned	15,799	16,443	(644)
Assets held under finance leases	1,546	1,598	(52)
	17,345	18,041	(696)
Other non-current assets			
Investments in associates and joint ventures accounted for using the equity method	740	781	(41)
Other investments	546	561	(15)
Securities, financial receivables and other non-current financial assets	522	996	(474)
Miscellaneous receivables and other non-current assets	828	825	3
	2,636	3,163	(527)
Deferred tax assets	1,747	2,793	(1,046)
TOTAL NON-CURRENT ASSETS (A)	72,311	74,787	(2,476)
CURRENT ASSETS			
Inventories	363	294	69
Trade receivables, miscellaneous receivables and other current assets	9,927	8,856	1,071
Current tax receivables	45	335	(290)
Securities other than investments	244	378	(134)
Financial receivables and other current financial assets	320	509	(189)
Cash and cash equivalents	2,958	10,323	(7,365)
Current assets subtotal	13,857	20,695	(6,838)
Discontinued operations/Assets held for sale			
of a financial nature	-	37	(37)
of a non-financial nature	-	491	(491)
	-	528	(528)
TOTAL CURRENT ASSETS (B)	13,857	21,223	(7,366)
TOTAL ASSETS (A+B)	86,168	96,010	(9,842)
EQUITY AND LIABILITIES			
EQUITY			
Equity attributable to equity holders of the Parent	24,472	25,662	(1,190)
Equity attributable to Minority interests	1,088	1,323	(235)
TOTAL EQUITY (A)	25,560	26,985	(1,425)
NON-CURRENT LIABILITIES			
Non-current financial liabilities	39,762	42,146	(2,384)
Employee severance indemnities and other employee-related provisions	1,376	1,351	25
Deferred tax liabilities	62	137	(75)
Provisions for risks and future charges	821	797	24
Miscellaneous payables and other non-current liabilities	1,962	2,113	(151)
TOTAL NON-CURRENT LIABILITIES (B)	43,983	46,544	(2,561)
CURRENT LIABILITIES			
Current financial liabilities	5,597	9,812	(4,215)
Trade payables, miscellaneous payables and other current liabilities	10,974	12,157	(1,183)
Current tax liabilities	54	227	(173)
Current liabilities sub-total	16,625	22,196	(5,571)
Liabilities relating to discontinued operations/assets held for sale			
of a financial nature	-	143	(143)
of a non-financial nature	-	142	(142)
	-	285	(285)
TOTAL CURRENT LIABILITIES (C)	16,625	22,481	(5,856)
TOTAL LIABILITIES (D=B+C)	60,608	69,025	(8,417)
TOTAL EQUITY AND LIABILITIES (A+D)	86,168	96,010	(9,842)

Equity amounts to euro 25,560 million (euro 26,985 million at the end of 2005), of which euro 24,472 million is attributable to the equity holders of the Parent (euro 25,662 million at December 31, 2005) and euro 1,088 million to Minority interests (euro 1,323 million at December 31, 2005). In greater detail, the changes in equity are the following:

(millions of euro)	1/1-6/30 2006	Year 2005
At the beginning of period	26,985	20,798
Contribution by shareholders, bond conversions and stock options	24	1,842
Net income attributable to the equity holders of the Parent and the Minority interests	1,473	3,690
Profits and reserves on which resolutions were passed by:	(3,002)	(2,342)
- *Telecom Italia S.p.A.*	*(2,766)*	*(1,912)*
- *TIM S.p.A.*	-	*(376)*
- *Other Group companies*	*(236)*	*(54)*
Tender offer for TIM shares and additional purchases of TIM shares	-	(2,124)
Telecom Italia/TIM merger	-	4,911
Tender offer for Telecom Italia Media shares	-	(134)
Exchange differences, changes in the scope of consolidation and other changes	80	344
At the end of period	25,560	26,985

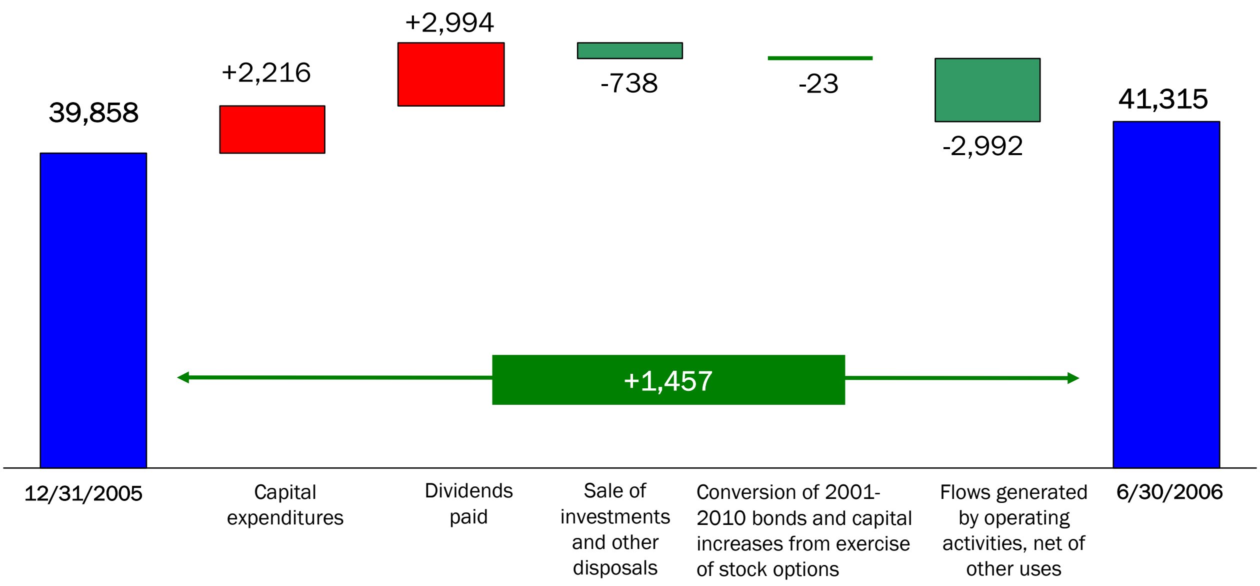
Net financial debt amounts to euro 41,315 million at June 30, 2006, with an increase of euro 1,457 million compared to euro 39,858 million at the end of 2005.

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

(millions of euro)	6/30/2006 (a)	12/31/2005 (b)	Change (a-b)
GROSS FINANCIAL DEBT			
Non-current financial liabilities			
- Financial payables	37,870	40,252	(2,382)
- Finance lease liabilities	1,892	1,894	(2)
Current financial liabilities			
- Financial payables	5,346	9,572	(4,226)
- Finance lease liabilities	245	234	11
- Other financial liabilities	6	6	-
Financial liabilities relating to discontinued operations/assets held for sale	-	143	(143)
TOTAL GROSS FINANCIAL DEBT (A)	45,359	52,101	(6,742)
FINANCIAL ASSETS			
Non-current financial assets			
- Securities other than investments	8	8	-
- Financial receivables and other non-current financial assets	514	988	(474)
Current financial assets			
- Securities other than investments	244	378	(134)
Financial receivables and other current financial assets	320	509	(189)
Cash and cash equivalents	2,958	10,323	(7,365)
Financial assets relating to discontinued operations/assets held for sale	-	37	(37)
TOTAL FINANCIAL ASSETS (B)	4,044	12,243	(8,199)
NET FINANCIAL DEBT (A-B)	41,315	39,858	1,457

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

(millions of euro)



In particular:

- capital expenditures in the first half of 2006 total euro 2,216 million and increased by euro 48 million compared to the first half of 2005, due principally to higher investments made by the Domestic Mobile Business Unit (+euro 106 million) particularly for development solutions to support new services;
- sales of investments and other disposals led to a reduction in debt of euro 738 million and refer to the following transactions:
  - the sale of the investment in Gruppo Buffetti equal to euro 66 million (including the deconsolidation of the net financial debt of the subsidiary sold);
  - the disposal of the real estate investment in Ruf Gestion equal to euro 51 million (including the deconsolidation of the net financial debt of the subsidiary sold);
  - the sale of Corporación Digitel C.A. (Digitel Venezuela) equal to euro 90 million (effect of the deconsolidation of the net financial debt alone of the subsidiary sold). The receivable arising from the sale of euro 229 million will reduce the net financial debt when it is received, estimated to occur by the end of the year;
  - sale of Neuf Télécom equal to euro 161 million;
  - reimbursements of share capital and the distribution of dividends by Tiglio I and Tiglio II (euro 31 million);
  - disposal of other non-current assets (euro 67 million);
  - sale of properties by the Group to the closed-end real estate funds Raissa and Spazio Industriale which reduced debt by euro 272 million, net of the relative incidental charges. Such disposals fall under the property sales program approved by the board of directors on December 21, 2005 which will be completed by the end of the year.

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

(millions of euro)	6/30/2006	12/31/2005
Securitization	15	648
Factoring	751	615
	766	1,263

In June 2006, there were no securitization transactions since the program ended. The residual amount is due to the sales made during the previous periods. In June 2006, however, contracts were signed for the sale of the same kind of receivables that were in the securitization transactions.

With reference to the financial debt of the Telecom Group, the following is noted:
on December 21, 2005, the board of directors of Telecom Italia S.p.A. set a new maximum ceiling for the Euro Medium Term Note Programme (EMTN), which regulates the placement, also for more than one transaction, for more than one tranche, and for more than one currency, of bonds by Telecom Italia S.p.A. and/or its wholly-owned subsidiary Telecom Italia Finance S.A. under a guarantee by Telecom Italia S.p.A. The new maximum ceiling was raised to euro 15 billion against the previous euro 10 billion (of which slightly less than euro 8 billion had already been used at December 31, 2005). At the same time, the board of directors authorized the issue of non-convertible bonds up to a maximum of euro 4.5 billion in 2006 (of which euro 2.1 billion has already been issued at June 30, 2006).

With reference to bonds, the following transactions took place during the first half of 2006:

1) NEW ISSUES

- Telecom Italia S.p.A. issued two new bond issues under the euro 15 billion Euro Medium Term Note Programme:
  - on May 19, 2006, dual-tranche issue: one for euro 750 million, 4.75% coupon, issue price 99.156%, maturing May 19, 2014 and one for GBP 400 million (euro 578 million at June 30, 2006), 5.875% coupon, issue price 99.622%, maturing May 19, 2023;
  - on June 9 2006, issue of euro 750 million, quarterly coupon indexed to the 3-month Euribor + 0.22%, issue price 100%, maturing June 9, 2008.

- Telecom Italia S.p.A. 2002-2022 bonds, set aside for subscription by employees of the Group, at June 30, 2006 are equal to euro 260.7 million and increased during the first half of 2006 by euro 12.4 million (euro 248.3 million at December 31, 2005) as a result of bond purchases/subscriptions for euro 48.5 million and sales for euro 36.1 million by the bondholders. The maximum amount of bonds that can be subscribed is equal to euro 400 million. According to the bond indenture, the Company is the sole counterpart for purchases and sales made by holders of this bond category.

2) REPURCHASE AND CANCELLATION OF BONDS

Telecom Italia Finance S.A. repurchased a nominal amount of euro 113.4 million of its bonds during the first half of 2006 as follows:

- a nominal amount of euro 48.4 million relating to bonds for the original amount of euro 3,000 million, maturing April 20, 2006; the residual nominal debt of euro 2,464.6 million reached maturity and was repaid;
- a nominal amount of euro 25 million relating to bonds convertible into Telecom Italia S.p.A. or SEAT Pagine Gialle S.p.A. and Telecom Italia Media S.p.A. shares; the

residual nominal debt of euro 1,709.7 million reached maturity and was repaid on March 15, 2006;

- a nominal amount of euro 40 million relating to bonds of euro 2,350 million maturing July 30, 2009 with a 6.575% coupon. On June 20, 2006, bonds that had been repurchased by the company on several occasions were cancelled for euro 140 million so that the residual nominal debt is equal to euro 2,210 million.

3) REPAYMENTS AND CONVERSIONS

- Repayment of "Telecom Italia Finance S.A. euro 1,100,000,000 floating rate notes due 2006": repayment of the notes issued by Telecom Italia Finance S.A. on May 29, 2002 was made on January 3, 2006 (euro 1,045 million net of repurchases made in 2003 for euro 55 million).

- Early repayment of "Telecom Italia S.p.A. euro 1,000,000,000 floating rate notes due 2007": repayment took place on January 30, 2006, the earliest date possible under the bond indenture for the floating-rate bonds maturing October 29, 2007.

- Repayment of "Telecom Italia Finance S.A. exchangeable notes 1% due 2006": repayment of the exchangeable notes 1% took place on March 15, 2006 at maturity for euro 2,012 million (inclusive of the repayment premium equal to 117.69%).

- Repayment of "Telecom Italia Finance S.A. bonds 6.125% due 2006": repayment of the bonds originally issued for euro 3,000 million was made on April 20, 2006 at maturity; the repayment amounted to euro 2,464.6 million net of repurchases made during the three years 2004-2006.

- Early repayment of "Telecom Italia Finance S.A. bonds 5.625% due 2046": early repayment of the CHF bonds 1986-2046 originally issued for CHF 100 million (CHF 88 million net of the cancellation of bonds held in portfolio on December 30, 2005 for CHF 12 million) was made on June 12, 2006. Repayment was made at 102% of nominal value.

- Conversion of "Telecom Italia S.p.A. 1.5% 2001-2010 convertible bonds with a repayment premium": as a result of requests for the conversion of "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium", the nominal debt decreased during the first half of 2006 by euro 25.6 million.

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

Bonds at June 30, 2006 are carried for an amount of euro 31,441 million (euro 35,462 million at December 31, 2005). Instead, in terms of the nominal repayment amount, bonds total euro 31,377 million, with a reduction of euro 3,200 million compared to December 31, 2005 (euro 34,577 million) with the following breakdown: Telecom Italia S.p.A. euro 10,870 million, Telecom Italia Finance S.A. euro 12,641 million and Telecom Italia Capital S.A. euro 7,866 million.

Convertible bonds at June 30, 2006 are carried for an amount of euro 472 million (euro 2,519 million at December 31, 2005) and refer entirely to convertible bonds issued by Telecom Italia S.p.A.. In terms of the repayment amount, these bonds total euro 574 million with a reduction of euro 2,068 million compared to December 31, 2005 (euro 2,642 million). This reduction is due to the previously mentioned repayment of the "Telecom Italia Finance S.A. Exchangeable Notes 1% due 2006" for euro 2,012 million

On June 13, 2006, a repayment of euro 1.5 billion was made on the euro 6.0 billion revolving credit facility expiring in 2012: the current utilization is euro 3.0 billion. At the same time, a partial cancellation of euro 1.5 billion was made on the euro 5.0 billion revolving credit facility expiring in March 2007 (initially for euro 6.5 billion).

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

The average maturity of non-current financial liabilities is equal to 8.1 years.

MATURITIES OF NON-CURRENT FINANCIAL LIABILITIES (1)(2)

	Bonds		Loans and other debt		Total	
(millions of euro)	Nominal amount	Carrying amount	Nominal amount	Carrying amount	Nominal amount	Carrying amount
within June 2007	3,470	4,051	583	808	4,053	4,859
within June 2008	2,424	2,422	1,121	1,045	3,545	3,467
within June 2009	2,397	2,402	412	413	2,809	2,815
within June 2010	3,767	3,700	3,491	3,504	7,258	7,204
within June 2011	3,615	3,611	286	286	3,901	3,897
beyond June 2011	16,278	15,727	5,921	6,652	22,199	22,379
TOTAL	31,951	31,913	11,814	12,708	43,765	44,621

(1) Carrying amounts include fair value adjustments and amortized cost.
(2) Including amounts due within June 30, 2007.

The following table shows the maturities of financial liabilities due within 12 months after June 30, 2006 (inclusive of accrued expenses and deferred income, which increase the current portion of non-current financial liabilities due by euro 796 million and current liabilities by 35 million).

FINANCIAL LIABILITIES MATURING WITHIN 12 MONTHS (1)						
(millions of euro)	Non-current financial liabilities – current portion due within 12 months		Current financial liabilities		Total	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount	Nominal amount	Carrying amount
TOTAL	4,053	4,859	702	738	4,755	5,597

(1) Accounting amounts include fair value adjustments.

To meet these short-term commitments, there are current financial assets amounting to euro 3,522 million (euro 3,394 million at nominal amounts), also taking into account the new Telecom Italia Capital S.A. bond issue of USD 2.6 billion in July 2006, to cover the maturities arising in 2007.

Moreover, it should be pointed out that, at June 30, 2006, unused committed credit lines expiring in March 2007 amount to euro 3.5 billion, after the cancellations of euro 3.0 billion on October 20, 2005 and June 13, 2006. These cancellations, however, also made euro 3.0 billion available for future use on the committed revolving credit line expiring August 2012, bringing the total unused committed and available credit lines to euro 6.6 billion.

BUSINESS OUTLOOK

With regard to the current year operating performance, on a comparable consolidation, exchange rate and accounting standard basis, revenues are expected to increase over the prior year with the operating margin remaining substantially stable.
Debt is expected to continue to decline consistently with the course of action outlined in the market communication on 2006-2008 targets.

KEY DATA - TELECOM ITALIA GROUP BUSINESS UNITS

The integration of fixed and mobile operations begun at the end of 2005, followed by the merger of Tim Italia S.p.A. in Telecom Italia S.p.A. on March 1, 2006, and still in progress, has resulted in an overall reorganization of the Group. Accounting representation by business segment, starting in the first half at June 30, 2006, is as follows:

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

In order to facilitate the comparability of the data, segment information for prior periods presented have been restated on a consistent basis.

Key operating and financial data of the Telecom Italia Group Business Units.

(millions of euro)		Wireline (1)	Domestic Mobile	Brazil Mobile	Media	Olivetti	Other activities (1)	*Adjustments and eliminations*	**Total Group**
Revenues	1st Half 2006	8,977	4,982	1,722	98	212	762	(1,418)	**15,335**
	1st Half 2005	8,861	4,930	1,224	83	223	638	(1,431)	**14,528**
EBITDA	1st Half 2006	3,902	2,553	354	(52)	(26)	(208)	(5)	**6,518**
	1st Half 2005	3,990	2,636	171	(51)	2	(248)	(15)	**6,485**
EBIT	1st Half 2006	2,293	1,874	(78)	(79)	(35)	(199)	25	**3,801**
	1st Half 2005	2,487	2,025	(113)	(67)	(6)	(370)	23	**3,979**
Capital expenditures	1st Half 2006	1,494	443	193	59	5	54	(32)	**2,216**
	1st Half 2005	1,500	337	260	22	8	45	(4)	**2,168**
Employees (number at period-end) (2)	6/30/2006	56,694	11,283	9,290	944	1,570	4,914	-	**84,695**
	12/31/2005	56,987	11,720	9,043	886	1,750	5,098	-	**85,484**

(1) As a result of the new organizational structure of the Group approved on October 5, 2005, the activities of the Innovation & Engineering Services business segment of Telecom Italia, ex-TILAB of Telecom Italia, previously included in Other activities, were transferred to the Wireline Business Unit. Comparative periods have been restated for purposes of comparison.
(2) The number of employees of the Group at the end of the period does not take into account the employees relating to discontinued operations.

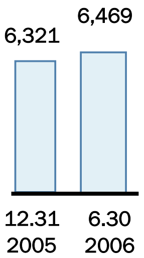
Key operating and financial data referring to discontinued operations:

(millions of euro)		Discontinued Operations: Mobile (1)	Media (2)	Entel Chile Group	IT Market	**Subtotal**	*Other, Adjustments and Eliminations (3)*	**Total**
Revenues	1st Half 2006	121	-	-	-	121	(1)	120
	1st Half 2005	538	71	238	289	1,136	(45)	1,091
EBITDA	1st Half 2006	31	-	-	-	31	-	31
	1st Half 2005	140	8	77	7	232	(33)	199
EBIT (3)	1st Half 2006	15			-	15	31	46
	1st Half 2005	45	5	36	(3)	83	395	478
Net income (loss) from discontinued operations / assets held for sale	1st Half 2006	15	-	-	-	15	31	46
	1st Half 2005	13	2	26	(11)	30	395	425
Capital expenditures	1st Half 2006	10	-	-	-	10	-	10
	1st Half 2005	42	1	27	5	75	-	75
Net financial debt (liquidity)	6/30/2006	-	-	-	-	-	-	-
	12/31/2005	90	16	-	-	106	-	106
Employees (number at period-end)	6/30/2006	-	-	-	-	-	-	-
	12/31/2005	863	184	-	-	1,047	-	1,047

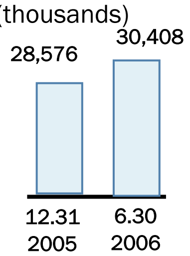
(1) Includes: Tim Hellas (sold at the beginning of June 2005), Tim Perù (sold in August 2005) and Digitel Venezuela (sold in May 2006).
(2) Gruppo Buffetti (sold in January 2006).
(3) The EBIT adjustments and eliminations include:
- in the first half of 2006, the gain on the sale of Digitel Venezuela net of the relative incidental charges;
- in the first half of 2005, the gain on the sale of Tim Hellas (euro 410 million, net of the relative incidental charges), as well as the losses and incidental charges on the sale of Entel Chile and the Finsiel group for a total of euro 15 million.

OPERATING HIGHLIGHTS - TELECOM ITALIA GROUP

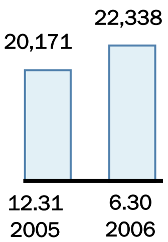
Voice pricing plans
(thousands)



Mobil lines - Italy
(thousands)



Mobil lines - Brazil
(thousands)



	6/30/2006	12/31/2005
WIRELINE		
Fixed network connections in Italy (thousands)	24,477	25,049
Physical accesses *(Consumer + Business)*	21,217	21,725
Voice pricing plans (thousands)	6,469	6,321
Broadband accesses (thousands)	7,862	7,020
- domestic (thousands)	6,266	5,707
- European (thousands)	1,596	1,313
Alice Page views - ex-Virgilio (millions)	6,663	9,842
Alice average monthly single visitors - ex-Virgilio (millions)	19.3	15.7
Network infrastructure in Italy:		
- access network in copper (millions of km - pair)	105.2	105.2
- access network and transport in fiber optics (millions of km of fiber optics)	3.7	3.7
Network infrastructure abroad:		
- European backbone (km of fiber optics)	51,000	51,000
DOMESTIC MOBILE		
Mobile lines - in Italy (at period-end, thousands)	30,408	28,576
BRAZIL MOBILE		
Mobile lines - in Brazil (at period-end, thousands)	22,338	20,171
MEDIA		
La 7 audience share Free to Air (analog mode) (period average %)	3.0	2.7
La 7 audience share Free to Air (analog mode) (month of June in %)	2.9	3.1

OPERATING AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP BUSINESS UNITS

OPERATIONS

On October 5, 2005, the board of directors of Telecom Italia adopted the "One Company Model" organizational structure, converging the Wireline and Mobile Business Units into one single unit (Operations).
For purposes of accounting representation, starting from the first half of 2006, the Mobile business is divided into Domestic Mobile and Brazil Mobile (since the merger of Tim Italia S.p.A. in Telecom Italia S.p.A. came into effect on March 1, 2006).

THE STRUCTURE OF THE BUSINESS UNIT

The Operations Business Unit is organized as follows:

OPERATIONS

Wireline
Domestic Mobile
Brazil Mobile

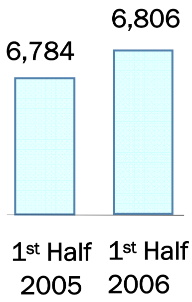
OPERATING AND FINANCIAL DATA

In order to have an overall vision of Operations, the following table shows the main results for the first half of 2006, compared to the first half of 2005, restated for purposes of comparison.

(millions of euro)	1st Half 2006	1st Half 2005 (1)	Change	
			amount	%
Revenues	14,896	14,132	764	5.4
EBITDA	6,806	6,784	22	0.3
% of Revenues	*45.7*	*48.0*		
EBIT	4,087	4,391	(304)	(6.9)
% of Revenues	*27.4*	*31.1*		
Capital expenditures	2,129	2,092	37	1.8
Employees (number)	77,270	77,754	(484)	(0.6)

(1) The number of employees is as of the date of December 31, 2005.

EBITDA



Revenues, totaling euro 14,896 million, record an increase of 5.4% (+euro 764 million) compared to the first half of 2005; organic growth, on a comparable consolidation basis and excluding the foreign exchange effect, is 2.4% (+ euro 354 million).

EBITDA, amounting to euro 6,806 million, shows an increase of 0.3% (+euro 22 million) compared to the same period of 2005, with the percentage of EBITDA to revenues equal to 45.7% (48.0% in the first half of 2005). The organic growth of EBITDA compared to 2005 is equal to 0.3% (+euro 24 million), calculated by taking into account the foreign exchange effect (euro 68 million), the change in the scope of consolidation (euro 3 million), expenses of euro 76 million in the first half of 2006, referring principally to restructuring costs, and expenses of euro 3 million in the first half of 2005.
Organic EBITDA as a percentage of revenues is 46.2% (47.2% in the first half of 2005).

EBIT, amounting to euro 4,087 million, records a decrease of 6.9% compared to 2005 (-euro 304 million), and as a percentage of revenues is equal to 27.4% (31.1% for the six months ending June 30, 2005). The organic change in EBIT is a decrease of 5.1% compared to 2005 (-euro 223 million), calculated by taking into account the foreign exchange effect (-euro 13 million), the change in scope of consolidation (-euro 5 million), the above expenses of euro 76 million in the first half of 2006 and expenses of euro 13 million in the first half of 2005.
Organic EBIT as a percentage of revenues is 27.9% (30.2% in the first half of 2005).

***

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

WIRELINE

- Further strengthening of Telecom Italia's leadership position in the Italian broadband market with about 6.3 million accesses (about 5.2 million of which are Retail accesses) and continuous growth of the European broadband customer base with about 1.6 million broadband accesses at June 30, 2006 in Germany, France and Holland)
- Further increase in the number of new flat-rate packages as an effective tool for combating the effects of the migration of traffic from the fixed to the mobile network

THE BUSINESS UNIT

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

THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:

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

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

After the adoption of the new organizational structure of the Group on October 5, 2005, the activities of the Innovation & Engineering Services area of Telecom Italia, ex-TILAB of Telecom Italia, were transferred to the Wireline Business Unit. The periods under comparison have been restated for purposes of comparison.

OPERATING AND FINANCIAL DATA

The following table shows the key results for the first half of 2006, compared to the first half of 2005. The data takes into account the acquisition of the internet business as of January 1, 2005, the merger of IT Telecom activities and the inclusion of the ex-

TILAB (R&D) business of Telecom Italia in the scope of consolidation.

(millions of euro)	1st Half 2006	1st Half 2005 (1) (2)	Change	
			amount	%
Revenues	8,977	8,861	116	1.3
EBITDA	3,902	3,990	(88)	(2.2)
% of Revenues	*43.5*	*45.0*		
EBIT	2,293	2,487	(194)	(7.8)
% of Revenues	*25.5*	*28.1*		
Capital expenditures	1,494	1,500	(6)	(0.4)
Employees (number)	56,694	56,987	(293)	(0.5)

(1) Including the data of IT Telecom as well as Tin.it / Matrix and TILAB.
(2) The number of employees is as of the date of December 31, 2005.

Revenues, totaling euro 8,977 million, show an increase of 1.3% (+euro 116 million) compared to the first half of 2005. On a comparable consolidation basis and excluding the foreign exchange effect, organic growth is 0.3% (euro 23 million). This change, although affected by the cut in the wireline-mobile termination rates, which took place starting from the second half of 2005, and the acceleration of the migration of voice traffic from the wireline to mobile network, is sustained by the success of the actions to expand the European and domestic broadband market. Excluding the negative effect of the reduction in termination rates, the organic growth would be 1.2%.

Revenues by strategic area of business are as follows:

Retail telephone
Revenues from the Telephone area, equal to euro 4,805 million, show a reduction of euro 362 million (-7.0%) compared to the same period of 2005. This area features a falloff in traffic revenues (-10.0%) which reflects the negative impact generated both by the reduction in the prices of fixed-mobile terminations (euro 80 million) and a contraction in the wireline telephone market to the advantage of mobile telephone market. Revenues from value added service in voice telephony saw a decline of euro 19 million as a consequence of new services market regulation 12xy.

Retail Internet
Revenues from the Internet area, equal to euro 762 million, grew by 7.3% (+euro 52 million), compared to the first half of 2005, thanks to the continual growth of broadband revenues (+euro 73 million; +13.6% compared to 2005).
Wireline's portfolio of broadband retail customers in Italy at June 30, 2006 now totals 5,195,000 (+1,340,000 compared to the same period of 2005).

Data Business
Revenues from the Data Business area, equal to euro 890 million, show a slight decline overall (-1.2%; -euro 11 million) compared to the same period of 2005. In this area, ICT services reported a good performance with growth of 12.1% (+euro 30 million) while a decline was noted in revenues from leased lines (-euro 25 million) and traditional data (-euro 18 million).

Wholesale

Revenues from wholesale services, equal to euro 1,923 million, grew by a total of euro 217 million (+12.7%), compared to the same period of 2005. National wholesale services account for euro 24 million of the increase and international wholesale services for euro 193 million.

European Broadband Project

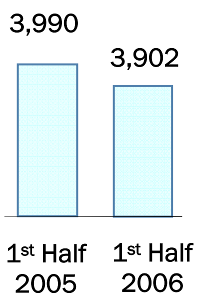
Revenues from the European Broadband Project (France, Germany and Holland), equal to euro 427 million (+101.4% compared to 2005), show a sharp increase. On a comparable consolidation basis, taking into account the inclusion of Liberty Surf Group in the first half of 2005 (the date of acquisition is May 31, 2005), organic growth is 42.3%. The portfolio of customers acquired has now reached 1,596,000 at June 30, 2006 (+283,000 compared to the end of 2005).

The following tables shows the key results of the European Broadband Project for the first half of 2006 compared to the first half of 2005.

(millions of euro)	1st Half 2006	1st Half 2005 (1)	Change	
			amount	%
Revenues	427	212	215	
EBITDA	14	(16)	30	
% of Revenues	*3.3*	*(7.5)*		
EBIT	(78)	(59)	(19)	32.2
% of Revenues	*(18.3)*	*(27.8)*		
Capital expenditures	228	144	84	58.3
Employees (number)	2,842	2,494	348	14.0

(1) The number of employees is as of the date of December 31, 2005.

EBITDA



EBITDA, equal to euro 3,902 million, shows a decrease of 2.2% (-euro 88 million) compared to the first half of 2005, with the percentage of EBITDA to revenues at 43.5% (45.0% for the six months ending June 30, 2005). Compared to the first half of 2005, EBITDA was highly affected by the activities to support the new business initiatives in Italy in addition to higher restructuring costs (euro 45 million in the first half of 2006).

The organic growth of EBITDA compared to the first half of 2005 is a negative 0.9% (-euro 36 million), calculated by taking into account the foreign exchange effect (euro 1 million), the change in the scope of consolidation (euro 3 million), expenses of euro 50 million in the first half of 2006, mainly referring to the previously mentioned restructuring costs, and income of euro 6 million in the first half of 2005.

Organic EBITDA as a percentage of revenues is 44.0% (44.5% in the first half of 2005).

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

- purchases of materials and external services total euro 3,750 million, with an increase of 4.7% compared to the first half of 2005. Besides the expansion of broadband in Europe, the growth of +euro 170 million is principally due to higher interconnection costs (+euro 75 million, chiefly on account of the strong growth of international wholesale volumes), higher costs for the purchase of products and content (+euro 30 million), as well as electrical energy used in the industrial installations (+euro 8 million);

- personnel costs amount to euro 1,379 million, with an increase of euro 61 million compared to the first half of 2005 (+4.6%). The increase is largely due to the aforementioned restructuring costs;
- other operating expenses amount to euro 272 million (+euro 7 million compared to the first half of 2005).

EBIT is euro 2,293 million and decreased by 7.8% (-euro 194 million) compared to the first half of 2005. As a percentage of revenues, EBIT is 25.5% (28.1% for the six months ending June 30, 2005). The organic change in EBIT is a reduction of 5.4% compared to the same period of 2005 (-euro 134 million), calculated by taking into account the change in the scope of consolidation (-euro 5 million), expenses of euro 50 million in the first half of 2006, mainly due to the aforementioned restructuring costs, and income of euro 5 million in the first half of 2005.
Organic EBIT as a percentage of revenues is 26.1% (27.7% in the first half of 2005).
Compared to 2005, besides the increase in the above operating costs connected with higher wholesale traffic volumes and the development of the European Project, EBIT was also affected by higher depreciation and amortization charges (+euro 106 million). The latter was influenced by the change in the calculation method, introduced starting from the 2003 financial statements, relating to the starting date for the amortization of software (established as the date the asset effectively comes into use instead of the start of the year). The effect on the first half of 2006 is euro 114 million.

Capital expenditures amount to euro 1,494 million and decreased by euro 6 million (-0.4%) compared to the same period of 2005.

Employees number 56,694 and show a reduction of 293 persons compared to December 31, 2005. The change is due to the hiring of 1,373 people, of whom 422 are in Italy and 951 abroad (mainly in France), and intragroup mobility (+150), against 1,353 terminations of employment (principally at Telecom Italia Wireline) and the reduction of the number of people with temp work contracts (463).

INFORMATION ON OPERATIONS

The main operating highlights at June 30, 2006 compared to December 31, 2005 are reported in the following table.

Operating highlights	6/30/2006	12/31/2005	6/30/2005
Fixed network connections (thousands of equivalent lines)	24,477	25,049	25,615
Physical accesses *(Consumer + Business)*	21,217	21,725	22,183
Voice pricing plans (thousands)	6,469	6,321	6,190
Minutes of traffic on the fixed network (billions)	90.3	185.1	96.9
• domestic traffic	83.8	171.3	89.9
• international traffic	6.5	13.8	7.0
TP terminals using ISDN technology (thousands)	107.4	108.8	118.4
Internet users:			
- Dial-up users (Tin.it Free and Premium) (thousands)	762	950	1,102
- Broadband accesses (thousands)	7,862	7,020	5,568
- of which domestic (thousands)	6,266	5,707	4,615
- of which European (thousands)	1,596	1,313	953
Alice page views - ex-Virgilio (millions)	6,663	9,842	4,565
Alice average monthly single visitors - ex-Virgilio (millions)	19.3	15.7	15.2

There follows a description of the main activities, commercial initiatives and data regarding the Business Unit for the first half of 2006, with reference to the various strategic business areas and the Domestic and Wholesale network.

- RETAIL

The commercial initiatives undertaken during the first half of 2006, within the framework of the market strategies aimed at the Retail Telephone market (Access and Traffic, in particular) and the development of Internet (Alice ADSL and Alice Business plans), Data Business (Broadband and other Data services) and VAS markets are as follows:

Telephone	Access and traffic	Free activation was granted for traditional lines in March and April 2006, with the aim of boosting demand. The free promotion of the video-call service was extended from fixed phones to mobile TIM UMTS mobile phones, with the extension of the new option of free traffic also towards fixed phones.

	Pricing (rate plans)	The *Teleconomy Dove Vuoi* package was launched for the consumer clientele, enabling customers to choose one international destination to call at advantageous rates, and Teleconomy 1 cent, which makes it possible to call all fixed phones in the Telecom Italia network at the price of euro 0.01 per minute. For the Business clientele, new rate plans were launched which converge with mobile plans: *Team Business* for the Sme (Small/Medium–size Enterprises) clientele and *Teleconomy One Office* for the Microbusiness clientele, which offer cheaper rates for fixed-mobile traffic, particularly towards TIM numbers. June 2006 saw the launch of *7 su 7 Magnum* and *Teleconomy 7 su 7*, which offer reduced prices towards all mobile phones, but with a time limit which is more advantageous towards TIM numbers. The One Office rate plan on VOIP customers with *Alice Business Voce* is also available.
	Products	The *Outside* cordless phone and products with integrated fixed and mobile technology were launched.

Internet and VOIP	Alice	*Alice Night&Weekend* is a new semi-flat rate plan with free traffic at weekends and in the evening while *Alice 20M* allows subscribers to attain download speeds of up to 20 Mbps. In the sphere of VOIP, *Alice Voce Friends* enables *Alice Voce* customers with a flat rate plan to call other *Alice Voce* customers free of charge.
	Alice Business	The process of transforming the old *Smart* rate plans into *Alice Business* packages continued. New additions to the rate plan portfolio included the *Thomson TIR* router *(Terminazione Intelligente di Rete)* and WI-FI modules on *TIR autoinstallante.* Finally, the ISDN Backup service has also been extended to CPE (Customer Premises Equipment) owned by customers.

Public Telephone Services	Activities continued to focus on the ethnic clientele segment with the launch of a new pricing system for public telephones (using prepaid cards or coins) located in the railway stations of Milan, Turin, Rome and Naples) which offers considerable reductions for calls to the main destination countries compared to standard rates.

IPTV	Coverage of the Alice Home TV (IpTV) service was extended to enlarge the potential customer base. The content of Sky's Cinema package, offered in addition to the content of the basic subscription (films, sport, news, music and TV) was also enhanced.

Alice Portal (ex Virgilio)	Activities were geared mainly to creating initiatives with the aim of supplying portal users with dedicated areas enabling them to follow important events “live on line”, such as the Turin Winter Olympics, parliamentary and municipal elections, the Referendum, the Giro d’Italia cycle race and the World Cup. On June 1, 2006 the migration of the whole portal to the alice.it domain – to which Matrix holds the user rights – was completed, along with the complete integration of the websites of Telecom Italia Alice ADSL, Rosso Alice, Alice Home TV and I-TIM. During the first half of 2006, 6,663 million pages of the portal were visited, an increase of 45.9% compared to the first half of 2005. The average monthly number of one-time visitors was about 19.3 million, an increase of 26.7% compared to the same period of the prior year.

Data Business	Lambda	Some promotional initiatives were launched which led to a reduction in pricing of 10%. In addition, geographical coverage of the service was extended.
	Hyperway and Datawan	The process of activating ADSL accesses on existing RTG/ISDN lines was automated and the new TIRs were introduced in the rate plan portfolio. Furthermore, the ISDN Backup service has also been extended to CPE (Customer Premises Equipment) owned by customers.
	Ethernity	Coverage was extended and the one-off contribution for the *Netcruise* and *Netsite* profiles was repriced.

Telephone VAS	Services	The new *Free TIM SMS* integrated fixed-mobile messaging rate plan was launched, which involves a 2-month promotion to send free SMS from the fixed to the TIM mobile network and free MMS from fixed terminals to TIM and Telecom Italia numbers and e-mail addresses. Another promotion involved *Tutto 4**, which is offered free for up to 3 months on extra numbers of Alice Voce. Finally, *Alice Mail* is an integrated electronic post-box for *Alice ADSL* and TIM users, offering the option of consulting personal e-mail from a mobile phone.
VAS ICT	Application Management	Launch of the new *Alice Business Messaging & Collaboration* rate plan which offers centric network services on shared infrastructures located in Telecom Italia’s Data Centers. Furthermore, highly evolved messaging services were introduced such as mobile access in the push mode, integration with fax, SMS and collaboration services such as instant messaging, presence, PC to PC A/V conferences and web collaboration portals. The *"dotMOBI"* bundle rate plan offers customers a turnkey solution to create and manage a website for mobile devices, including registration of the domain, a hosting environment at a Telecom Italia Internet Data Center and the development of the site according to the guidelines recommended by the company Mobi Top Level Domain Ltd. (of which Telecom Italia is also a shareholder) and the W3C consortium.

	Data Center Services	Launch of the new *VDS* (Virtual Dedicated Server) service which makes it possible to operate a Dedicated Virtual Server system based on a shared HW/SW infrastructure with dedicated resources in terms of memory, disk space, CPU and network. Furthermore, the fact that the resources are shared ensures high reliability and performance at a low cost for each VDS.
	Security	Launch of the promotion of the ICT Security Services rate plan applied to Elsag SAS AV routers, through bundling with the Alice Business Corporate connectivity rate plan. The SAS AV routers can also act as advanced security gateways, providing perimeter (Firewall and VPN) and content protection (Antivirus, Intrusion Prevention and Web Filtering). Restyling of the ICT Security Services rate plan to allow greater flexibility, mainly in the configuration of hardware for managed security products, but also Service Level Agreements, with the inclusion of new technologies on the price list that can be managed in the standard offers directly by Telecom Italia Central Services.
	Network Manage-ment	The new profile of the Datasymphony-VIP Mix rate plan was launched; this is the new profile dedicated to customers with at least five offices nationwide. The service operates the customer's data network through 3 new technical assistance SLAs and the services of Web Collaboration so that they can interact on-line with the CNA assistance structure.

- NATIONAL WHOLESALE

  During the first half of 2006, the trend of the national wholesale market was mainly affected by the expansion of the housing service. The service offers operators space on Telecom Italia exchanges which is technologically equipped so that they can connect directly with their clientele. In this way, the operators, since they are no longer forced to re-sell Telecom Italia's portfolio of services, have the advantage of being able to develop their own commercial rate plans. At almost 2,700 sites in about 1,000 Telecom Italia exchanges, operators are reconnecting their customers directly to their own networks.

  The most significant quantitative changes in the national wholesale market during the first half of 2006 are due to the following:

Local Loop Unbundling (LLU)	LLU Lines	More than 1,390,000 lines were connected directly to the networks of other operators, corresponding to an increase over the six-month period of more than 270,000 lines. Shared Access lines, with which other operators provide ADSL access to Telecom Italia's telephone clientele, now number more than 246,000, an increase of 105,000 lines compared to December 31, 2005.
Broadband access	XDSL	XDSL wholesale accesses acquired by other operators increased by more than 180,000 compared to December 31, 2005, reaching a total of 1,071,000.

Carrier-PreSelection	CPS Lines	At June 30, 2006, the number of access lines configured totaled approximately 4,100,000, an increase of approximately 15,000 compared to December 31, 2005.

- INTERNATIONAL WHOLESALE

  During the first half of 2006, actions continued to support the growth of the profitability of Voice traffic, particularly for the transit component (+euro 19.3 million of net revenues), partly by acquiring new customers, especially in Voice Over IP transport technology (56 new interconnections - 34 in Voice Over IP) of which 7 are new mobile customers. VOIP traffic volumes equaled 970 million minutes, an increase of 44% compared to the first half of 2005.

  During the first half of 2006, the Data & IP market reported a substantial growth of the bandwidth sold, against a trend of lower prices. However, this phenomenon generated an increase in sales of innovative wholesale services of approximately 27.7% compared to the corresponding period of 2005.

- DOMESTIC NETWORK

  As far as the domestic network is concerned, the main activities in the first half of 2006 refer to the following:

National transmission backbone (fiber optic evolution)	Another Marconi latest-generation high-capacity electronic frame has been installed. Scheduled to become operational in the second half of 2006, it will bring the total restoration capabilities to 32 junctions. Work continued to strengthen the DWDM links already in operation, bringing the overall capacity to more than 155 systems with 5 more links which are already being installed, in the second half of the year.

Metro Regional Network for IP TV services	The first half of the year saw the start and extension of the marketing of the IP TV-*Alice Home TV* service in more towns than the 21 initially involved, extending coverage to approximately 37% of the telephone population in 160 municipalities. About 660 exchanges have already been activated.
Gigabit Ethernet Access	Work continued to create a network to support the marketing of services based on Gigabit Ethernet technology (*Ethernity*, *Hyperway* and *Genius* services using optical GBE access). About 200 new GBE accesses were installed, bringing the total number at June 30, 2006 to approximately 1,880 accesses. In the first half of 2006, GBE coverage was extended to the towns of Cuneo and Novara, bringing overall coverage to 26 towns across the country.
ADSL Access	During the first half of 2006, 132 new ADSL exchanges were equipped and about 760,000 new accesses were installed. At June 30, 2006 the exchanges capable of supplying ADSL access total 4,633, and total coverage corresponds to about 87.0% of the population in Italy.

- FOREIGN RETAIL NETWORKS

  Telecom Italia, under the "*BroadBand Internazionale*" project begun in 2003, created an innovative broadband access and service offer in the metropolitan areas of France, Germany and Holland through the subsidiaries Telecom Italia S.A., HanseNet and BBNED.

FRANCE	The company Telecom Italia S.A., a subsidiary of the holding company Liberty Surf Group S.A., intends to extend coverage of the service to 419 new sites in 2006, bringing the total coverage to 650 towns by the end of the year. At June 30, 2006, 88 new sites were ready to deliver in addition to the 231 open at the end of 2005. The main achievements in terms of services in the first quarter of 2006 are the following: • increase of the VoIP platform; • introduction of Business Voice services to the platform; • introduction of the highly evolved IAD “Media box” (triple play + STB). • IP-TV (TPS Free bouquet) • Alice–Pro Micro Business • B2B (ADSL on Alcatel Network)
GERMANY	HanseNet’s main achievements during the first half of 2006 include activities aimed at extending LLU coverage to 100 more exchange areas by June 2007. At June 30, 2006, 73 more sites were ready to deliver in addition to the 493 open at the end of 2005. In particular, the following achievements in the first half of 2006 are worthy of note: • introduction of VoIP • the IPTV rate plan • introduction of ISP services to the platform
HOLLAND	The Dutch market has reached a high level of broadband penetration which limits the Group’s future development prospects in this area.

- INERNATIONAL NETWORK

During the first half of 2006, work continued to integrate Telecom Italia Sparkle’s Pan-european Backbone (PEB) with the European network of Tiscali International Network SAS (TINet SAS) acquired at the end of 2005. In particular, the two networks in Milan, Marseilles and Paris were interconnected, the management software was updated for implementing a grid network architecture and the migration of the operation and control functions to Telecom Italia Sparkle’s NOC (Network Operation Center) was completed.
Actions to support the growth of internet traffic include the extension of the European backbone activities, the American network and trans-Atlantic capacity.
Actions to support the growth and profitability of voice and signaling services include the introduction of the new support platform for optimal traffic routing, based on parameters of cost, volume and quality.

DOMESTIC MOBILE

- More than 30.4 million mobile customers in Italy at June 2006; market share recovery continues (40.5% at June 2006, 40.0% at December 2005 and 39.4% at June 2005)
- More than 3.4 million UMTS customers, which are contributing to the strong growth of Value-Added Service (VAS) revenues (+11.4% for the six months of 2006 compared to the same period of the prior year)

THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit operates with the following structure:

DOMESTIC MOBILE

Tim Italia S.p.A.
Telecom Italia – domestic mobile

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The merger of Tim Italia S.p.A. in Telecom Italia S.p.A. came into effect on March 1, 2006 in keeping with the merger deed signed on February 22, 2006.

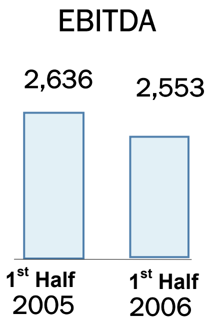
OPERATING AND FINANCIAL DATA

The following table shows the key results of Tim Italia S.p.A. for transactions up to the date of the merger (March 1, 2006) and those of the mobile business of Telecom Italia S.p.A. for the period March – June 2006. The figures for 2005 refer to the transactions of ex-TIM S.p.A. up to its spin-off (March 1, 2005) and those of Tim Italia S.p.A. for the period March – June 2005:

(millions of euro)	1st Half 2006	1st Half 2005 (1)	Change	
			amount	%
Revenues	4,982	4,930	52	1.1
EBITDA	2,553	2,636	(83)	(3.1)
% of Revenues	*51.2*	*53.5*		
EBIT	1,874	2,025	(151)	(7.5)
% of Revenues	*37.6*	*41.1*		
Capital expenditures	443	337	106	31.5
Employees (number)	11,283	11,720	(437)	(3.7)

(1) The number of employees is as of the date of December 31, 2005.

Revenues in the first half of 2006 amount to euro 4,982 million with an increase of 1.1% compared to the first half of 2005 (+euro 52 million). This performance was affected by the negative impact on the new termination price list which came into force; net of this item, the change compared to the same period of 2005 would be 5.8%.
In particular, the strong increase of Value-Added Services (VAS) of euro 793 million (+11.4% compared to the first half of 2005) continues to contribute to this growth thanks to the continuous innovation of services and the portfolio of offerings. VAS revenues as a percentage of total revenues from services reached 17.2% (15.3% in the first half of 2005). "Voice" revenues, equal to a total of euro 3,591 million, show an increase in outgoing traffic (+1.4%, +euro 36 million) and a decrease in ingoing traffic (-17.0%, -euro 186 million) which was affected by the above negative impact of the new termination price list (euro 232 million); net of this item, the change compared to 2005 would also be positive and equal to +euro 46 million (+4.2%).
Revenues from handset sales increased considerably, by euro 368 million (+37.8%) mainly due to third generation handsets: over 1 million units sold in the first six months of 2006, posting an increase of 133%.



EBITDA in the first half of 2006 is equal to euro 2,553 million, a decrease of euro 83 million (-3.1%) compared to the first half of 2005. The termination price list also produced a negative effect of euro 122 million; net of this item, the change compared to the first half of 2005 would be a positive amount of euro 39 million, +1.5%.
EBITDA as a percentage of revenues is 51.2% (53.5% in the first half of 2005).

The organic change, compared to the first half of 2005 is a negative 2.4% (euro 64 million) and was calculated by taking into account expenses for a total of euro 17 million in the first half of 2006, mainly for restructuring costs (euro 12 million), and income of euro 2 million in the first half of 2005.
Excluding the negative impact of the cut in termination rates, there would have been 2.2% organic growth.
Organic EBITDA as a percentage of revenues is 51.6% (53.4% in the first half of 2005).

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

- purchases of materials and external services of euro 2,310 million increased by 11.0% over the first half of 2005. This increase (+euro 229 million) is entirely the result of higher traffic volumes managed and handsets sold and the added push given to sales ;
- personnel costs, equal to euro 251 million, decreased by euro 21 million compared to the first half of 2005 (-7.7%);
- other operating expenses amount to euro 59 million and show a decrease of euro 6 million compared to the first half of 2005.

EBIT in the first half of 2006 amounts to euro 1,874 million, a decline of euro 151 million (-7.5%) compared to the same period of 2005. EBIT as a percentage of revenues is equal to 37.6% (41.1% in the first half of 2005).
The organic change, compared to the first half of 2005 is a negative 6.5% (-euro 131 million) and was calculated by taking into account expenses for a total of euro 17 million in the first half of 2006, mainly as a result of restructuring costs (euro 12 million), and income of euro 3 million in the first half of 2005.
Organic EBIT as a percentage of revenues is 38.0% (41.0% in the first half of 2005).

EBIT was particularly affected by depreciation and amortization charges, equal to euro 677 million, which are euro 67 million higher than in the first half of 2005. The charges were influenced by the change in the calculation method, introduced starting from the 2003 financial statements, relating to the starting date for the amortization of software (established as the date the asset effectively comes into use instead of the start of the year). The effect on the first half of 2006 is euro 65 million.

Capital expenditures total euro 443 million (+euro 106 million compared to the first half of 2005) and are directed towards the building of new network platforms and infrastructures. The increase over 2005 is particularly attributable to the development of solutions to support new services.

INFORMATION ON OPERATIONS

The main operating highlights at June 30, 2006 compared to December 31, 2005 and the principal activities carried out during the first half are presented below:

Operating highlights	6/30/2006	12/31/2005	6/30/2005
Mobile lines (thousands)	30,408	28,576	26,117
Mobile traffic (millions of minutes) (*)	22,163	42,597	20,701

(*) This item includes traffic minutes referring to customers of foreign operators and the minutes of infoservices traffic and excludes video-call traffic.

There are more than 3.4 million UMTS customers; the increase as a percentage of total customers is from 7.6% to more than 11% in six months.

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

Rate plans per segment	The *TIM tribù* rate plan profile, which enables customers to talk and send SMS text messages to other TIM customers belonging to the community for euro 0.01, has been revised. Since February 2006, the community rate is euro 0.01 against payment of a monthly subscription of euro 5 per month, and new services have been added. The new *TIM tribù* service *TAM TAM* (Push to Talk) was launched through which all TIM Tribù customers can send voice messages free within the TIM Tribù community (free Push to Talk has been extended until September 30, 2006). In May 2006, at the Telecom Italia Convention, *Ricarica Alice - Ricarica TIM Tribù* was launched within the framework of integrating fixed-mobile rate plans. As a result, for euro 10, every *TIM Tribù* customer receives euro 20 of traffic, euro 8 of which for surfing the internet with Alice ADSL and euro 12 for making calls to friends in the *TIM Tribù* community. February 2006 saw the launch of the version for subscribers of the *TIM Famiglia* profile (the version for prepaid customers was launched in October 2005). The new profile offers calls and video-calls at advantageous prices to 3 numbers (2 TIM numbers and 1 fixed-network number) at euro 0.01 per minute and an automatic top-up for all calls received from any fixed network number. In addition, there is a new portfolio of *Relax* rate plans for prepaid customers and subscribers. The rate plans offers customers a UMTS telephone, paid in

<table>
<tr><td colspan="2"></td><td>installments, telephone and messaging services at advantageous prices and include a VAS component. The rate plan is intended to attract high-consumption customers by guaranteeing flat rates and advantageous conditions.</td></tr>
<tr><td colspan="2">Promo AL (Acquisizioni Lorde)/MNP (Mobile Number Portability)</td><td>In February 2006, a free traffic bonus of euro 250 was launched for prepaid MNP numbers. In May 2006, the bonus was increased to euro 1,000, and was also extended to subscribers.
In January 2006, Parli Gratis was launched with renewable advantageous rates for 30 days. The rate plan was re-proposed in March 2006 and, in the same month, was redesigned with TIM ParlaParla which includes the introduction of an advantageous automatic top-up based on incoming traffic.</td></tr>
<tr><td colspan="2">Roaming plans</td><td>Two new rate plans were launched for all TIM consumer customers offering advantageous conditions when calling from abroad:
- TIM Ricarica Giramondo: an exclusive TIM rate plan which doubles the credit of the top-up when the phone is used abroad: for every euro 10 spent the caller receives a bonus of euro 20 which can be used worldwide to make calls, receive calls and send SMS or MMS. Furthermore, from July 3 to September 3, 2006 any extra expenditure (over and above the euro 20 bonus) is reimbursed by Tim with a bonus in euro for domestic traffic;
- TIM Globe: particularly suitable for people who often travel abroad, enabling them to make calls from more than 70 countries at only euro 0.19 per minute (plus the connection charge), regardless of which foreign operator network is selected.</td></tr>
<tr><td rowspan="2">Multimedia VAS</td><td>DVB-H (Digital Video Broadcast – Handheld) Service</td><td>Marketing of the service, known as TIM TV, started on a promotional basis on May 29, 2006 associated with the Relax TV rate plans and the Samsung SGH-P920 handset. The promotion offers customers the option of paying for the handset in installments and, in the case of anyone opting for the rate plan by August 24, 2006, access to the service (including general channels) and viewing of the 2006/2007 soccer championship are included in the monthly installment. The channels available since the launch are: Canale 5, Italia 1, LA7, MTV, SKY TG24 and SKY Meteo News. At the end of June 2006, coverage of the service was extended to the regional capitals of Italy.</td></tr>
<tr><td>Agreement with Google</td><td>On May 29, 2006 an agreement was signed with Google for the launch of the Mobile Internet service. The agreement, scheduled to last three years, from July onwards, enables Telecom Italia mobile customers to access the worldwide web by pressing the special icon on the handset, using the Google search engine. They can also benefit from the special platform of content adaptation which allows customers to view websites in a mode optimized for the screens of mobile handsets.</td></tr>
</table>

	New 3G Portal	On May 29, 2006, the new 3G Mobile Portal was launched which has new graphics, intended to promote a better level of interaction with the customer, and streamlined surfing with the aim of encouraging customers to acquire multimedia content. The rate plan has been enhanced with content including movies, television, reality shows and glamour and there is also a special area of content, called Hot, which enables subscribers to download material. Concurrently with the launch of the new portal, charges for the Mobile Portal were reviewed: in fact, customers pay euro 0.20 when they connect, surf free of charge within the portal and pay only when they acquire the content selected.
	MUSICA	During the first half of 2006, *MUSICA* was the protagonist of 3G services. Many of the activities offered use the Rosso Alice portal. In fact, this led to the launch of *Palco di Alice*, a service which broadcasts the performances of various new bands in continuous streaming live from the rehearsal studios of Jungle Sound in Milan. In addition, in agreement with recording studios, numerous previews of artistes such as Piero Pelù, Tiziano Ferro and Christina Aguilera were broadcast on the Telecom Italia Mobile Portal
	MMS Premium and ScripTim	In June, 2006 new download services (logos and ring-tones) and community services in MMS mode were launched and a new repositioning plan was implemented with regard to the sales and communication of the *ScripTim* service, which has been enhanced with new content.
New Business Rate Plans	The new 7su7 Night&Day service was launched which offers unlimited free traffic at night and for 3 hours during the day. To target the Soho clientele, the new *1Cent Professional* rate plan focuses on developing fixed and mobile on-net traffic. To target the Enterprise clientele, the *Free Business Call* was launched, the *Win Back* rate plan devoted to the Enterprise market with the aim of augmenting the market share.	

BRAZIL MOBILE

- TIM Brasil arrived at 22.3 million customers at June 2006, strengthening its position as the second largest domestic operator in Brazil (24.3% of market share, 23.4% at December 2005 and 22.2% at June 2005
- Strong growth of revenues (+14.8% compared to the same period of the prior year) partly due to the sharp increase in VAS revenues (+59% compared to the first half of 2005)

THE STRUCTURE OF THE BUSINESS UNIT

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

BRAZIL MOBILE

Tim Brasil S.A.

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

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following took place:

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

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

OPERATING AND FINANCIAL DATA

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

	1st Half 2006 (millions of euro) (a)	1st Half 2005 (millions of euro) (1) (b)	1st Half 2006 (millions of BRL) (c)	1st Half 2005 (millions of BRL) (1) (d)	Change in BRL % (c-d)/d
Revenues	1,722	1,224	4,644	4,047	14.8
EBITDA	354	171	954	564	69.1
% of Revenues	*20.5*	*13.9*	*20.5*	*13.9*	
EBIT	(78)	(113)	(210)	(372)	43.5
% of Revenues	*(4.5)*	*(9.2)*	*(4.5)*	*(9.2)*	
Capital expenditures	193	260	520	858	(39.4)
Employees (number)	9,290	9,043	9,290	9,043	2.7

(1) The number of employees is as of the date of December 31, 2005.

The TIM Brasil group is the sole operator in Brazil to have nationwide GSM coverage with 19.5 million lines at June 30, 2006, +17.5% compared to December 31, 2005 (16.6 million).

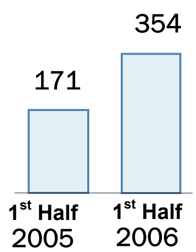
Total lines at June 30, 2006 are 22.3 million with an increase of 2.1 million lines compared to December 31, 2005 (+10.4%). The TIM Brasil group, with a market share of 24.3%, is confirmed as the second largest operator domestically in terms of the number of customers.

Consolidated revenues in the first half of 2006 total BRL 4,644 million and grew by 14.8% compared to the first half of 2005 (+18.5% for revenues from services alone). The sharp increase is due to the expansion of the customer base and the contribution to revenues by valued-added service revenues, which, as a percentage of total revenues went from 5.7% to 7.6%.

Consolidated *EBITDA* in the first half of 2006 of BRL 954 million grew by BRL 390 million compared to the first half of 2005 (+69.1%). As a percentage of revenues, EBITDA is 20.5% and shows an improvement of 6.6% compared to the first half of 2005.
The organic growth of EBITDA compared to the first half of 2005 is equal to 66.3% and was calculated by taking into account total expenses of BRL 24 million in the first half of 2006, of which BRL 11 million refers to restructuring costs, and expenses of BRL 24 million in the first half of 2005.
Organic EBITDA as a percentage of revenues is 21.1% (14.5% in the first half of 2005).

EBITDA

(millions of euro)



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

- purchases of materials and external services of BRL 2,719 million increased by 6.4% compared to the first half of 2005 (BRL 2,555 million). Such purchases as a percentage of revenues are 58.5% (63.1% in the first half of 2005);
- personnel costs, equal to BRL 284 million, increased by BRL 56 million compared to the first half of 2005 (+24.6%). Personnel costs as a percentage of revenues are 6.1% (5.6% in the first half of 2005);

- other operating expenses of BRL 818 million (BRL 681 million in the first half of 2005) include sundry expenses (BRL 593 million), principally made up of indirect taxes and duties, TLC operating fees and bad debts expense (BRL 209 million) and other items (BRL 15 million).

Consolidated *EBIT* in the first half of 2006 is a loss of BRL 210 million (a loss of BRL 372 million in the first half of 2005). The improvement compared to the first half of 2005 came despite higher depreciation and amortization charges relating to technical investments supporting the development of network infrastructures and information systems.
Organic growth is 41.7% compared to the first half of 2005 and was calculated by taking into account not only the items commented in EBITDA above but also additional expenses of BRL 27 million in the first half of 2005 relating to the writedown of tangible assets by the company Maxitel.

In particular, EBIT was affected by amortization and depreciation charges of BRL 1,164 million (BRL 906 million in the first half of 2005).
Amortization and depreciation charges as a percentage of revenues are 25.1% (22.4% in the first half of 2005).

Capital expenditures amount to BRL 520 million (BRL 858 million in the first half of 2005), with a decrease of BRL 338 million. Such reduction is connected with the gradual completion of the territorial coverage plan.

INFORMATION ON OPERATIONS

The main operating highlights at June 30, 2006 compared to December 31, 2005 are reported in the following table.

Operating highlights	6/30/2006	12/31/2005	6/30/2005
Mobile lines (thousands)	22,338	20,171	16,752
Traffic managed (millions of minutes) (*)	10,336	18,290	8,040

(*) The item includes traffic referring to customers of foreign operators.

MEDIA

- Improvement in revenues compared to the first half of 2005 (+18.1%);
- Higher audience share for La7 Free to Air (analog mode) which rose from 2.6% in the first half of 2005 to 3.0% in the first half of 2006, with an increase of 15%;
- Sharp increase in gross advertising on La7 Free to Air which grew by 15.2% compared to the same period of 2005;
- Increase in digital terrestrial TV revenues driven by growth of Pay-per-View: euro 9 million in the first half of 2006 (euro 2 million in the first half of 2005) .

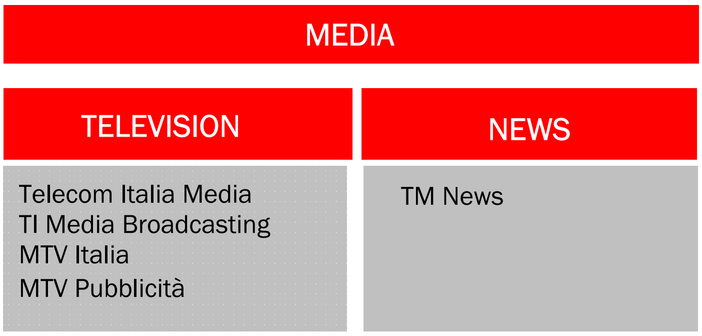
THE BUSINESS UNIT

The Media Business Unit operates in the following segments:

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

THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:



MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following corporate-related transactions took place during the first half of 2006:

- on January 1, 2006, the merger of La7 Televisioni S.p.A. in Telecom Italia Media S.p.A. became effective. This completes the transactions envisaged by the internet and media activities reorganization plan begun in April 2005. The merger did not require any changes in the bylaws of Telecom Italia Media nor was there any increase in the share capital of Telecom Italia Media to service the merger since the company already held all of the shares of La7, which, after the merger, were canceled without any share exchange;
- on January 11, 2006, the contract for the sale of 100% of Gruppo Buffetti S.p.A. to Dylog Italia S.p.A., signed on September 26, 2005, was finalized; this had a positive financial effect on the six months of euro 65.8 million. To this end, the historical data for the first half of 2005 of Gruppo Buffetti was reclassified to discontinued operations, for purposes of comparison with the first half of 2006;

- on March 31, 2006, the board of directors of Telecom Italia Media S.p.A. approved the contribution of the "Digitale Multiplex" business segment to Telecom Italia Media Broadcasting S.r.l. (a wholly-owned subsidiary of Telecom Italia Media S.p.A.) against a capital increase of euro 27 million. The transaction answers to the need to comply with existing law which requires companies to maintain a corporate distinction between radio and television network broadcasting operators and content suppliers (Law 177/2005, Consolidated Law on Radio and Television).

OPERATING AND FINANCIAL DATA

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

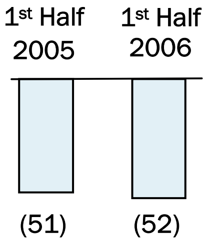
(millions of euro)	1st Half 2006	1st Half 2005 (1)	Change	
			amount	%
Revenues	98	83	15	18.1%
EBITDA	(52)	(51)	(1)	(2.0)%
% of Revenues	*(53.1)*	*(61.4)*		
EBIT	(79)	(67)	(12)	(17.9)%
% of Revenues	*(80.6)*	*(80.7)*		
Capital expenditures	59	22	37	°
Employees (number)	944	886	58	6.5%

(1) The number of employees is as of the date of December 31, 2005. .

Revenues in the first half of 2006 total euro 98 million, with an increase of 18.1% compared to euro 83 million in the first half of 2005. This is proof of the affirmation of the editorial content of the broadcasting of the two channels and the positive start of the new Digital Terrestrial initiatives. Excluding the change in the scope of consolidation, organic growth is equal to 18.7%.
In particular:

- revenues in the first half of 2006 from Free to Air satellite programming using analog signals amount to euro 85 million, an increase of 10.1%;
- revenues from Digital Terrestrial TV (mainly consisting of events using pay-per-view and smart cards) amount to euro 9 million, compared to euro 2 million in the first half of 2005;
- revenues from the News area amount to euro 4 million, an increase of 66.7% compared to the first half of 2005.

EBITDA



EBITDA in the first half of 2006 is a negative euro 52 million (a negative euro 51 million in the first half of 2005).
The organic growth compared to the first half of 2005 is equal to 4.6% (+euro 2 million) and was calculated by taking into account expenses of euro 4 million in the first half of 2006, particularly in connection with restructuring costs, and expenses of euro 1 million in the first half of 2005.

In particular, operating profitability during the first half of 2006 shows an

improvement in analog and satellite Free To Air broadcasting of euro 2 million, driven by the growth of the national advertising business (+10.4%). The improvement is also a reflection of La7 actions to concentrate its resources on adding more programs to its schedule with a higher audience/advertising return and MTV's actions of developing new multichannel/multiplatform strategies. Digital Terrestrial TV, in the presence of an improvement in pay-per-view margins, which are still negative, reported higher operating costs associated with the start-up of the new "free" channels (e.g. La7 sport) on which advertising is still being built up, since it is closely linked to the penetration of decoders and the consolidation of audience share.
Furthermore, in "other activities", there was a marked improvement in the costs of the Central Functions, with an impact of euro 5 million on EBITDA. This was the result of measures taken to reduce costs, begun in 2005, and greater efficiency of the staff structures following the merger of La7 into Telecom Italia Media S.p.A..

EBIT in the first half of 2006 is a negative euro 79 million. This is higher than the euro 12 million loss reported in the first half of 2005 due mainly to higher depreciation and amortization charges (euro 11 million) in the Television area, as a result of investments made during the year 2005 following the acquisition of a new nationally-televised network. The organic change compared to the first half of 2005 is a negative 12.9% and was calculated by taking into account the comments made above for EBITDA.

Capital expenditures amount to euro 59 million (euro 22 million in the first half of 2005) and mainly refer to investments in the Television area in connection with digital terrestrial television (euro 43 million) and the acquisition of television rights (euro 12 million).

Employees at June 30, 2006 number 944 (886 at December 31, 2005) and include 64 persons with temp work contracts (49 at December 31, 2005). Compared to December 31, 2005, the total number of employees shows an overall increase of 58, due mainly to people hired in the Television area for new TV productions, and the operation of the new satellite channels and pay-per-view services.

EVENTS SUBSEQUENT TO JUNE 30, 2006

Subsequent events refer to the following:

- on July 18, 2006, the European Investment Bank approved a loan of euro 100 million for Telecom Italia Media's investment program for the digital terrestrial network.
  The program particularly refers to investments for the three years 2005-2007 for a total cost of euro 280 million. The investments will be directed to an expansion of the transmission infrastructures for the development of digital TV throughout the national territory.
  The European Investment Bank granted the loan in view of the strong innovative content of the proposed investments, which also met with a positive opinion by the European Commission. The loan has a term of eight years at one of the best interest rates offered by the market. This is the first loan granted by the European Investment Bank in the Media sector in Italy.
- on July 27, 2006 Telecom Italia Media and Mediaset signed an agreement for the reciprocal sale of the digital terrestrial television broadcasting rights for the soccer games of the leading teams of their respective portfolios for the next three championships.
  Thanks to the agreement, Telecom Italia Media will be able to broadcast the games of five teams (Fiorentina, Palermo, Cagliari, Sampdoria and Catania) when

they play away games on the playing fields of Mediaset teams and Mediaset will have similar rights for the "away" games of Milan, Inter, Roma, Lazio and Torino. Furthermore, Mediaset will pay Telecom Italia Media euro 64 million, subdivided as follows: euro 12 million for the 2006-2007 season, euro 24 million for the 2007-2008 season and euro 28 million for the 2008-2009 season.

Under the agreement, Telecom Italia Media will be able to enhance the digital terrestrial offering of "La7 Cartapiu'", which has already achieved positive results by selling sports events and shows on a pay-per-view basis.

- INFORMATION ON OPERATIONS

The following main initiatives took place during the first half of 2006:

DIGITAL TERRESTRIAL TELEVISION

With the aim of extending the range of services offered to Cartapiù customers, in January 2006, the new interactive application of SNAI and La7's "t-betting" Card was launched. The viewers of the La7 Cartapiù and La7 Sport channels have the option of betting on all the Serie A soccer games through DTT and, as from the end of March 2006, can also bet on some games during the live broadcasts of the match.

To make the task of acquiring the Smartcards simpler and more convenient, the network of points of sale has been extended to include other channels such as tobacconists and newsagents, in addition to electronic consumer goods shops. At June 30, 2006, about 1 million cards were distributed and, overall, 3 million events were sold (an increase of 110% compared to 2005). June 2006 saw the launch of the "*Estate Musica*" offer, a new series of concerts by important Italian artistes, which can be acquired singly or as a 30-day package.

La7

As far as new shows during the period are concerned, in the area of so-called "realtainment", the *SOS Tata* average audience reached 3.0%, whereas *Le invasioni Barbariche* reached 4.2%.

The excellent result of programs broadcast late in the evening (with an average audience of 3.9%) is largely due to the success of *Markette* (4.3% compared to 3.5% in 2005), not to mention the contribution of the repeats of *Crozza Italia* on Saturdays (4.6%).

Despite the fact that the World Cup games, broadcast by the Sky and RAI networks, overturned the balance in terms of audience share, in June, La7 achieved an average audience of 2.9%, with an increase of 5% compared to 2005.

Important results were achieved by *Il gol sopra Berlino*, a news and discussion program about the World Cup, presented by Darwin Pastorin in the second half of the evening, with an average audience, throughout the total of 31 episodes, of 3.7%. Another positive experiment was *Niente di personale*, a program delving further into topical issues presented by Antonello Piroso: during the first 4 evenings, there was an average audience share of 3.3%.

MTV

The episodes of *TRL* (Total Request Live), *School in Action*, *Very Victoria* and *Italo Spagnolo*, the program broadcast live from Barcelona and presented by Fabio Volo, drew successfully to a close.

The most important novelties in the summer programming schedule were: *TRL on Tour*, which involved thousands of kids in the squares of Naples, Turin, Genoa, Padua, Trieste and Rimini, ending in the first few days of August with the program broadcast from Syracuse and *MTV Switch Trip*, a parallel journey through the United States and Thailand, offering a window on the world.

With regard to events, in particular, on March 25, 2006 the TRL Awards were presented to TRL actors in Piazza Duomo in Milan in front of an audience of 100,000 kids. In addition, on June 19, 2006 the first of three concerts, produced in collaboration with Replay in the Abbey of San Gregorio in Venice with performers of very high caliber (Mary J. Blige and Craig David), was broadcast.

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Finally, Telecom Italia Media Broadcasting S.r.l. has created the new terrestrial network for the distribution and contribution of digital television signals nationwide using SDH technology with an investment of euro 31 million.

OLIVETTI

- Updates and changes in the offering continue in addition to restructuring and rationalization at the product level

THE BUSINESS UNIT

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

THE STRUCTURE OF THE BUSINESS UNIT

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

OLIVETTI

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

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

MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following took place:

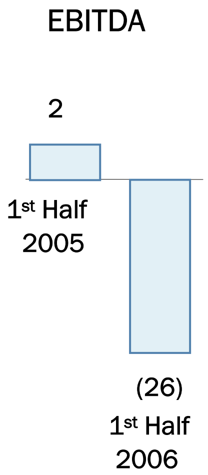
- on February 28, 2006, 60% of the share capital of Wirelab was sold to the shareholder Urmet. Following the sale, stakes are held in Wirelab S.p.A. as follows: 90% Urmet S.p.A. and 10% Olivetti S.p.A.;
- on April 6, 2006, the extraordinary shareholders' meeting of Olivetti S.p.A. voted to absorb the accumulated loss at December 31, 2005 (equal to euro 33 million) by using the residual reserves for euro 8 million and by a cash payment on the part of the shareholder for euro 24 million. The shareholders' meeting voted to increase share capital from euro 128 million to euro 154 million with payment at the same time;
- at the end of April 2006, the wind-up of the associate Olivetti Tecnost Portugal S.A. was concluded.

OPERATING AND FINANCIAL DATA

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

(millions of euro)	1st Half 2006	1st Half 2005 (1)	Change amount	Change %
Revenues	212	223	(11)	(4.9)
EBITDA	(26)	2	(28)	
% of Revenues	*(12.3)*	*0.9*		
EBIT	(35)	(6)	(29)	
% of Revenues	*(16.5)*	*(2.7)*		
Capital expenditures	5	8	(3)	(37.5)
Employees (number)	1,570	1,750	(180)	(10.3)

(1) The number of employees is as of the date of December 31, 2005.



Revenues in the first half of 2006 amount to euro 212 million, of which euro 18 million relates to the sale of intellectual properties to Telecom Italia S.p.A.
Compared to the same period of 2005, revenues show a reduction of euro 11 million (4.9%). Excluding the change in the scope of consolidation and the foreign exchange effect and the sale of intellectual properties to Telecom Italia, for a total of -euro 3 million, the change is a negative euro 8 million. This is especially due to the reduction in the revenues of traditional Ink-jet products and products for Gaming, which were only partly compensated by higher revenues for new Ink-jet products that were launched on the market in the last months of 2005.

EBITDA in the first half of 2006 is a negative euro 26 million, with a deterioration of euro 28 million compared to the first half of 2005. The organic change compared to the first half of 2005 is a negative euro 22 million and was calculated by taking into account the foreign exchange effect (euro 1 million), the effect of the sale of intellectual properties to Telecom Italia (-euro 1 million), as well as expenses of euro 7 million in the first half of 2006, relating to restructuring costs and production reconversions, and expenses of euro 1 million in the first half of 2005.
The difference is due to lower margins on traditional ink-jet products and products for Gaming as well as the sales push aimed at new Ink-jet products to replace existing installed products.

EBIT in the first half of 2006 is a negative euro 35 million, a deterioration of euro 29 million compared to the first half of 2005. The organic change is a negative euro 23 million and was calculated by taking into account the comments above for EBITDA.
The deterioration can be ascribed to the decrease in the margins of the above ink-jet and Gaming products.

Capital expenditures amount to euro 5 million and decreased by euro 3 million compared to the first half of 2005.

Employees at June 30, 2006 number 1,570, of whom 1,412 are in Italy and 158 abroad and include 2 persons with temp contracts (7 at December 31, 2005). The reduction of 180 persons, compared to December 31, 2005, is mainly attributable to the termination of employment (126) and the exclusion of Wirelab from the scope of consolidation (54).

- INFORMATION ON OPERATIONS

The main activities carried out during the first half of 2006 are the following :

BUSINESS & MARKET DEVELOPMENT

During the first half of 2006, marketing activities of the new line of ink-jet technology products (multifunctional printers and portable photo-printers) continued, the range was extended (with new Wi-Fi models) and efforts were made to increase the visibility and presence of such products in specialized channels.

In particular, in June 2006, a successful promotion campaign with one of Italy's leading daily newspapers boosted sales volumes significantly.

Sales of the other ink-jet products and fax machines were higher than in the same period of the prior year, thanks to orders from a large-scale retailer and a private-label customer. Consumption of fax accessories recorded a significant decrease in volumes, as a consequence of a trend begun in 2005, with effects seen as a result of a stronger presence in the consumer area than in the business area.

Sales of other product lines, photocopiers and other office products with laser technology, printers for banks and cash registers were higher than in the same period of 2005. This is because of a higher level of integration between sales channels, as a result of the new strategy to introduce the entire product portfolio to every customer.

In the Very Large Accounts channel, the offering was expanded by participating in important bids for multi-year orders for complete ticketing services and network printing and copying systems with customers such as Poste Italiane, and the Italian national railway and banking systems. In July 2006, Olivetti was awarded the bid for printing and copying services with Poste Italiane, a contract worth euro 13 million over a three-year period.

PRODUCT/TECHNOLOGY DEVELOPMENT & INDUSTRIAL OPERATIONS

The main activities in the first half of 2006 in the "consumer" ink-jet technology segment were as follows:

- restyling/extension of the range of multifunctional products launched in 2005;
- introduction of a new multifunctional "entry-level" product', to be marketed in the summer of 2006;
- development of a new platform of multifunctional products and associated high-performance printheads, scheduled to become available in the first half of 2007;
- introduction of new fax models.

In the "professional" product segment, the following activities are worthy of mention:

- development and updating activities involving printers for the banking and retail sectors, scheduled for completion in the second half of this year;
- development of a new fiscal cash register using ink-jet technology, due to be available by the end of this year;
- completion of the range of conventional fiscal cash registers with the aim of marketing a new product in the second half of 2006.

During the first half of 2006, the process of moving specialized printer production to China was completed.

An agreement was signed as part of the plan to reconvert the Carsoli plant, involving the closure of production activities, the maintenance of a small nucleus of staff and the simultaneous start-up of new customer-care care activities for telephone services.

OTHER ACTIVITIES

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

CENTRAL FUNCTIONS

The Central Functions are composed of the Group Functions, which have responsibility for guaranteeing the coordination, direction and control of the activities under its charge at the Group level, and the Service Units, which have the task of ensuring that the common operational activities servicing the business are carried out, in accordance with the organizational procedure dated October 5, 2005.

OPERATING COSTS

(millions of euro)	1st Half 2006 (a)	1st Half 2005 Proforma (b)	Change amount	Change %
Group Functions (*)	(229)	(267)	38	(14.2)
Service Units (*)	(566)	(567)	1	(0.2)
Eliminations	*34*	*30*	4	13.3
SUBTOTAL	(761)	(804)	43	(5.3)

(*) See the tables on the following page.

The table shows the operating costs (external costs, personnel costs and the balance of other income and expenses) incurred during the first half of 2006 to conduct the above activities, compared to those in the same period of the prior year, restated to take into account the different organizational structure.

The table excludes the effects of certain expenses (such as, for example, the OTE closing and the Opportunity settlement which both took place in the first half of 2005) in order to show a more meaningful and comparative representation of the operating trend of the Central Functions.
Costs decreased by euro 43 million, principally in the Group Functions as a result of the Corporate Costs Reduction Project begun during 2005.

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

GROUP FUNCTIONS

Group Functions include the Staff Functions of Telecom Italia S.p.A. (Human Resources & Organization excluding the Welfare function which is under the Service Units, Finance Administration & Control, Corporate & Legal Affairs, International Legal Affairs, Public & Economic Affairs, Merger & Acquisitions, Investor Relations, International Affairs, General

Counsel, IT Corporate Governance), Group Communication, which includes Progetto Italia and Communication & Image, Telecom Italia Latam and Telecom Italia International.

OPERATING COSTS

(millions of euro)	1st Half 2006 (a)	1st Half 2005 Proforma (b)	Change amount	Change %
Staff Functions	(196)	(221)	25	(11.3)
Group Communication	(25)	(27)	2	(7.4)
Telecom Italia Latam + TI International	(8)	(19)	11	(57.9)
Group Functions	**(229)**	**(267)**	**38**	**(14.2)**

Compared to the same period of 2005, costs decreased by euro 38 million thanks to the Corporate Costs Reduction Project. The reduction involved all areas, leading to savings in professional fees, consulting fees, communications costs and other discretional costs.
The data presented includes costs that were received for the activities performed by the Service Units.

SERVICE UNITS

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

OPERATING COSTS

(millions of euro)	1st Half 2006 (a)	1st Half 2005 Proforma (b)	Change amount	Change %
Real Estate Activities and Services	(458)	(454)	(4)	0.9
CSA	(24)	(27)	3	(11.1)
Security	(25)	(30)	5	(16.7)
Purchasing	(20)	(18)	(2)	11.1
Welfare	(12)	(11)	(1)	9.1
Other & Eliminations (1)	(27)	(27)		
Service Units	**(566)**	**(567)**	**1**	**(0.2)**

(1) Includes Telecom Italia Audit and Compliance Services, Telecom Italia Learning Services, Telecom Italia Finance and other companies.

Costs decreased by euro 1 million. Efficiencies and savings in building management, CSA and Security more than proportionally compensated the effects of inflation on property leases and the significant increase in the prices of fuel and electrical energy.

REAL ESTATE ACTIVITIES AND SERVICES

Tiglio Project (Real Estate Funds)

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

During the first half of 2006, the companies Tiglio I and Tiglio II distributed share capital in the form of additional paid-in capital for a total of about euro 26 million to the Group: in particular, Tiglio I approved a distribution of euro 19 million, of which euro 18 million representing Telecom Italia's share and euro 1 million representing Telecom Italia Media's share, that was fully collected; while Tiglio II approved a distribution, which for Telecom Italia amounted to euro 7 million, that was also fully collected in the first half of 2006.
Tiglio II, moreover, approved a distribution of dividends to Telecom Italia of euro 2 million, that was fully collected in March 2006, and made arrangements for the payment of euro 3 million to Telecom Italia for its share of the dividends approved in 2005 and which is not yet paid.
Tiglio II, finally, has approved the reduction in share capital by reimbursing the shareholders and which, for Telecom Italia, will amount to income of euro 4 million which will be paid during the course of the second half of 2006.

Sale of properties

As part of the activities to optimize the physical space occupied by network equipment to gradually free a part of the buildings used for such equipment, in 2005, the board of directors of Telecom Italia S.p.A. approved the transaction for the sale of more than 1,300 properties for a total amount of about euro 1 billion. The first part of this project was completed in 2005 and involved 876 buildings; the second was completed on March 1, 2006 and the third on June 1, 2006 when, respectively, 348 and 116 buildings were transferred by Telecom Italia S.p.A. to the subsidiary Olivetti Multiservices (OMS), and, at the same time, the relative lease contracts were signed.

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

- on March 29, 2006, OMS contributed a second group of 201 properties to the Raissa Fund with a contribution value of euro 158 million and at the same time transferred the financial debt of euro 97 million assumed beforehand by OMS. The majority of the shares of the Raissa Fund that came from the properties contributed was sold to institutional investors headed by The Morgan Stanley Real Estate Funds. Pirelli RE has a 35% stake in the Raissa Fund under a joint venture with the same funds. The Group realized a gross consolidated gain on the transaction of euro 57 million and a positive impact on the consolidated financial debt equal to euro 125 million before taxes;
- on March 30, 2006, OMS contributed a second group of 120 buildings to the Spazio Industriale Fund with a contribution value of euro 71 million and at the same time transferred the financial debt of euro 60 million assumed beforehand by OMS. The majority of the shares of the Spazio Industriale Fund that came from the properties contributed was sold to institutional investors headed by Cypress Grove International Funds. Pirelli RE has a 35% stake in the Spazio Industriale Fund under a joint venture with the same funds. The Group realized a gross consolidated gain on the transaction of euro 34 million and a positive impact on the consolidated financial debt equal to euro 70 million before taxes;

- on June 26, 2006, OMS contributed a third group of 54 buildings to the Spazio Industriale Fund with a contribution value of euro 41 million and at the same time transferred the financial debt of euro 35 million assumed beforehand by OMS. The majority of the shares of the Spazio Industriale Fund that came from the properties contributed was sold to institutional investors headed by Cypress Grove International Funds. The Group realized a gross consolidated gain on the transaction of euro 20 million and a positive impact on the consolidated financial debt equal to euro 41 million before taxes;
- on June 29, 2006, OMS contributed a third group of 57 properties to the Raissa Fund with a contribution value of euro 47 million and at the same time transferred the financial debt of euro 29 million assumed beforehand by OMS. The majority of the shares of the Raissa Fund that came from the properties contributed was sold to institutional investors headed by The Morgan Stanley Real Estate Funds. The Group realized a gross consolidated gain on the transaction of euro 18 million and a positive impact on the consolidated financial debt equal to euro 36 million before taxes.

With reference to the properties which came under the control of OMS following the transfer from Telecom Italia on December 1, 2005, March 1, 2006 and June 1, 2006, OMS has 92 properties still to be monetized which are currently leased to Telecom Italia S.p.A..

Sale of the investment in RUF Gestion S.a.S.

In accordance with the plan for the rationalization of the Group’s investment portfolio, in March 2006, OMS Holding BV (an indirect subsidiary of Telecom Italia) sold the entire investment in RUF Gestion S.a.S. (100%) to the company Bangor S.a.S. for an equivalent amount of euro 33 million, realizing a consolidated gain before taxes of euro 27 million.

INTERNATIONAL HOLDINGS

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

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

During the first half of 2006, the wireline business principally focused on promotions centered in the *Punti Entel* and on sales actions aimed at consolidating the expansion of "*Aquí Entel*". At the same time, new rates were introduced to encourage the use of Access to the Local Service (ASL) by the young customer segment and the installation costs were reduced for both new local lines and for the ASLs of the young customer group. With regard to internet, besides the introduction of new rates, ADSL was launched nationwide and is aimed principally at small- and medium-size companies and business customers.
At June 30, 2006, land lines number 71,000 and represent an increase of 24.6% compared to December 31, 2005 (57,000).

In the mobile business area, competition during the first half was fierce, particularly on the part of the operator Telecel which launched its own GSM service under the name of Tigo, directed toward the "young" segment, but which offers competitive plans in the business sector as well, thanks to subsidies for the purchase of handsets. To meet this competition, new promotional initiatives were developed (the "10" code for long-distance and VAS promotions on the World Cup) and new rate plans were introduced.
At June 30, 2006, mobile lines number 1,359,000, down by 88,000 compared to December 31, 2005 as a result of the competitive pressure.

Finally, significant investments were made to ensure a further expansion of the GSM network and to improve service with the objective being to increase customer loyalty. To this end, another 43 new base radio stations are in the process of being activated.

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

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

Land lines in service (including public telephones) number 3,997,000 at June 30, 2006, an increase of 1.2% compared to December 31, 2005 and 3.7% compared to June 30, 2005.
Considerable growth was again recorded for broadband by Telecom Argentina, which now has about 300,000 customers for an increase of 32.7% compared to December 31, 2005.

In the mobile business, the customer base increased by 12.7% compared to December 31, 2005 and 42.4% compared to June 30, 2005, reaching 7,665,000 customers (of which 10.3% are in Paraguay). The number of postpaid customers increased by 17.3% compared to December 31, 2005 and represents 34.2% of the total customer base (against 32.8% at December 31, 2005). Customers who use GSM services reached 77.4% of the total customer base.

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At the request of the associate Telecom Argentina, for 210 working days starting from June 18, 2006, Telecom Italia suspended its right to start arbitration proceedings before ICSID International Center for Settlement of Investment Disputes - World Bank) against the Argentine government seeking compensation for damages suffered as a result of the measures adopted by the latter to meet the 2001 economic and financial crisis, as allowed by the Italy/Argentina Bilateral Treaty on the promotion and protection of foreign investments. This suspension is discussed in a March 6, 2006 preliminary agreement between Telecom Argentina and the Argentine government over the renegotiation of the terms of the concession granted to Telecom Argentina and is the condition for the signing of a final agreement between the parties. The aforementioned preliminary agreement also calls for Telecom Argentina's commitment to have Telecom Italia definitely give up the proposition of initiating arbitration proceedings before ICSID, should the negotiations with the government produce an economically and strategically satisfactory final outcome for the Argentine associate.

Brasil Telecom Group

Held by: Telecom Italia International through Solpart, in which a 38.00% interest is held, plus the 1.13% direct holding by Telecom Italia Internationa in Brasil Telecom Participaçoes

The company operates fixed telephone services in Region II (Paraná, Santa Caterina, Distrito Federal, Tocantins, Mato Grosso, Mato Grosso do Sul, Rondonia, Rio Grande do Sul, Acre and Goias) covering about 2.8 million square kilometers (33% of the total area of the country), a population estimated at approximately 43 million (23% of the total population) with three metropolitan areas of more than one million inhabitants including Brasilia, the capital of the nation.
Brasil Telecom has one of the largest telecommunications networks in Brazil with a vast offering of services for telecommunications, fixed telephony, broadband and narrow band, free internet, data transmission and mobile telephony launched at the end of 2004, using GSM technology.

The land line customer base at June 30, 2006 is 9,407,000, with a decrease of 153,000 compared to December 31, 2005. The broadband service shows 1,155,000 accesses at the end of June 2006, corresponding to growth of about 14% compared to December 31, 2005 and about 55% compared to June 30, 2005.

The mobile business has 2,772,000 customers at June 30, 2006. This is an increase of 25% compared to December 31, 2005 and more than 106% compared to June 30, 2005. Brasil Telecom's market share of the mobile business at June 30, 2006 is 10.7% of the total region.

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With regard to the settlement with Opportunity, described in detail in the Annual Report 2005, which provided for Telecom Italia's purchase of the investments held by Opportunity in Opportunity Zain (the indirect parent of Techold) and in Brasil Telecom Participaçoes against the payment of USD 378 million, the entire amount of the purchase price was deposited in a restricted fund in Holland when the contracts were signed.

Subsequent to the signing of the contracts, Citigroup Venture Capital International Brazil LP had requested and obtained, pending an action in progress in New York between it and Opportunity, a precautionary measure which "froze" the amounts deposited by Telecom Italia in the restricted fund. On April 29, 2006, the above contracts were automatically declared null and void since certain suspensive conditions necessary to finalize the contracts themselves had not been met. As a result of the resolution of the contracts and at the request of Telecom Italia, the funds deposited in Holland in the restricted fund were released to Telecom Italia.

AVEA ILETISIM HIZMETLERI A.S.
Held by: Tim International N.V. 40.5647%

AVEA offers mobile telephone services using GSM technology on Turkish territory and is the third most important mobile network in the country in terms of the number of customers.
At June 30, 2006, there are more than 7,000,000 customers with an increase of about 930,000 lines compared to December 31, 2005.

EVENTS SUBSEQUENT TO JUNE 30, 2006

The following took place:

- on July 14, 2006, the contracts were signed for the sale of the investment held by Tim International in Avea (equal to a 40.56% stake) to Turk Telekom for consideration of USD 500 million.
  This sale constituted one of the assumptions established in the July 2005 contracts between Telecom Italia and Saudi Oger.
  Execution of the sale is contingent upon obtaining the necessary authorizations from the competent Turkish authorities.
  As a result of this acquisition, Turk Telekom, which already holds a 40.56% stake in Avea, will increase its investment to 81.12%, while the residual 18.88% interest remains in the possession of IS Bank.
  Telecom Italia Group, when the transaction is closed, will be released from the obligations and guarantees which it had provided on loans received, up to an amount of USD 150 million.
  Furthermore, TIM International, when the transaction is closed, will reinvest half of the proceeds from the sale (USD 250 million) in the share capital of Oger Telecom, in which a 13.33% stake is held at June 30, 2006, and must also disburse a subordinated loan of up to USD 150 million to Avea, earning interest at market rates, on condition that Avea manages to obtain a structured loan within one year of the closing date of the transaction.
  Under the framework of the above transactions for the sale of Avea, TIM International renegotiated its partnership with Saudi Oger in a new Shareholders' Agreement which guarantees TIM International a greater participation in the governance of Oger Telecom, thus strengthening the Group's protection of its investment in Oger Telecom;
- on July 17, 2006, the sales contract signed on June 15, 2006 was executed for the sale of Telecom Italia Learning Services S.p.A. to TILS Holding S.p.A., a company held by CEGOS, a French multinational company offering training services, and by Camporlecchio Educational, an operator specialized in consulting and corporate organization, at the symbolic price of euro 1 after having recapitalized the company;
- during July 2006, Telecom Italia S.p.A. expressed its intention of evaluating whether to sell the investment in Solpart Participaçoes S.A. which is held through the Dutch holding company, Telecom Italia International N.V..

SUSTAINABILITY SECTION

INTRODUCTION

Consistently with its commitment the Telecom Italia Group has promoted during the first six months of 2006 several initiatives in order to put into action the adopted Sustainability model. Some among the most significant initiatives are reported below:

✓ Telecom Italia took part in the consultations of the European Commission in preparation of the Communication "Implementing the partnership for growth and jobs: making Europe a pole of excellence on Corporate Social Responsibility" and of the launch of the *Alliance* among European Commission, national partner organizations and European companies leaders on Sustainability, with the aim of promoting the development of CSR and make Europe a pole of excellence.
The *Alliance* intends to promote several areas of activities such as:
- innovation;
- the protection of working conditions and environment;
- transparency and completeness of communication towards stakeholders.

✓ Three projects presented by Telecom Italia have been selected as "best solutions" by CSR Europe during the "2nd European Marketplace on CSR", organised in collaboration with the DG Employment and Social Affairs of the European Commission.
The selected projects refer to:
- "Call Center in the Rebibbia and San Vittore prisons", involving 80 convicts who managed more than 1,500,000 calls on a yearly basis. The project was also awarded a prize as the best Community partnership program, in the fourth edition of the Sodalitas Social Award which rewards every year the most significant social initiatives implemented by Italian companies in the various sectors of corporate responsibility.
- "Mobile telephony innovative solutions for sight- or hearing-impaired people": the first solution, the "Talks" software, allows sight-impaired and blind people to use all the functions of mobile phones, including SMS, thanks to an electronic voice reading the display. The second solution allows to translate into the hearing-impaired language the instructions about how to use the device.
- "Internet for the elderly": this is a training program promoted by Progetto Italia and aimed at helping elderly people to use the new technologies and Internet in particular. More than 8,000 people aged over sixty achieved a certificate confirming their Internet surfers abilities.

✓ The Sustainability channel of the Group institutional website (www.telecomitalia.it) has been completely reorganised in order to meet the increasing information enquiries by sustainability rating agencies, financial analysts and other stakeholders.
The channel illustrates the Sustainability policies and model of the Group and presents the initiatives launched in favour of each stakeholder as well as the most significant issues concerning Sustainability in the telecommunication world ("hot topics").

✓ On March 30, 2006 Telecom Italia presented to the press and the Authorities the results of the first experimentations in Italy on fuel cells as backup in the energy for the base transceiver stations (BTS).
The experimentations, that concerned three BTS in the Trentino Alto Adige region, confirm the commitment of the Group to the development of the most promising technologies for

the production of energy from alternative sources, thus contributing to decrease environmental pollution.

- ✓ On April 27, 2006 a conference was held at the Bocconi University in Milan to present the results of the second phase of the research project on "Intangibles" jointly run by the Group Sustainability Department of the Telecom Italia Group and the Institute of Administration, Finance and Control of the Bocconi University. Following the assumption that traditional financial indicators are inadequate to express the value generated by Sustainability, a model has been defined for the assessment and representation of intangible assets. The model, still in the testing phase, aims at allowing communication of Sustainability to the financial market on the basis of its own semantic rules.

CUSTOMERS

The services and projects launched by the Group during the first six months of the year and having the most significant impact in terms of Sustainability are reported below.

Services

- Human Digital Assistant (HDA)
  This is a new service available on the website www.187.it to support online invoice reading. The project, part of a wider Self Caring program on the web, is meant as an alternative support channel to the Telecom Italia Customer Care, in order to deal on the web with some functions normally involving a call to the 187 service operator. Thanks to Internet connection the customer is enabled to operate independently for all functions previously provided by the call centre. The HDA service, a standard of excellence from the technological viewpoint, has been successfully presented at the "Speechtek" of S. Francisco on February 26.

- Virtual assistant
  This is an on-line textual guide, available on the www.tim.it website, assisting the customer in the discovery of the most important mobile services through an interactive research mechanism. The service guides the customer to the online solution of the most common problems of each single service, thus favouring customer independence.
  The new fast search function, based on the entry of key words by users, has been introduced during the first six months of 2006.
  The Virtual Assistant also includes the "Virus" section, allowing to find out any virus possibly active and any action to be undertaken for removal.

- Interactive guides
  These provide a step-by-step guide to the configuration of mobile terminals and to the management of services (mobile phones, PC Cards for mobile Internet connection, palmtops, special services and products).
  The Interactive Guides content is continuously updated and special attention is paid to the marketing of new products, in order to provide customers with complete information in real time.

- Alice helps you
  This is a new self assurance system created on the Alice portal, enabling independent updating and diagnoses by the customer, often solving the problems. The system also allows to enter alerts into the assurance process thus allowing operators to rapidly solve possible malfunctions. Also possible is the "telemetry" of the customer workstation, that is the

transmission of parameters through which pc and modem connect to the Internet, thus favouring problem solving. An asynchronous chat completes the service, offering a telematic communication that differs from e-mail because it offers easier use and better interaction, also if deferred.

Projects

- "Evolution" Project
  The project aim is a substantial improvement of relations with customers, with particular regard to the service delivery process.
  The first experimental phase of the project has been launched in the last two months of 2005 and has now been extended to the whole Italian territory.
  Initially the project concerned the phone service provisioning, then it has been extended to ADSL (only for residential customers).
  The project aims at achieving two main results:
  - to agree with the customer, directly during order issuing, a date and time range for the intervention of the Telecom Italia technical people;
  - the implementation of many information tools, consistently and correctly updating the customer on the progress of his request.

  The most important benefits for the customer are:
  - the certainty and transparency of activation times, plus the option to ask for an urgent intervention should the normal process fail;
  - proactive and precise communications from operators, with the option of getting constant and updated information on requests submitted.

- Mobile Care
  The Project "Mobile Care", implemented in collaboration with the National Organisation for Hearing- and Speech-impaired people, is a free assistance service for hearing-impaired people provided through mobile phones. The user connects to Mobile TV and selects a function: a virtual assistant, displayed on the screen of his mobile phone, through the Italian Sign Language provides information on the use of mobile phones and of the relevant services.
  The project has been operative since December 2005 and is currently providing the service "Configure your e-mail". The offer will soon include new contents completing the guide to mobile services: video calls, Internet connection and the service "Check your credit", devoted to customers using prepaid solutions of payment.

- Integrated Feedback System
  Following the merger of Telecom Italia and Telecom Italia Mobile the Integrated Feedback System has been extended since 2006 also to the mobile market through the application of the Customer Satisfaction & Loyalty model already developed for fixed telephony. The methods to analyse customer satisfaction have been changed: while initially only the trend of satisfied and very satisfied customers was monitored in terms of percentage of total customers, we are now measuring also the average satisfaction of customers and analysing the cause-and-effect interrelations of basic satisfaction drivers. The methodology applied for analysis, the same used to construct the ACSI – American Customer Satisfaction Index – calculates a comparable indicator at inter-sectorial and international level, considers both loyalty and gaps with respect to expectations and the "best ideal provider" and analyses the cause-and-effect relations determining satisfaction. The methodology identifies the critical points on which the involved departments work out action plans dealing with efficiency and the recovery of customer satisfaction. Within the Integrated Feedback System framework the

"Lighthouse" Project has been launched: thanks to this initiative, employees may test new products and services. The project also involves the development of a model to measure employees' loyalty.

- Reducing the Digital Divide
  The Digital Divide involves difficulties in accessing the Information and Communication Technology (ICT) resources, currently including access to the web and broadband (infrastructural Digital Divide). Following the development of network services and digital convergence such digital divide will increasingly concern also the access to web multimedia services, and should be considered from the structural, cultural and economic viewpoints.
  In order to gradually reduce the Digital Divide, Telecom Italia has announced a project aimed at achieving within the end of 2008 an ADSL coverage equal to 98% of the population.
  Such goal will be achieved by applying innovative technological solutions (i.e.: Light Broadband on copper, Full Broadband on fibre-optic) and through financial models based on public/private partnerships, from a technological/economic neutrality perspective.
  The "Digital Divide Project" (DDP), has been devised as an important operational support and decision-making tool: accessible through the web, this structure will offer a complete and constantly updated overview, both from a marketing and technical viewpoint, of the current and future state of the ADSL coverage on the Italian territory (8,101 municipalities).

RELATIONSHIP WITH CONSUMERS' ASSOCIATIONS

The company started its collaboration with consumers' Associations in 1983, when it was still named "SIP". Over the years several agreement protocols have been signed and in 2006 the Telecom Italia Group has actively collaborated with 14 among the main Associations. Such collaboration involves meetings aimed at safeguarding the consumers' rights with regard to the Group's products and services as well as the presentation by some Group's managers of the main projects of organisational development possibly affecting customers, as for instance the reorganisation of Customer Care services ("Evolution" Project).
The collaboration with such Associations also involves informative meetings on the launch of new services and on the related contractual terms. A positive outcome of the collaboration with the Associations are the "parity" conciliation procedures that since 1991 have allowed the resolution of about 40,000 disputes with customers.

The Group takes part, as a founder member, in the "Consumers' Forum", bringing together Consumers' Associations, companies and research institutes. The Forum deals with consumerism themes. Within this framework Telecom Italia supports, from the prepositional and organisational viewpoints, several initiatives of joint training with the Associations with regard to Conciliation.
Projects and initiatives have been developed in order to promote a "collaborative consumerism" and to provide strategic feedback to the appropriate Group Departments. In particular, the second "Consumers' week" has been planned, with meetings between companies and Associations, to focus on and discuss the most significant issues concerning consumers and users. The event, a follow-up of the one held last year, is scheduled in the fall 2006 with meetings in several Italian cities and the attendance of the Group's managers.

The Group's commitment with regard to consumers' rights is also shown by activities supporting service access requests by disabled customers.

SUPPLIERS

General information

The evaluation and control process of the Group's suppliers is based – for high-risk product categories – on a pre-contractual "qualification" phase aimed at evaluating the economic/financial and technical/organisational characteristics of potential suppliers with possible inclusion in the Group's Suppliers Register.
Companies included in the Suppliers Register and achieving purchase orders following bids/negotiations usually undergo performance controls during supply, ranging from the Vendor Rating monitoring (systematic evaluation of all the main contractual issues of the supply) to the Incoming Quality control (binding for acceptance/use of the purchased good).
Further details on these activities may be found at paragraph "Suppliers" of the Sustainability Report 2005.

Controls

Controls performed on suppliers during the first six months of 2006 are summarised below:

- Qualified suppliers: 424 controls (concerning 800 commodity categories), of which 28% with negative outcome and 20% with fixed-term reservation.
- Vendor Rating monitoring: 28 reports issued (up 40% as compared to the same period of 2005), concerning approximately 270 suppliers and 50 purchase categories.
- Technical-organisational audits at supplier's premises for Incoming Quality controls: over 100 (11 product batches were found noncompliant and were rejected).
- Technical and organisational qualification Audits performed at the Suppliers' premises: about 150 (concerning approximately 190 product categories), of which 13% with negative outcome.

About 3,000 audits have been performed on technical procedures, mainly focused on the installation of new systems and on the service provisioning.

Main initiatives on Ethics, Integrity and Sustainability in the relations with suppliers

- During the first six months of 2006:
  - new methodologies have been defined to extend Incoming Quality controls also to environmental compatibility requisites within the product life-cycle; the experimental phase of this activity, will start in the second half of 2006 on mobile phone supplies;
  - an operational plan has been designed to extend, starting in the second half of 2006, the qualification and Vendor Rating activities to foreign subsidiary suppliers, with special attention for Latin American companies;
  - criteria have been defined to extend to the most important Group's suppliers the controls on Sustainability values, with special regard for the safeguard of the environment and of the health and safety of workers; the activity also aims at promoting in these companies a concrete commitment to pursue, involving their suppliers (Group's sub-suppliers), the mentioned Sustainability values along the whole supply chain;
  - in compliance with the principles of the Code of Ethics of the Group and with the rules established in the Group Procedure for Purchases of Products and Services, a Supplier Relation Policy has been designed to illustrate how the principles of Sustainability and ethics in negotiation are promoted and pursued in the purchase process, thus ensuring that relations with suppliers are based on legality, transparency and correctness. The Policy will be issued in the "Suppliers" section of the Telecom Italia Group website and will provide instructions to suppliers on possible confidential reports concerning incorrect behaviour by the Group's staff within the scope of business relationships;

- the Telecom Italia Group took part in the SIRF project, a strategic orientation working group on Sustainability and integrity in the relationship with suppliers. The project was promoted by i-Faber, a company belonging to the UniCredito Italiano Group, and involves some among the most important Italian companies operating in the service and manufacturing fields. The project defines conduct rules and implementation criteria concerning the Purchasing process through specific guidelines, based on international standards on corporate responsibility. On the basis of the defined guidelines an assessment has been launched with the participation of the Telecom Italia Group, an initiative representing a significant benchmarking tool and a concrete opportunity for comparison and improvement.

COMPETITORS

ORGANISATIONS AND ASSOCIATIONS

Collaboration with competitors at national level

The year 2006 sees Telecom Italia chair the DGTVì, Association for the development of the Terrestrial Digital in Italy, co-founded by Rai, Mediaset, Bordoni Foundation, Radio Television Association and D-free. Since 2006 the Association also includes Aeranti–Corallo, grouping broadcasters and local radio stations.
The participation in DGTVì enables the Group TI Media's broadcasters to confront the radio-television market players and to actively participate in the evolution process toward Terrestrial Digital.

This year the Association has promoted the following activities:
- the establishment of two consortiums, Sardegna Digitale and Valle d'Aosta Digitale, grouping both national and local broadcasters for the development of interactive services in the so-called "all digital" areas. These consortiums obtained the funds allocated by the Ministry of Communications with decree December 29, 2005 (euro 2 million for Sardegna and euro 1 million for Valle d'Aosta), for the implementation and the broadcasting of interactive services of public utility;
- the organisation of the second national Conference on Terrestrial Digital, scheduled on July 14-15 in Naples.

The Association is moreover coping with legislative changes involving the deadlines for the switch to Terrestrial Digital:
- the national switch-off date is postponed from December 31, 2006 to December 31, 2008;
- the new schedule of the digitalisation process in the all digital areas, establishing the date of March 1, 2008 for the complete switch-off of digital transmissions in Sardegna and of October 1, 2008 in Valle d'Aosta.

The new deadlines involve complex confrontations with the Ministry of Communications in order to limit the negative effects of excessive deadline delays.
By June 2006 over 3,900,000 decoders have been sold.

Telecom Italia is a member of the radio and Television Federation– FRT – as Chairing Committee member. Besides national and satellite broadcasters, FRT gathers 150 local TV and radio broadcasters.

In agreement with the involved operational departments the Group continues to participate in the activities of Ambiente Digitale, an Association promoted by the Bordoni Foundation, gathering all the ICT players in the Terrestrial Digital sector. The Association goal is the identification of appropriate solutions to harmonise the interactivity development of Digital TV in terms of user services and applications. At the end of January the Association organised a quite successful convention: "Progress of the Italian Digital Convergence Industry. Contents, services and platforms".

The membership of the Group to the HD Forum is being formalised: the new Association devoted to high-definition is promoted by the Bordoni Foundation, by Telecom Italia as founder member and by Telecom Italia Media as ordinary member. Some companies (among which Mediaset, RAI, SKY, Fastweb, Philips, Sagem, STMicroelectronics, Telesystem, Samsung, ANIE, Cartoon Italia), involved with different roles in high-definition, are also formalising membership to the HD Forum, whose main goal is the promotion and spread in Italy of high-definition.
The Group membership has been promoted in agreement with the involved operational departments (Television and Rosso Alice) and offers the following advantages:
- constant updating on competitors activities concerning high-definition (in particular Sky, Mediaset and Fastweb);
- greater influence in promoting initiatives pertaining to standardisation or legislation.

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

Telecom Italia is involved in the management of association relationship and co-ordination of lobbying and representation activities with Confindustria and its Associations. These initiatives, involving in some cases concerted actions with competitors, consist both at national and local level of actions and meetings relative to the development of business and safeguarding the corporate interests on the economic, legislative, trade unions and labour themes.
The Group is a member of 97 territorial Associations: the registrations to the Associations of Prato and Oristano are currently being formalised.
The Group is also a member of the following Federations/Category Associations: Federcomin, Asstel, Assoelettrica and Assografici.

Collaboration with competitors at European Community level

- The Brussels Round Table (BRT), which unites various European TLC and manufacturing companies, is established to maintain a constant dialogue with European Institutions on significant themes concerning the ICT sector at Community level;
- ETNO (European Telecommunications Network Operators' Association) is the largest continental sector Association. Among its goals there is the development of a competitive and efficient European telecommunication market, to be achieved through co-ordination among operators and dialogue with the Institutions. Telecom Italia is a member of the Executive Board and chairs the Sustainability working group;
- EIF (European Internet Foundation) unites TLC manufacturers and operators, software providers, ISPs and content providers. The Association aims at creating, within the European Parliament and among the various communications operators represented in Brussels, a favourable environment for fast development of the Internet, broadband, convergence and multimedia technologies and services, benefiting the final consumer;

- ERT (European Round Table of Industrialists) is a forum gathering about 45 leaders of European industry for the purpose of promoting competitiveness and European economy growth;
- The ESF (European Service Forum) includes the European operators in the services sector and aims at promoting the interests of the European services industry and the liberalization of the services sector worldwide in the framework of the GATS 2000 negotiations;
- BRUEGEL (Brussels European and Global Economic Laboratory) is the new European Studies Center constituted on January 18, 2005, on the basis of joint collaboration among the Governments of the European Union and the principal businesses of the continent, dedicated to the analysis of the international economy and the main industrial sectors;
- ETP (European Telecommunication Platform) unites European TLC and manufacturing companies for the purpose of promoting and discussing common issues relative to TLC;
- ITU (International Telecommunications Union) is part of the United Nation System and aims at promoting the international development of the sector through public/private cooperation. Within the ITU-Development sector (ITU-D) Telecom Italia chairs the Project Group "Question 10-2/1: Regulation for licensing and authorization of converging services". Telecom Italia is moreover actively participating in several Study Groups and Project Groups of the ITU sectors -Telecommunication Standardisation (ITU-T) and ITU-Radiocommunications (ITU-R).

ANTITRUST ACTIVITIES

The first few months of 2006 saw the definition of the "Antitrust Compliance Program" guidelines. The program consists of multilevel information and training initiatives and aims at spreading within the Group the correct cultural approach to the Antitrust regulation, as well as awareness that competition is not a threat but on the contrary an essential asset for business activities.

REGULATORY FRAMEWORK

The regulatory framework of the telecommunications sector is now consolidated with the coming into force of both the "Electronic Communications Code" and the "Consolidating act on radio-television", which, among other things, contains the principles for convergence between radio-television and other sectors of interpersonal communications.

A summary of the principal legislative/regulatory acts adopted in the first six months of 2006 is given below.

AGCOM Contribution 2006

Law no. 266 of December 23, 2005 (2006 Financial Act), subsections 65 and 66, states that starting from 2007 the operative costs of some Authorities, among which AGCOM, must be supported by the relevant market for the amount not funded by the national budget. For the year 2006 the law decrees for telecommunication operators a contribution to AGCOM equal to 1.5 per thousand of revenues resulting from the last approved financial statements. In the subsequent years AGCOM may possibly deliberate variations to such contributions up to a maximum of 2 per thousand.
With resolution no. 110/06/CONS of March 2, 2006, AGCOM approved the amount and the method of payment of the contribution, modifying the exemptions from payment as previously established in the Ministerial Decree of May 17, 2002. By the end of April 2006 the Telecom

Italia Group has paid AGCOM an amount equal to approximately euro 24 million, compared to euro 10.4 million paid in 2005.

Universal Service

Universal Service 2005

On March 31, 2006 in compliance with the deadline set by the Electronic Communication Code (art. 6, subsection 1 of attachment 11), Telecom Italia has sent AGCOM an evaluation of the net cost of the Universal Service for the year 2005. The value of the net cost, has been calculated in compliance with the legislation in force at the deadline date.
The so called indirect benefits (assessed by the auditors) i.e. the commercial advantages granted to Telecom Italia by its role as provider of the Universal Service, shall be deducted from the net cost stated by Telecom Italia.

Universal Service 2004

On March 31, 2005, in compliance with the deadline set by the Electronic Communication Code (art. 6, subsection 1 of attachment 11), Telecom Italia has sent AGCOM an evaluation of the net cost of the Universal Service for the year 2004.
On October 19, 2005, the Authority has started the relevant procedure publishing on its website the notice "Universal Service: analysis and applicability of the mechanism to distribute and evaluate the net cost for the year 2004" (Official Journal of the Italian Republic, no. 259 of November 7, 2005). According to the notice the procedure was due to be closed within May 31, 2006, but is still pending; AGCOM is expected to communicate the start of control activities by the auditors.
On December 15, 2005 AGCOM has declared the net cost 2004 to be unfair, a preliminary step to start auditing activities. AGCOM notified Telecom Italia the unfairness statement by a communication dated December 21, 2005. It should be noted that the schedule adopted by AGCOM is clearly not in line with respect to the dates stated in art. 6, subsection 3, letter d), of attachment 11 to the Communication Code, on the basis of which Telecom Italia should have obtained the contribution within September 15, 2005.

Universal Service 2003

The auditing process, formally started on January 9, 2006, was closed on March 8, 2006, date on which the auditors entrusted by AGCOM delivered their final report including the evaluation results to the Authority.
On the basis of such final report AGCOM will issue a regulation draft to be submitted to public consultation.
It has to be noted that again the AGCOM draft is clearly not in line with respect to the dates stated in art. 6, subsection 3, letter d), of attachment 11 to the Communication Code, on the basis of which Telecom Italia should have obtained the contribution within September 15, 2004.

Universal Service 1999, 2000 and 2002

The proceedings are concluded but Telecom Italia still has not obtained a part of the allocated contributions.
In particular, the contributions relative to the net cost of 2002 (approximately euro 24 millions) have all been paid by the relevant debtors (TIM, Wind and Vodafone), but are still held at the Economics Ministry .

Information services on subscribers

With resolution no. 8/06/CIR of February 9, 2006, AGCOM has established the maximum prices for calls to the information services on subscribers made from fixed network. The customer requesting to complete the call is preliminary informed about the cost of the service which is provided only after the explicit acceptance by the customer.

Premium services

In the Ministerial Decree no. 145 of March 2, 2006, the Ministry of Communications issued regulations governing premium services, i.e. information services or those services (both national and international) for which there is an extra charge, including services delivered through Internet connections, those offered on the interactive digital television platform and those sent with text messages such as SMS or MMS.
Furthermore, the decree has established a price ceiling for services provided to minors (euro 2.75 including VAT), as well as a price ceiling which applies to any other kind of premium service call (euro 12.50 excluding VAT).

Regulation on sanctions procedures

Following the changes in the internal organization of the National Regulatory Agency, with Resolution no. 136/06/CONS of March 15, 2006, AGCOM approved a new regulation on the procedures ascertaining breaches and on the sanctions to apply in the cases of non compliance to its provisions, failure to send requested data or information and communication of false data.

Supply of VoIP services

In Resolution no. 11/06/CIR of March 7, 2006, the National Regulatory Agency approved the measures regulating the supply of VoIP services (Voice over Internet Protocol), which involves the issue of a general authorization for supplying such a service, and has integrated the national numbering plan, devoting the number 5xxx to nomadic electronic communication services.

Market analysis with regard to electronic communications

In observance of the measures contained in EC Recommendation no. 2003/497 and in the Electronic Communication Code (Decree Law No. 259 of August 1, 2003), with Resolution no. 118/04/CONS of May 19,2004, AGCOM began preliminary inquiries to analyse the 18 markets mentioned in the Recommendation, and in articles 18 and 19 of the Code. The inquiries concern "the activity of market analysis, the evaluation of the level of competition, the identification of any dominant operators and the formulation of a proposal with regard to the revocation, maintenance or modification of the existing obligations, or the introduction of new obligations".

AGCOM has published the final provisions for the following markets:

- Resolution no. 343/06/CONS of June 7, 2006 regarding retail leased lines (market no. 7).
- Resolution no. 46/06/CONS of January 25, 2006, regarding market access and collection of calls on mobile public telephone networks (market no. 15);
- Resolution no. 45/06/CONS of January 25, 2006, relative to the markets of terminal segments of rented lines and segments of rented lines on trunk circuits (markets no. 13 and no. 14);
- Resolution no. 34/06/CONS of January 19, 2006, relative to the wholesale broadband access market (market no. 12);

- Resolution no. 33/06/CONS of January 19, 2006, relative to the markets of retail service for access to the public telephone network from telephone booths for residential and non-residential customers (markets no. 1 and no. 2);
- Resolution No. 4/06/CONS of January 12, 2006, concerning the market of wholesale unbundled access (including shared access) to metallic network and sub-network, for voice and broadband services (market no. 11);
- Resolution no. 3/06/CONS of January 12, 2006, regarding the market of voice call terminations on individual mobile networks (market no. 16).

Concerning six other significant markets, the national public consultation procedures have been concluded and the new regulation drafts, modified following the results of the national consultations, have been notified to the European Commission and to AGCM. While AGCM only issues non-binding consultative opinions, the European Commission has the power of veto concerning the definition of the significant markets and the identification of the dominant operators in these markets. The Commission has issued the expected opinions without vetoing any decision of the Authority. The publication by AGCOM of the final regulations concerning the following markets listed in the Recommendation is therefore expected in the near future:

- markets of wholesale services for the collection, termination and transit of calls on the fixed public telephone network (markets no. 8, 9 and 10), which underwent a public consultation following Resolution no. 30/05/CONS (Official Journal of the Italian Republic of February 18, 2005);
- markets of international telephone services available to the public and supplied through fixed line to residential and non residential customers (markets no. 4 and no. 6), which underwent a public consultation following Resolution no. 414/04/CONS (Official Journal of the Italian Republic of January 4, 2005);
- wholesale national market for international roaming services for public mobile telephone networks (market no. 17), which underwent a public consultation following Resolution no. 78/06/CONS (Official Journal of the Italian Republic of March 17, 2006).

Concerning the two significant markets listed below, the final regulation draft has already been notified to the European Commission and to AGCM but their opinions are still pending:

- local, national and fixed/mobile telephone service markets available to the public and supplied through fixed lines for residential and non residential customers (markets no. 3 and no. 5), which underwent public consultations following Resolutions no. 410/04/CONS (Official Journal of the Italian Republic of December 24, 2004) and no. 87/06/CONS (Official Journal of the Italian Republic of March 17, 2006).

Lastly, there is only one significant market concerning which AGCOM still has not notified the final regulation draft to the Commission:

- market of radio-television broadcasting services for the transmission of contents to end users (market no. 18), which underwent a public consultation following Resolution no. 61/06/CONS (Official Journal of the Italian Republic of February 22, 2006).

Digital Terrestrial Television on mobile phone

With Resolution no. 191/06/CONS of April 4, 2006, AGCOM has published and submitted to public consultation a draft concerning the regulation of the start-up phase for Digital Terrestrial television on mobile phones enabled to the DVB-H standard.

With Resolution no. 266/06/CONS of May 16, 2006, AGCOM has approved the changes to the regulation concerning digital terrestrial radio broadcasting dealt with in Resolution no. 435/01/CONS, whose purpose is regulating the start-up phase of Digital Terrestrial television on mobile phones. According to such Resolution the offer of digital terrestrial television on mobile phones should be subjected to an authorisation granted by the Ministry of Communications and relative to the supply of television contents and data through digital technology on terrestrial frequencies, as provided by article 25 of the Electronic Communications Code. The Resolution also establishes that the licence of digital television broadcaster at national or local level should also allow broadcasting solely on mobile phones, following the submission of the appropriate application to the Ministry of Communications.

Mobile number portability
With Resolution no. 17/06/CIR of May 4, 2006, AGCOM has updated the daily processing capacity of portability orders of donating operator mobile numbers from 7,500 to 9,000. This is the minimum capacity that should be equally provided with regard to incoming requests from recipient operators.

Fixed/mobile integration
With Resolution no. 324/06/CONS of May 30, 2006, AGCOM has started a fact-finding inquiry on "The integration between fixed and mobile telephony services, in view of the transition to the new generation networks: market issues and competition profiles".

INSTITUTIONS

RELATIONS

The legislation activities of Central National Institutions (Parliament, Government) and local Institutions (Regions, Local Entities and independent sector Authorities) is constantly monitored by Telecom Italia Group. A constant and transparent relationship was established with these institutions to represent the Group's position in the areas of specific interest and monitor the approval procedure of the main related legislation.
Constant support is supplied to the competent institutions (Parliamentary Commissions,
Ministry of Communications and other Ministries, local Authorities) in drafting the legislation for the relative areas of interest

Likewise, subsidiaries and/or companies associated to the Telecom Italia Group and operating abroad directly interact, supported by the parent company, with the competent Authorities – Antitrust and Regulation – and Institutions – Ministries of Communications and Parliamentary Commissions – operating in the various countries, in order to represent and support the Group position and to ensure correct competition dynamics in the relevant markets. Companies operating abroad, in particular, provide the competent institutions with constant support in the drafting of significant legislation, with due respect for local procedures.

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

NATIONAL LEGISLATION

The legislative provisions of interest to the Group, both approved or under examination during the first six months of 2006 are reported below:

- the Constitutional Bill to change the second part of the Constitution (approved in November 2005) underwent a confirmative referendum on June 25 whose negative outcome has voided the reform. The Bill established a Federal Senate to which the fundamental principles of concurrent legislation matter was entrusted (the original version of the Bill also included regulations regarding communications), leaving the Regions to establish the regulations in detail. Telecom Italia supported the modification proposal included in the text approved by the Parliament, bringing telecommunication regulations back within the sphere of exclusive competence of State, assigned to the Chamber of Deputies. Following the referendum outcome, there are still critical elements for the Group stemming from communication regulations being assigned to concurrent legislation matter.
- Law 38/2006 on the fight against paedophilia. The law imposes the obligation on suppliers of electronic communication services to communicate to a central institute, established at the Ministry of the Interior to counteract this phenomenon, all information relative to companies or persons spreading paedopornographic material.
- Legislative decree no. 140/2006 transposing into the national legislation the EC directive 48/2004 concerning the protection of intellectual property rights and the fight to counterfeiting and piracy phenomena. The initial draft equated, in terms of responsibility and of the relevant sanctions, the perpetrator of the infringement and the intermediary whose services are used by third parties to infringe intellectual property rights; this critical provision has been subsequently attenuated by the inclusion of a reference to the provisions of Legislative Decree 70/2003 on e-commerce, excluding any responsibility of the Service Provider.
- Law 51/2006 converting Decree Law 273/2005 concerning the definition and the extension of terms related to preceding legislative provisions; among other things it includes the extension from 2006 to 2008 of the deadline for the complete switchover of the television system on terrestrial frequencies from analogical to digital broadcasting.

EUROPEAN LEGISLATION

The Group activity focused on the following issues:

- analysis of EU communications about the revision of the Regulatory Framework on Electronic Communications. The public consultation launched by the EU Commission is based on a communication, a documentation of the Commission's services and an impact assessment illustrating the most significant strategic alternatives considered;
- analysis of the review proposal regarding the Recommendation about significant markets that are liable to the imposition of ex ante regulatory obligations. The Commission review proposal, published in parallel with the Framework review documentation, involves a reduction from 18 to 12 of the reference markets. The new Recommendation would remove in particular the retail voice market and the retail leased line market;
- review of the "Television Without Frontier" Directive through a Directive proposal adopted by the European Commission, currently under parliamentary discussion, that distinguishes between linear (traditional television) and non linear (on demand audiovisual contents) services extending some television provisions to on demand services;
- adoption process of EU recommendations on collecting societies;

- adoption by the European Commission of the proposal of a community directive on retention of data processed through electronic communication services;
- adoption process of the EU directive on service market;
- adoption process and approval procedure of the EU Directive on penalties for intellectual property rights infringement.

ENVIRONMENT

Waste Management

The waste accounting book system, already available in its computerised version since 2005, has been updated to incorporate the innovations included in Legislative Decree 152/06 and to expedite the integration between waste management operations and the relevant monitoring activities.
The procedures on waste management of Telecom Italia and Telecom Italia Sparkle have been reviewed consistently with the new organisational structure and in compliance with the new regulatory changes.

Training and information

The Group has continued its activities aimed at raising awareness on environmental issues by planning information campaigns to be implemented in the second half of 2006. The topics covered include the reduction of paper consumption, the promotion of recycled paper instead of new one and the differentiated waste collection.
Other training activities aim at illustrating corporate management of waste, also considering the new regulation in Legislative Decree 152/06.

Environmental Performance

Several initiatives have been undertaken to achieve the 2006 environmental targets. The areas concerned regard: optimisation of energy consumption, promotion of differentiated waste collection, reduction of paper consumption, promotion of recycled paper use, reduction of emissions by corporate car fleet and heating systems, optimisation of the management of electromagnetic field intensity for Base Transceiver Stations, and SAR (Specific Absorption Rate) qualification of mobile terminals. Projects aimed at defining quantitative targets for 2007 have been launched.

Photovoltaic plants

Among alternative energy sources photovoltaics is an interesting challenge, both considering conventional systems and innovative ones. Nevertheless conventional systems, involving silicon crystal flat panels, show a poor cost/performance ratio.
Innovative concentration systems, based on refraction (lens systems) or reflection (mirror systems), are a valid alternative as cost targets may be halved and productivity doubled.
Telecom Italia is experimenting on both fronts: design studies for the installation of conventional units with 30 kWp each at telephone exchanges are being finalized; some concentration prototypes, developed by Pirelli Labs in cooperation with sector excellence centres, will be installed at a Telecom Italia base transceiver station and tested for at least six months.

Fuel cells

The first telephone exchanges of Telecom Italia powered by fuel cells instead of lead cells, in the occurrence of an electrical black out, are operative in the Trentino Alto Adige region. This is an innovative powering system, allowing the continuity of telephone service in the occurrence of a glitch of the public electrical network, as well as a minimum environmental impact on the involved sites. The hydrogen-based system consists of fuel cells capable of producing electrical energy through the reaction between hydrogen and the oxygen in the air: no fumes nor noxious substances are produced as the fuel cell converts hydrogen and oxygen into water.

Infomobility

The radiomobile network may be considered as a huge network of sensors (all the users) scattered on the territory. Several data may be obtained from these sensors through the network systems (position, speed, quality of the radio signal, etc.). The statistical and anonymous processing of such data yields a large quantity of statistical indicators on the state of the territory and population.

In the occurrence of abnormal traffic congestion the availability of such indicators allows to generate timely information and transmit inputs to the planning and management processes regarding urban mobility, in order to reduce traffic queues and consequently environmental pollution.

Telecom Italia is experimenting with the “Lochness” system that monitors the movements of radiomobile network users and can estimate the extent and speed of traffic flows. The system is still being experimented in an area of Rome and will be presented within the framework of the project "Real Time Rome" at the Architecture Biennial of Venice in collaboration with SENSEable City Lab of the Massachusetts Institute of Technology.

Code of Conduct on broadband energy consumption

The European Union, through the Joint Research Centre (JRC) and with the involvement of the most important players of the sector, has promoted a Code of Conduct (CoC) aimed at minimising energy consumption for broadband connection services. The CoC, completed in July 2006 also thanks to Telecom Italia coordination, defines power management methods and technical solutions for the containment of energy consumption concerning both customers and providers. Adhesion to CoC is voluntary and energy savings should be achieved without compromising the technological development and the quality of services provided to customers. The CoC will be coming into force in January 2007: Telecom Italia is evaluating adhesion procedures.

COMMUNITY

Many initiatives have been undertaken in favour of the Community stakeholder: The most significant are described below.

PROGETTO ITALIA

The commitment of Telecom Italia Group to the Community has been supported in the last years by the Brand Enrichment Department, meant to promote and valorise the image of the Telecom Italia Group with respect to institutions, society, public and private bodies, besides single citizens, both Italian and foreign, contributing to the cultural and social growth of our Country.

At the beginning of 2005, to reinforce the determination and continuity of its activity, the

Group has established an ad hoc company, the Progetto Italia S.p.A., with a Board of Directors including Top Managers of the Group and an Advisory Board made up of important personalities from the world of culture and international solidarity: Susanna Agnelli, Franco Debenedetti, Tara Gandhi Bhattacharjee, Enrique V. Iglesias, Paolo Mieli, Sergio Romano, Peter Sutherland and Umberto Veronesi.

During the year the company has involved hundreds of protagonists of the world of culture, solidarity, education, show and sport. Original events have been designed and carried out in unusual and meaningful places on engaging and easily enjoyable themes. Such cultural initiatives, always characterised by wealth of content and quality, were quite successful and saw the participation of over a million people: a result achieved thanks to the competence developed by Progetto Italia in the fields of organisation, promotion and communication.

Starting with the first months of 2006 some initiatives, such as the series “High Noon Cinema”, “Lifetime classic”, “Friendship” and “*Lecturae Dantis*” by Vittorio Sermonti, have been broadcasted live at no charge on Rosso Alice, in the section expressly named “Third page” and entirely devoted to the activities of Progetto Italia. Thanks to this new type of diffusion the public enjoying these initiatives is doubled.

The event’s audience could also be widened, without changes to scheduling, thanks to the collaboration of La7, with the transmission free-to-air of specific programs through its digital channels.

The year 2006 also saw the start in Brazil of activities mainly consisting of music teachings for 15,000 youngsters living in the *favelas* of seven towns. The activities took place at San Paolo, in the Ibirapuera Auditorium, entirely accomplished by our Group thanks to a project by architect Oscar Niemeyer: music without frontiers also as a contribution to the development of the country. This is a global solidarity project, stemming from Progetto Italia’s experiences on the national territory: from “Music in prison”, implemented for the second year with the Orchestra Verdi of Milan, to the synergies with the Foundation for Children and the Tumour Institute of Milan. The wish to integrate the authentic values of sport with care for disables has also favoured initiatives such as “Sailing together” and the support to the activities of “The spirit of Stella – Progetto Italia”, the Andrea Stella’s catamaran.

Several crowd-pulling initiatives were implemented, though quite different the ones from the others, such as the “Telecomcert” held at the Fori Imperiali in Rome, the “Telecom journey”, held in 2006 in Pisa, Naples and Verona, and the exhibitions “Discovering masterpieces”, in collaboration with the Association of Historic Italian Dwellings – Lazio Office .

The complete list of initiatives and the relevant description are available on the website www.telecomprogettoitalia.it.

OPERATIONS AND OTHER ACTIVITIES

Telecare

Together with other companies and Associations Telecom Italia participates in the “Telecare” project (financed by Banks and local Institutions) whose purpose is providing support to people living alone, people suffering from critical pathologies and the elderly. The project offers technological solutions providing assistance directly in these people’s homes. “Telecare” is a service supporting homecare and is based on synergies between public and private subjects,

representatives of associationism and voluntary service in a perspective of network service management: the new way to provide social services.
The “Telecare” framework involves the following services:
- teleaid to manage alerts, with the activation of control procedures or emergency interventions (118, Fire Brigade, etc.);
- teleassistance for the *ad hoc* monitoring of potentially risky situations, identified on the basis of a program agreed with the welfare recipient and the territorial health services;
- telecomfort, for psychological support and relief from loneliness.

TLC at school
Thanks to this project, started in 2005, the Group meets junior high school students from Rome and surrounding areas. A direct and simple way to inform young people about telecommunication technology and to arouse their curiosity.
In the first months of 2006 the initiative has involved 390 schools which have been provided with a learning kit to help the youth learning notion on TLC.
The project also included an online contest entitled “Handbook for the correct use of mobile phones”. The winning classes were awarded a visit at the National Supervision Centre of the Rome network, with transportation organised by the Group.

I am connected!
The Group’s Brazilian mobile companies and the Visão Mundial NGO implemented the project “I am connected!”, a digital inclusion program developed in Pernambuco, in the North-East of Brazil.
The supply of mobile phones and the access to the Internet, granted to small traders and low-income professionals, together with appropriate lesson on the use of basic communication technologies, improved the economic performance of their activities.
In May 2006 the lines activated thanks to this project were 634. A research was conducted by Visão Mundial to assess the socio-economic impact of such initiative on the life of users and on the community. Results were due at the end of July.

Internet in the suburbs
Entel Bolivia has contributed to the development of education in the suburbs of the country’s towns with the installation in 10 schools of Internet workstations with free connection for a year. The initiative benefits students, parents and teachers of the schools, selected on the basis of the school population density.

MEDIA

Within the framework of the “NO EXCUSE 2015” campaign conducted in collaboration with UN and aimed at reducing extreme poverty in the world, making it more equitable and safer, MTV is promoting the special “NO Excuse Aids”, confirming its commitment on information against AIDS contagion, both in Italy and abroad. Comparing the Italian situation with the African one, the program points out poverty as a decisive factor for the infection and aims at educating the young to avoid further transmission of the disease.

RESEARCH, DEVELOPMENT AND INNOVATION

The Italian TLC market is regarded as one of the most advanced in the world, both from the technological point of view and from the point of view of the evolution of the attitudes and consumer profiles of its customers.

For this reason, Telecom Italia Group considers technological innovation as an essential and distinguishing factor to augment its competitive advantage and to maintain its leadership in an increasingly competitive market.

The Group's gradual accumulation of technological and innovative experience over the years has made it possible to design, develop and adopt cutting edge network, terminal and services solutions, which the Group has also been able to leverage in the other foreign countries where it operates.

The activities associated with technological innovation are conducted not only by the "TILab – Innovation & Engineering Services" department of Operations – where the activities and expertise needed for basic research are concentrated, to evaluate emerging technologies and intra-moenia development – but also by some Operating Units and Business Units (Network, Market, Information Technology, Web & Media and Security) and by Olivetti.

Moreover the technological innovation of the Telecom Italia Group is also the result of strategic partnerships with leading manufacturers of TLC equipment and systems and with top research labs belonging to world-class academic institutions in Italy and abroad.

Technological innovation activities range from reviewing basic technologies with the aim of increasing efficiency of networks and systems, to complex activities which involve an in-depth review of the platforms, services and architectures; the effort bestowed on the field by Business Units' operational departments is therefore essential to ensure that new services meet customer requirements and continuously improve quality levels.

In the first six months of 2006 the overall innovative investments of the Telecom Italia Group in tangible and intangible assets amount to approximately euro 1.500 million. Approximately 6,100 employees in the Group are devoted to research and development, with an overall commitment of around euro 260 million (of which about euro 65 million is already included under investments).

In particular, during the first six months of 2006, the R&D centres of the Telecom Italia Group conducted the following activities.

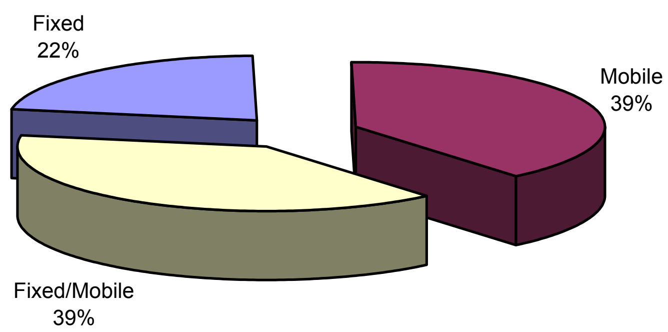
TILab - Innovation, Engineering & Testing

"TILab – Innovation, Engineering & Testing", a department of the Operations Technology area, operates as a competence centre for the activities of Research, Development and testing of the Telecom Italia Group, catalysing technological innovation in support of departments in charge of business development. It also operates externally as excellence centre for the TLC sector.

Consistently with such commitment, its technical experts operate therefore for innovation engineering and testing, to make it rapidly and economically accessible to the Group's customers.
Innovative products and systems are designed, implemented and tested in the company's laboratories, analysing the fixed and mobile access networks, working to develop the transport network and developing services and platforms. This involves a careful analysis of final customer requirements as well as of the needs of companies that consider the future telecommunication networks as the competitive driver on the global markets.
In close collaboration with universities and centres of research and industry , the "TILab – Innovation, Engineering & Testing" department is bringing the future closer by supplying hi-tech services in many sectors, from mobile telephony to multimedia, for homes and businesses alike, ensuring quality and safety.

As in the past, the opportunity to generate competitive advantages and to create value for the Telecom Italia Group has been pursued also through a strategic management of synergies among research, Intellectual Property Right (IPR) and business, in view of the development of the corporate patent portfolio. In the fist six months of 2006, 18 new patent applications have been filed (as compared to 23 in the first six months of 2005).

The graph below shows the distribution by activity sector of patents registered in the first six months of 2006:



The main achievements during the first six months of 2006 are summarised below.

Within the sphere of the evolution of network architectures, the architectural and technological guidelines that will constitute the basis of the Telecom Italia network in the coming years have been identified. These have been presented to financial analysts on March 8, 2006.

With reference to the new infrastructures Network/Control platform and with Network Operation contribution, various initiatives were launched which will result in an offering of new services during 2006. In particular:

- as for the HSDPA infrastructure, at the end of June 2006 more than 2,100 sites of the overall geographical coverage plan, involving approximately 3,500 sites by the end of the year have been completed;
- the network supporting the launch of the "Hi-Speed" commercial service, offering a network capacity up to 1.8 Mbit/s (down-link) and 384 kbit/s (up-link) has been implemented;
- with regard to DVB-H it has been released the architecture supporting the first launch stage of the service (transmission "Free-to-Air"), using the head-end Turin platform, while the architecture supporting the second launch phase (transmission with access control), using the head-end Rome platform, has been prepared;
- the network architecture supporting the Telecom Italia "Unica" service, based on UMA technology (Unlicenced Mobile Access), with the inclusion in the network of 2 nodes in Rome and Turin has been prepared;
- concerning the "Alice Home TV" service, the DSLAM-IP coverage has been completed in 135 more new municipalities, as compared to the 21 cities foreseen in the initial plan;
- with regard to the advanced IMS (IP Multimedia Subsystem) platform, since the beginning of 2006, a new release has been installed in Milan, Rome and Palermo, which is capable of enabling the Alice Mia service nationwide;
- in the framework of the Optical Packet Backbone, the first 4 Terarouters have been activated allowing to quadruple the switching IP capacity in the core part of OPB.

With reference to the contribution given by "TILab – Innovation, Engineering & Testing" to the launch of new services and terminals or to the extension of those already in place, the following events are worthy of note:
- fine tuning and launch on the market of the first HSDPA terminal (Samsung Z560);
- joint trials with Mediaset on the DVB-H service during the 2006 Winter Olympics in Turin, involving about 600 customers and various technical experts and providing free-on-air broadcasting of about ten channels of different quality;
- release of the first UMTS terminal supporting DVB-H services in the Free-Air mode;
- experimentation of solutions for the transmission of the DVB-H signal both outdoor and indoor to support the launch of the service;
- start of the Alice Home TV service, which is being marketed in the 21 towns covered by ADSL2+, with the release of innovative services and content, and the extension of the available services to customers (for example "Alice Today", content research and basket);
- activation of the "Push over Cellular" service for residential customers (marketed with the Tim Talk brand), which permits an innovative way of communication as part of a package within a customer community;
- technical qualification of the "Unique" terminal, the first dual mode WiFi/Edge/GSM model allowing to switch automatically from the mobile network to Wi-Fi and perform VoIP calls without interrupting the call;
- introduction and experimentation of Home Networking solutions to simplify home wiring supporting the "Alice Home TV" service. These solutions are based on the use of radio technologies (Wi-Fi) or pre-existing home wiring (Powerline on the electricity grid or coaxial system);
- improvement of the Audio and Video quality of the RTG videocommunication terminals currently marketed (Urmet and LG);
- completion of the so-called "amphibious" SetTopBox Pirelli IPTV, that is capable of migrating from the Alcatel platform to the Microsoft one;
- development of the new release of the Alice's telephone, a PC softclient for Alice Voice customers, equipped with interoperability videocommunication function with the Telecom Italia videophones and with the TIM UMTS mobile phones;
implementation of new functions for the "Instant Messaging – Communities" services, in particular for the TIMTribù and TIMCafè offering.

During this six-month span TILab – Innovation, Engineering & Testing has also completed the technical qualification of the new processes for integrated testing of network solutions capable of supporting both fixed and mobile services consistently with the convergence policy launched by the Group.

TILab – Innovation, Engineering & Testing has also devised technical and architectural solutions favouring the launch by the Group of important tenders related to Network Transport and Optical Packet Metro as well as to the second supplier of Access Gateway, with significant cost rationalisation results.

OLIVETTI S.p.A.

The Olivetti Business Unit devotes a significant number of its employees to the technological research and development sector. Its research centres, located both in Italy and abroad, are staffed by about 250 people, corresponding to 16% of its total workforce.
In particular, the ink-jet technology, exclusively owned at European level by Olivetti, and by five other companies worldwide, was created and developed in the Arnad (Aosta) plant, where more than 200 employees are engaged in the entire production cycle of thermal ink-jet technology. During the first six months of 2006 the Olivetti research centres focused most of all on developing and perfecting the new generations of multifunctional printers, launched in 2005.

HUMAN RESOURCES

HEADCOUNT AND CHANGES IN THE TELECOM ITALIA GROUP

Headcount at 12.31.2005 (*)	Changes in the period					Headcount at 06. 30.2006 (*)
	Recruited	Terminated	Decrease of temporary staff	Changes in report scope	Total	
86,531	3,371	(3,367)	(554)	(1,286)	(1,836)	**84,695**

(*) includes staff on temporary contract, equal to 3,382 employees in 2005 and 2,828 at June 30, 2006.

Headcount at June 30, 2006 is 84,695.

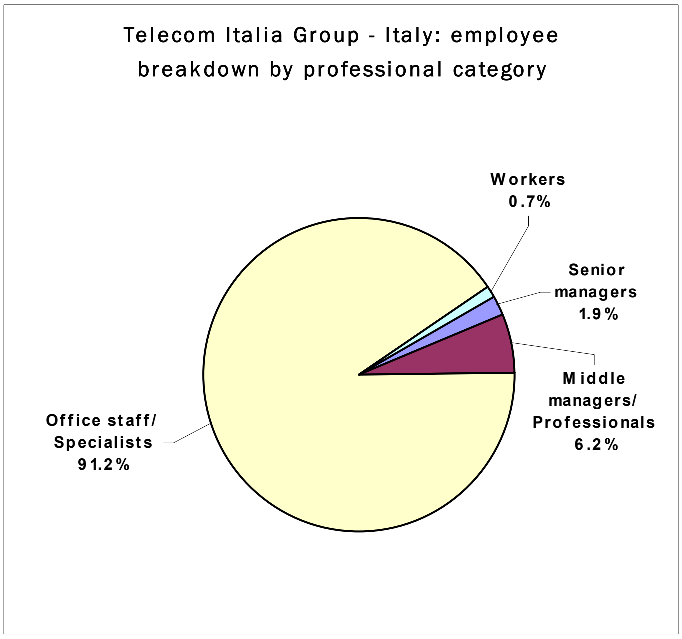
The reduction of 1,836 employees as compared to December 31, 2005 is due to:
- the sale of Buffetti Group (-183 employees), Wirelab (-54 employees), Eustema (-134 employees) and Digitel Venezuela (-915 employees);
- 3,371 employees recruited (of which 119 employees working in activities sold/held for sale, i.e. discontinued operations) and 3,367 employee terminated (of which 67 relative to“discontinued operations”), plus a decrease of 554 employees on temporary contract.

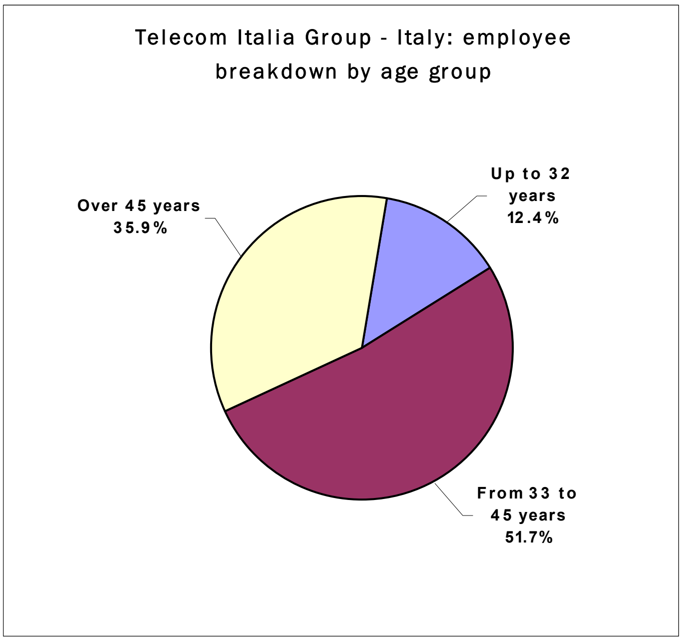
HEADCOUNT AND CHANGES IN TELECOM ITALIA S.p.A.

Headcount at 12.31.2005			Changes in the period							Headcount at 06.30.2006		
			Incorporated company Tim Italia 03.01.2006		Recruited	Terminated	Transfers among Group's companies	Decrease of temporary staff	Total	Staff	Temporary staff	Total
Staff	Temporary staff	Total	Staff	Temporary staff								
52,731	9	52,740	10,315	1,303	243	(1,118)	5	(57)	10,691	62,176	1,255	63,431

Telecom Italia S.p.A. headcount at June 30, 2006 is 63,431.

As compared to December 31, 2005 there is an overall increase of 10,691 employees mainly due to the merger by incorporation of TIM Italia in Telecom Italia S.p.A. (+11,618 employees).





DEVELOPMENT

During the first six months of 2006 the design of a new system to assess human resources has been finalized. The basic idea was to simplify human resources assessment processes and improve the overall integration level, as well as to promote a more integrated assessment of individual contributions. The project thus merges the yearly process of Performance Assessment and the biennial process of Competence Mapping in a single logic and computerised work flow. This new work flow integrates in the assessment process also the MBO and PBP incentive systems, incorporating existing stand alone procedures, if any, or introducing *ex novo* the paperless processing.

In the first months of 2006 we completed the redesign of the Management Review system and started the 2006 process, involving the assessment of about 1,300 managers from all the Group's companies. The new method will provide more elaborate and richer assessment profiles, according to a new leadership model shared by the whole Group and help to increasingly steer assessments along a "Succession management" method to plan the organisational and individual development of the Group's managers.

Within the framework of the HR Three-year plan during the first six months of 2006 we started several projects concerning the valorisation and the development of resources and competences.

In particular we designed special initiatives aimed at defining Individual Development Plans for key resources to our business in several segments of corporate staff: managers, middle managers, high-potential young employees and "knowledge people".

We moreover used indications from the Competence Mapping of the two-year period 2004/2005 to start working groups devoted to the review of the Group Professional System, in view of pointing out the new skills and the new professional roles required to successfully manage business evolution.

RECRUITING

During the first six months of 2006 the Group's Recruiting department continued its commitment to employer awareness through the "Telecom Italia University Tour" whose purpose is direct contact with university graduates as well as to provide information on the organisation, management and culture of the Group.
Telecom Italia has therefore had direct contact with about 1,400 undergraduate students and university graduates in the main Italian Universities. Approximately 50% of these took part in guided tours of the Group's premises.
Training stages within the Group are now a standard practice, with a consolidated trend that involves about 200 stages over six-month spans.

TRAINING

Training activities implemented for the Italian staff of Telecom Italia Group in the first six months of 2006 have involved approximately about 740,000 hours (class sessions, on-line, training on the job) and about euro 6,5 million of outlay costs (excluding the cost of labour and logistic expenses). In these months 67% of the Group's staff took part at least in one training initiative.
These activities can be traced back to two essential themes: the overall Group projects and training as a tool to safegard the business competences.

Overall Group Projects

- A training initiative devoted to the Group's managers has been launched ("Leadership: future paths"). This is meant to consolidate the role of management as a guide and a promoter of change and integration.

- Institutional training activities relative to the “Sarbanes Oxley (404)” projects have been continued in view of a “cascade” diffusion of the relevant operations (about 550 participations).
- The e-learning (blended) project “Formimpres@”, involving about 200 resources operating in Operations and in Central Departments facilities of Lombardia, Piemonte and Lazio regions has been experimentally implemented. To support this project we filed an application for funding at the Fondo Paritetico Bilaterale “Fondimpresa”. The relevant procedure is ongoing.

Training as a safeguard of business competences

Operations

Investment related to the Technology department is meant to uphold the competences required by the network evolution drivers and particularly the know how required for the fixed/mobile infrastructure convergence and the use of technologies enabling Value Added Services, Multimedia services as well as Innovation and Research.

With regard to Marketing and the Informative Support Systems, training projects have been launched aimed at reinforcing the new role competences required by the fixed/mobile integration process.

Concerning the Sales organisation, focus has been laid on the reinforcement of specialised knowledge and of role skills, as well as on the consolidation of the managerial profile of high potential resources.

As for the Customer Operations Call Centres training activities have been launched meant to improve competences and promote the teams’ valorisation and development.
With regard to technical and specialised competences special attention is devoted to sales techniques and to a proactive commercial approach to complete the caring aspects required by the role. Training activities have also been started concerning technologically advanced services (Video calls, IPTV, UMA), also in view of promoting fixed/mobile integration for services and offers.

The training initiatives devoted to the Field Services department aim at developing professional excellence of the employees with managerial profiles, at expanding specialised knowledge on advanced technologies (particularly “Voice over IP” and “IPTV”) and at developing management competences for front-end staff coordination roles.
The CISCO certification program activities, involving upper certifications levels, have also been continued.

Media

Continuing the 2005 trend, training initiatives were developed in the first six months of 2006 involving in particular the TI Media Management. Training was focused on “People enhancement” with the realisation of an event on “Management of complexity”, involving senior and middle managers.
With regard to technical and specialised competences, training initiatives on Terrestrial Digital as well as on specific software for the management of the TV process have been carried out.

Olivetti

A training modular project has been implemented meant for middle managers and Professionals and aimed at reinforcing the managerial skills of valuable resources, with special focus on change management, integration and team building.

Specific training initiatives have been devoted to update professional knowledge and competences of resources dealing with highly technological issues.
We also started a plan to consolidate language skills, particularly concerning the Research and Development staff.

The professional re-qualification program for CIGS staff, in view of the outplacement of redundant resources in the fixed/mobile TLC equipment repair, has been completed.

Concerning Central Departments the first edition of a special project on Leadership has been implemented meant for a limited group of high potential middle managers and aimed at reinforcing – through the application of a very innovative blended methodology (both outdoor and indoor) – those managerial behaviours that can be related to the *Leadership* model based on the System of Values.

As far as training activities of Telecom Italia Group staff abroad are concerned the monitoring refers to 88% of people operating in Brazil, Europe and Bolivia. In the first six months of 2006 the record is 340,000 hours with an overall cost of about euro 1 million.

INTERNAL COMMUNICATION

During the first six months of 2006 the Internal Communication department has launched several initiatives involving the Telecom Italia Group's employees:

Conventions and Meetings
- March 16, 2006: Group Convention 2006 involving about 6,000 employees, both managers and middle managers of the Telecom Italia Group, with accommodation in Italian and Latin-American locations. About 5,000 more employees attended all sessions by connecting their workstation to the Intranet portal.
- March-April 2006: Business Review of CEO Riccardo Ruggiero in Rome, Milan, Naples, Bologna.

Corporate Press
Two issues of the Group's magazine "noi.magazine", intended for the Group's staff both in Italy and abroad, have been published.

Online Publications
In the month of July 2006 the Group Intranet portal "noi.portal", with profiled and restricted access to all the Groups' companies, recorded over a million visits.
Many other initiatives have been lauched, such as:
- Launch of "The book on convergence", that analyses overall issues concerning the business areas most involved in the change process and in technological innovation. Each chapter includes interviews to colleagues, information content and glossaries.
- Expansion of the section "community" on the Operations Intranet portal.
- Mailing of an issue of the "Human Resources professional family newsletter" to about 1,000 *professionals* of the family, including the results of "Foto di Gruppo 2006".
- Mailing of two issues of the newsletter "Operations".
- Extensive use of e-mail for communication with the Group's staff and/or specific targets in the occurrence of special events.
- Experimental launch of "noi.tv", the corporate mobile tv service. We foresee that once consolidated the service will be available also on corporate Intranet.

- Development of the “Scoop” video-screen system in the Operations locations, with weekly programme scheduling.

Survey on staff attitude

Our survey on corporate staff attitudes, now in its fifth edition, is known with the brand “Group photograph”. The on-line questionnaire has been submitted to all the Group’s employees in Italy, Germany and Brazil with a 73% participation (57,000 questionnaires filled in).
The confirmation of satisfaction results is worth to be mentioned: in Italy we recorded a 6.21 score on a 10-point scale, in Brazil a 4.17 score on a 5-point scale and in Germany a 6.64 score on a 10-point scale.
Results have been posted on the Group Intranet portal and are also being circulated through *ad hoc* meetings.

Special initiatives for employees

- Launch of the photographic contest involving all the Group’s employees in view of the realisation of the “noi.2007” calendar.
- Involvement of all the Group’s employees in the Winter Olympic Games held in Turin.
- Specific initiatives for employees run together with Progetto Italia: “Telecom Italia Open - golf”, “Telecom Italia Masters - tennis”, participation in literary and musical events.
- “IntegrArt” project, art at the service of integration: movie projections in Operations locations to debate and meet.

Project for Values

We concluded the first phase of the Project for Values, identified by the brand “Values in Progress” and aimed at spreading the practice of values within the Group. The project is scheduled in various phases with the participation of about 2,200 Group’s resources, identified among senior managers, middle managers and office staff.

■ WELFARE DEVELOPMENT AND EQUAL OPPORTUNITIES

During the first six months of 2006 we further consolidated the initiatives related to the “Woman Project” program, launched with the purpose of promoting women professional growth and fostering the equal opportunity culture within the Group.
At the same time we analysed and refocused our employees’ needs, also in the light of the survey on staff attitude developed within the framework of the project “Research on wellbeing” in call centres. Our aim is reinforcing and better addressing welfare policies in order to meet the increasing need of work-life balance for employees.
In particular we are completing the works related to the opening in September of a new childcare centre in Milan. Five structures are already available (2 in Rome, 1 in Naples, 1 in Palermo, 1 in Rivoli – Turin) and we have moreover started work to expand the Parco de’ Medici structure in Rome, enabling it to accept 50 children from September.
Concerning summer holidays we launched several new initiatives: in the summer two-week stays in England have been made available to learn the language; other stays have been devoted to practice horse-riding, basket, volleyball. Some short sailing cruises have also been organised.
Concluding, the “Children’s Day”, has been organised as usual in the month of May, involving this year 17 corporate locations all over Italy. More than 5,000 children took part in the play and entertainment initiatives. All employees’ children aged up to 12 were invited to visit their parents workplace with the “open doors” initiative.

HEALTH AND SAFETY

In the framework of the activities carried out in order to ensure and promote the health and safety of employees and the Environment, during the first six months of 2006 we started or continued the initiatives described below,:

- Tim Telecom integration: in relation to the new corporate organisation the updating of health and safety risk assessment for employees is in progress as well as the relevant Risk Assessment Document. Safety operational procedures have been established in view of reaching complete harmonisation and are currently undergoing analysis.
- Research on wellbeing in call centres: once concluded the research conducted last year in the call centres of Mestre and Rivoli (Turin), we have worked out an operational tool, based on an on-line questionnaire, that will be used for periodical monitoring of all call centres operating over the national territory.
- Study on exposure to biological agents: in collaboration with the High Institute of Health we continued the research aimed at evaluating the occurrence of biological agents in corporate underground plants including TLC equipment.
- Study on exposure to natural radioactivity: on the basis of the agreement with the High Institute of Health, the survey to detect natural radioactivity in corporate locations continued at national level, with special attention to underground plants.
- Training: specific training initiatives have involved newly-recruited employees, newly-elected employee representatives for safety, first-aid and emergency operators.
- CEM sensors installation: the installation of specific sensors for the continuous control of electromagnetic field levels has been started and is ongoing. Its aim is the monitoring of corporate sites near to high emission sources.

INDUSTRIAL RELATIONS

Consistently with the agreement reached with trade unions in the Industrial Plan 2005–2007 (*One Company Model*) on February 27, 2006, the labour procedure related to the merger by incorporation of TIM Italia S.p.A. into Telecom Italia S.p.A. has been accomplished. During the procedure it has been reaffirmed that the integrated business model, representing a significant innovation in the TLC market and consisting in joint management of the fixed and mobile businesses, is based on technological infrastructure optimisation, on integrated offer to customers and on the unification of processes and resources.
At the same date an agreement has been subscribed with Unions in order to harmonise different treatments for employees of mobile and fixed network companies.
On March 20, 2006 an agreement with Unions has been signed on the use of Intranet, Internet and e-mail. In compliance with art. 4 of law no. 300 of May 20, 1970, (workers Statute of rights), the agreement reconciles the respect of employee dignity and privacy with corporate authority to monitor the correct use of these tools should any hypothesis of illicit conduct arise.
Concerning supplementary health assistance for managers, it has been examined and discussed with the managers' inside bargaining unit (RSA) the conditions on the basis of which – thanks to the quality of services offered to members – ASSIDA may continue to be a tool valorising relations among member companies, their managers on duty and on the basis of solidarity also retired managers and surviving relatives. The analysis pointed out the weak points of the Fund financial balance, consisting in particular of member demographic evolution and the progressive change of relevance of the various types of member companies.
For this purpose, with the signature of a specific agreement with Unions on March 6, 2006, the contribution has been opportunely reviewed in April 2006. The Association bodies have reconsidered the overall provision of services setting new rules.

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.

At June 30, 2006 the stock option plans existing in the Group are related to options entitling to the subscription of Telecom Italia S.p.A. and Telecom Italia Media S.p.A. shares.

During the first six months of 2006:

- the exercise of the Telecom Italia options has been suspended starting from March 29, 2006 (the tenth day of Stock Market open prior to the date of the first call of the Shareholder's meeting) to April 21, 2006 (the last day of Stock Market open prior to April 24, 2006, date on which dividends are distributed);
- The exercise of the Telecom Italia Media options has been suspended starting from March 27, 2006 (the tenth day of Stock Market open prior to the first call of the Shareholder's meeting) to April 21, 2006 (the last day of Stock Market open prior to April 24, 2006, date on which dividends are distributed).

The essential characteristics of Telecom Italia and of Telecom Italia Media Stock Option Plans are summarised in the half-year Telecom Italia Group Consolidated Financial Statements , at Note 24 "Stock option Plans of Telecom Italia Group" .

INTERIM CONSOLIDATED FINANCIAL STATEMENTS
AT JUNE 30, 2006
TELECOM ITALIA GROUP

Contents

CONSOLIDATED BALANCE SHEETS

(millions of euro)	note	6/30/2006 (a)	12/31/2005 (b)
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Goodwill and other intangible assets with an indefinite life	5)	43,939	43,980
Intangible assets with a finite life	6)	6,644	6,810
		50,583	50,790
Tangible assets	7)		
Property, plant and equipment owned		15,799	16,443
Assets held under finance leases		1,546	1,598
		17,345	18,041
Other non-current assets	8)		
Investments in associates and joint ventures accounted for using the equity method		740	781
Other investments		546	561
Securities, financial receivables and other non-current financial assets		522	996
Miscellaneous receivables and other non-current assets		828	825
		2,636	3,163
Deferred tax assets		1,747	2,793
TOTAL NON-CURRENT ASSETS (A)		72,311	74,787
CURRENT ASSETS			
Inventories		363	294
Trade receivables, miscellaneous receivables and other current assets	9)	9,927	8,856
Current tax receivables		45	335
Securities other than investments		244	378
Financial receivables and other current financial assets		320	509
Cash and cash equivalents	10)	2,958	10,323
Current assets subtotal		*13,857*	*20,695*
Discontinued operations/Assets held for sale	11)		
of a financial nature		-	37
of a non-financial nature		-	491
		-	528
TOTAL CURRENT ASSETS (B)		13,857	21,223
TOTAL ASSETS (A+B)		86,168	96,010

(millions of euro)	note	6/30/2006 (a)	12/31/2005 (b)
EQUITY AND LIABILITIES			
EQUITY			
Share capital issued		10,674	10,668
less: Treasury shares		(69)	(69)
less: Amounts due from shareholders for subscribed capital unpaid		-	-
Share Capital		10,605	10,599
Reserves		11,427	10,984
Retained earnings, including net income for the period		2,440	4,079
Equity attributable to equity holders of the Parent		24,472	25,662
Equity attributable to Minority interests		1,088	1,323
TOTAL EQUITY (A)	12)	25,560	26,985
NON-CURRENT LIABILITIES			
Non-current financial liabilities	13)	39,762	42,146
Employee severance indemnities and other employee-related provisions	14)	1,376	1,351
Deferred tax liabilities		62	137
Provisions for risks and future charges	15)	821	797
Miscellaneous payables and other non-current liabilities		1,962	2,113
TOTAL NON-CURRENT LIABILITIES (B)		43,983	46,544
CURRENT LIABILITIES			
Current financial liabilities	13)	5,597	9,812
Trade payables, miscellaneous payables and other current liabilities	16)	10,974	12,157
Current tax liabilities		54	227
Current liabilities sub-total		*16,625*	*22,196*
Liabilities relating to discontinued operations/assets held for sale	11)		
of a financial nature		-	143
of a non-financial nature		-	142
		-	285
TOTAL CURRENT LIABILITIES (C)		16,625	22,481
TOTAL LIABILITIES (D=B+C)		60,608	69,025
TOTAL EQUITY AND LIABILITIES (A+D)		86,168	96,010

CONSOLIDATED STATEMENTS OF INCOME

(millions of euro)	note	1st Half 2006	1st Half 2005
Revenues		15,335	14,528
Other income		311	223
Total operating revenues and other income		**15,646**	**14,751**
		-	-
Purchases of materials and external services		(6,769)	(5,978)
Personnel costs		(1,992)	(1,929)
Other operating expenses		(666)	(642)
Change in inventories		69	72
Capitalized internal construction costs		230	211
OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS		6,518	6,485
Depreciation and amortization		(2,843)	(2,496)
Gains (losses) on disposals of non-current assets (1)		152	(1)
Impairment reversals (losses) on non-current assets		(26)	(9)
OPERATING INCOME		3,801	3,979
Share of profits (losses) of associates and joint ventures accounted for using the equity method	8)	25	(15)
Financial income	20)	1,649	2,000
Financial expenses	21)	(2,743)	(2,858)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES		2,732	3,106
Income taxes		(1,305)	(1,352)
NET INCOME FROM CONTINUING OPERATIONS		1,427	1,754
Net income from discontinued operations/assets held for sale	11)	46	425
NET INCOME FOR THE PERIOD		1,473	2,179
of which:			
· **Net income attributable to equity holders of the Parent**		**1,496**	**1,775**
· Net income (loss) attributable to Minority interests		(23)	404

(1) Excludes capital gains/losses realized on the sale of investments classified as discontinued operations and equity investments other than in subsidiaries.

Basic and Diluted Earnings Per Share (EPS) (*)

(euro)		
Basic and Diluted EPS per:		
· Ordinary Share	0.07	0.10
· Savings Share	0.08	0.11
Of which:		
- From continuing operations		
· Ordinary Share	0.07	0.08
· Savings Share	0.08	0.09
- From discontinued operations/assets held for sale		
· Ordinary Share	-	0.02
· Savings Share	-	0.02

(*) Basic EPS is equal to Diluted EPS.

STATEMENTS OF CHANGES IN EQUITY FOR THE FIRST HALF OF 2005 AND THE FIRST HALF OF 2006

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FIRST HALF OF 2005

(millions of euro)	Equity attributable to the equity holders of the Parent								
	Share capital	Additional paid-in capital	Reserve for net translation differences	Other income (charges) recognized directly in equity	Other reserves	Retained earnings, including net income for the period	Total	Equity attributable to Minority interests	Total equity
Balance at December 31, 2004 in accordance with Italian GAAP	8,865	120			4,809	1,378	15,172	4,689	19,861
Adoption of IFRS	(56)	(55)	(36)	(97)	(524)	1,847	1,079	(97)	982
Balance at December 31, 2004 in accordance with IAS/IFRS	8,809	65	(36)	(97)	4,285	3,225	16,251	4,592	20,843
Changes in accounting principles/adjustments for errors									
Balance at 31 December 2004 - IFRS, as adjusted	8,809	65	(36)	(97)	4,285	3,225	16,251	4,592	20,843
Changes in equity for the first half of 2005									
Fair value adjustments of available-for-sale financial assets:									
Unrealized gains (losses) on fair value adjustments				50			50		50
Fair value adjustments of hedging instruments :									
Unrealized gains (losses) on fair value adjustments of financial instruments designated as cash flow hedges				251			251		251
Gains (losses) transferred to the statement of operations when effects of hedged items flow to the statement of operations				(288)			(288)		(288)
Translation differences			953				953	296	1,249
Income taxes				25			25		25
Total income (charges) for the year recognized directly in equity - Other Comprehensive Income			953	38			991	296	1,287
Net income (loss) for the first half						1,775	1,775	404	2,179
Total comprehensive income for the first half			953	38		1,775	2,766	700	3,466
Dividends paid						(2,284)	(2,284)	(34)	(2,318)
Conversion of bonds	487	1,639			(315)		1,811		1,811
Exercise of other equity instruments (stock options)	5	22					27		27
Tender offer and purchase of shares								(2,124)	(2,124)
Telecom Italia/TIM merger	1,310	4,768			(64)		6,014	(1,102)	4,912
Transfer of TIN.IT from TI Media to Telecom Italia						(364)	(364)	364	
Cash tender offer for TIM Media shares								(134)	(134)
Change in the scope of consolidation			(29)				(29)	(717)	(746)
Telecom Italia shares held by TI Finance	(13)						(13)		(13)
Other changes		(32)			(56)	37	(51)	111	60
Balance at June 30, 2005 - IFRS	10,598	6,462	888	(59)	3,850	2,389	24,128	1,656	25,784

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE FIRST HALF OF 2006

(millions of euro)	Equity attributable to the equity holders of the Parent								
	Share capital	Additional paid-in capital	Reserve for net translation differences	Other income (charges) recognized directly in equity	Other reserves	Retained earnings, including net income for the period	Total	Equity attributable to Minority interests	Total equity
Balance at December 31, 2005 - IFRS	10,599	6,465	793	(109)	3,835	4,079	25,662	1,323	26,985
Reclassifications made by the Parent		(4,796)			4,796				
Changes in accounting principles/adjustments for errors									
Balance at December 31, 2005 - IFRS, as adjusted	10,599	1,669	793	(109)	8,631	4,079	25,662	1,323	26,985
Changes in equity for the first half of 2006									
Fair value adjustments of available-for-sale financial assets:									
Unrealized gains (losses) on fair value adjustments				20			20		20
Gains (losses) transferred to the statement of operations upon disposal of assets or impairments considered final									
Fair value adjustments of hedging instruments :									
Unrealized gains (losses) on fair value adjustments of financial instruments designated as cash flow hedges				(30)			(30)		(30)
Gains (losses) transferred to the statement of operations when effects of hedged items flow to the statement of operations				216			216		216
Translation differences			(30)				(30)	(19)	(49)
Income taxes				(61)			(61)		(61)
Total income (charges) for the year recognized directly in equity - Other Comprehensive Income			(30)	145			115	(19)	96
Net income (loss) for the first half						1,496	1,496	(23)	1,473
Total comprehensive income for the first half			(30)	145		1,496	1,611	(42)	1,569
Dividends approved						(2,766)	(2,766)	(236)	(3,002)
Conversion of bonds	6	19			(3)		22		22
Exercise of other equity instruments (stock options)								2	2
Reorganization of Brazilian mobile telephone companies						(59)	(59)	59	
Change in the scope of consolidation			(9)				(9)	(15)	(24)
Transfer from "Retained earnings" to "Other reserves"					319	(319)			
Other changes					2	9	11	(3)	8
Balance at June 30, 2006 - IFRS	10,605	1,688	754	36	8,949	2,440	24,472	1,088	25,560

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of euro)	note	1st Half 2006	1st Half 2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income from continuing operations		1,427	1,754
Adjustments to reconcile net income from continuing operations to cash flows generated by (used in) operating			
Depreciation and amortization		2,843	2,496
Impairment (reversals) losses of non-current assets (including investments)		33	(45)
Net change in deferred tax assets and liabilities		904	467
Net realized (gains) losses on disposals of non-current assets (including investments)		(262)	(65)
Share of (profits) losses of associates and joint ventures accounted for using the equity method		(25)	15
Change in employee severance indemnities and other employee-related provisions		(11)	24
Change in other operating assets/liabilities:			
Change in inventories		(69)	(85)
Change in trade receivables and net receivables on construction contracts		(510)	(468)
Change in trade payables		(826)	(730)
Net change in miscellaneous receivables/payables and other assets/liabilities		(276)	193
CASH FLOWS GENERATED BY (USED IN) OPERATING ACTIVITIES (A)		**3,228**	**3,556**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions of intangible assets on an accrual basis	6)	*(885)*	*(663)*
Acquisitions of tangible assets on an accrual basis	7)	*(1,331)*	*(1,505)*
Total acquisitions of intangible and tangible assets on an accrual basis		(2,216)	(2,168)
Change in amounts due to fixed asset suppliers		*(433)*	*(311)*
Total acquisitions of intangible and tangible assets on a cash basis		(2,649)	(2,479)
Acquisitions of investments in subsidiaries and businesses, net of cash acquired (I)	3, 5, 6)	-	(247)
Acquisitions of other investments	3, 5, 8)	(1)	(14,209)
Change in financial receivables and other financial assets		582	(1,184)
Proceeds on sale of investments in subsidiaries, net of cash disposed of (II)	5)	100	1,702
Proceeds on sale of intangible, tangible and other non-current assets		516	145
CASH FLOWS GENERATED BY (USED IN) INVESTING ACTIVITIES (B)		**(1,452)**	**(16,272)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in current financial liabilities		(627)	(609)
Proceeds from non-current financial liabilities (including current portion)		2,812	11,242
Repayments of non-current financial liabilities (including current portion)		(8,302)	(786)
Proceeds from equity instruments		2	95
Dividends paid (distribution of reserves included)		(2,994)	(2,318)
CASH FLOWS GENERATED BY (USED IN) FINANCING ACTIVITIES (C)		**(9,109)**	**7,624**
CASH FLOWS GENERATED BY (USED IN) DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE (D)	0)	**(13)**	**26**
AGGREGATE CASH FLOWS (E=A+B+C+D)		**(7,346)**	**(5,066)**
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)		**9,958**	**8,667**
Net effect of foreign currency translation on net cash and cash equivalents (G)		1	100
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (H=E+F+G)		**2,613**	**3,701**
ADDITIONAL CASH FLOW INFORMATION:			
Income taxes paid		269	61
Interest expense paid		1,928	1,777
Interest income received		449	472
Dividends received		27	29

(I) Net of change in payables following the related acquisition.

(II) Net of change in receivables following the related disposal.

ANALYSIS OF NET CASH AND CASH EQUIVALENTS:

(in millions of euro)	1st Half 2006	1st Half 2005
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD:		
Cash and cash equivalents - from continuing operations	10,323	8,746
Bank borrowings repayable on demand – from continuing operations	(383)	(248)
Cash and cash equivalents - classified as discontinued operations/assets held for sale	37	210
Bank borrowings repayable on demand – classified as discontinued operations/assets held for sale	(19)	(41)
	9,958	8,667
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD:		
Cash and cash equivalents - from continuing operations	2,958	4,122
Bank borrowings repayable on demand – from continuing operations	(345)	(437)
Cash and cash equivalents - classified as discontinued operations/assets held for sale	-	41
Bank borrowings repayable on demand – classified as discontinued operations/assets held for sale	-	(25)
	2,613	3,701

Analysis of net cash and cash equivalents

(in millions of euro)	1st Half 2006	1st Half 2005
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD:		
Cash and cash equivalents - from continuing operations	10,323	8,746
Bank borrowings repayable on demand – from continuing operations	(383)	(248)
Cash and cash equivalents - classified as discontinued operations/assets held for sale	37	210
Bank borrowings repayable on demand – classified as discontinued operations/assets held for sale	(19)	(41)
	9,958	8,667
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD:		
Cash and cash equivalents - from continuing operations	2,958	4,122
Bank borrowings repayable on demand – from continuing operations	(345)	(437)
Cash and cash equivalents - classified as discontinued operations/assets held for sale	-	41
Bank borrowings repayable on demand – classified as discontinued operations/assets held for sale	-	(25)
	2,613	3,701

NOTE 1 – FORM AND CONTENT AND OTHER GENERAL INFORMATION

Form and content

Telecom Italia S.p.A. is a corporation organized under the laws of the Republic of Italy. Telecom Italia S.p.A. and its subsidiaries (the "Group") operate mainly in Europe, the Mediterranean Basin and South America.
The Group is engaged principally in the communications sector and, particularly, in telephone and data services on fixed lines, for final customers (retail) and other providers (wholesale), in the development of fiber optic networks, in innovative broadband services, in Internet services, in domestic and international mobile telecommunications (especially in Brazil), in the television sector using both analogical and digital technology and in the office products sector.
The corporate offices of the Group are located in Milan, Italy.

The interim consolidated financial statements of the Telecom Italia Group at June 30, 2006 are expressed in euros (rounded to millions) which is also the currency of the primary economies in which the Group operates. The foreign subsidiaries are included in the interim consolidated financial statements in accordance with the accounting policies described in the Note "Accounting policies".

The interim consolidated financial statements for the first half ending June 30, 2006 have been prepared in accordance with International Financial Reporting Standards issued by the International Accounting Standards Board and endorsed by the European Union ("IFRS"). IFRS also includes all effective International Accounting Standards ("IAS") and all related interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), comprising those previously issued by the Standing Interpretations Committee ("SIC").
The Group did not elect the early adoption of any IFRS in the first half of 2006.

The interim consolidated financial statements of the Telecom Italia Group for the first half of 2006 have been prepared in accordance with IAS 34 - Interim Financial Reporting. As permitted by this standard, the interim consolidated financial statements for the first half of 2006 do not include all the information that would be required for annual consolidated financial statements and, therefore, should be read together with the consolidated financial statements of the Telecom Italia Group prepared for the year ended December 31, 2005.

Furthermore, the figures for the first half of 2005 in the statement of operations and the statement of cash flows have been changed compared to those at one time published for purposes of comparison with the figures for the first half of 2006; therefore, also Tim Perù and Gruppo Buffetti are considered as discontinued operations.

Segment information

The integration of fixed and mobile operations begun at the end of 2005, followed by the merger of Tim Italia S.p.A. in Telecom Italia S.p.A. on March 1, 2006, and still in progress, has resulted in an overall reorganization of the Group. Accounting representation by business segment, starting from interim financial statements for the first half ending June 30, 2006, is as follows:

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

In order to facilitate the comparability of the data, segment information for prior periods presented have been restated on a consistent basis.

Seasonal factors affecting revenues

- Wireline

Revenues from basic subscription charges and traffic related to fixed telecommunications were not significantly affected by seasonal factors between the first half of 2006 and the first half of 2005.

- Domestic Mobile

Revenues from voice traffic related to the domestic mobile business were not affected by seasonal factors connected with marketing campaigns which, instead, have an impact on revenues from the sale of products and also revenues from Value Added Services (VAS) but only marginally However, seasonal factors connected with calendar differences, such as a higher number of holidays in the reporting months and periods, do have an effect.

- Brazil Mobile

Revenues of the Brazil mobile business were only marginally affected by seasonal factors connected with marketing campaigns. Instead, seasonal factors connected with calendar differences, such as a higher number of holidays in the reporting months and periods, do have an effect.

Scope of consolidation

In accordance with IFRS, the economic and balance sheet data relating to discontinued operations or assets held for sale are classified in two separate captions of the balance sheet in "Discontinued operations/assets held for sale" and in "Liabilities relating to discontinued operations/assets held for sale" and in the statement of operations in the caption "Net income (loss) from discontinued operations/assets held for sale".
In particular:
- discontinued operations in the statement of operations for the first half of 2006 include only Digitel Venezuela (sold in May 2006);
- discontinued operations in the statement of operations for the first half of 2005 include Digitel Venezuela (sold in May 2006), the Entel Chile group (sold in March 2005), Tim Hellas (sold at the beginning of June 2005), the Finsiel group (sold at end of June 2005), Tim Perù (sold in August 2005) and Gruppo Buffetti (sold in January 2006);
- discontinued operations in the balance sheet at December 31, 2005 include the data of Digitel Venezuela and Gruppo Buffetti.

Besides the aforementioned disposals of Gruppo Buffetti and Digitel Venezuela, other changes in the scope of consolidation are not material and are noted as follows:

Compared to June 30, 2005:
(a) additions to the scope of consolidation:
- *Wireline:* TIS France S.a.S. (established in August 2005);

(b) eliminations from the scope of consolidation:
- *Wireline:* Med 1/c-1 (1999) Ltd (sold in July 2005); Kmatrix S.r.l. (deleted from the Companies Register in July 2005);
- *Olivetti:* Olivetti Tecnost Africa Ltd (sold in July 2005) and Olivetti Peruana S.A. (deleted from the Companies Register in November 2005).

Furthermore, the statement of operations for the first half of 2005 includes the effects of the consolidation of Liberty Surf Group as from June 1, 2005.

compared to December 31, 2005:

(c) additions to the scope of consolidation:

- *Other activities*: Consorzio Reiss Formazione;

(d) eliminations from the scope of consolidation:

- *Olivetti:* Wirelab S.p.A. (sold in February 2006) and Olivetti Tecnost Portugal S.A. (wind-up closed in May 2006);
- *Other activities*: Ruf Gestion S.a.S. (sold in March 2006), Olivetti International (Service) S.A. (wind-up closed in April 2006), Eustema S.p.A. (sold in April 2006) and Consorzio Energia (wind-up closed in May 2006);

(e) merged companies:

- effective January 2006, La7 Televisioni S.p.A. was merged with the Parent, Telecom Italia Media S.p.A.;
- effective March 2006, Tim Italia S.p.A. was merged with the Parent, Telecom Italia S.p.A.;
- effective March 2006, the companies Blah!- Sociedade Anonima de Servicos e Comercio and CRC–Centro de Relacionamento con Clientes were merged in the parent, Tim Celular S.A., which was later contributed by Tim Brasil S.A. to Tim Participaçoes S.A.;
- effective June 2006, the company Tim Sul S.A. was merged in Tim Celular S.A., the company Tim Nordeste Telecomunicaçoes S.A. was merged in Maxitel S.A. and renamed Tim Nordeste S.A..

At June 30, 2006, Telecom Italia's subsidiaries, associates and joint ventures are detailed as follows:

	6/30/2006		
Companies:	Italy	Abroad	Total
• Subsidiaries consolidated on a line-by-line basis	49	91	140
• Joint ventures accounted for using the equity method	1	9	10
• Associates accounted for using the equity method	24	10	34
Total companies	74	110	184

	12/31/2005		
Companies:	Italy	Abroad	Total
• Subsidiaries consolidated on a line-by-line basis	51	99	150
• Joint ventures accounted for using the equity method	1	9	10
• Associates accounted for using the equity method	31	12	43
Total companies	83	120	203

For further details, see Note "List of companies of the Telecom Italia Group"

NOTE 2 – ACCOUNTING POLICIES

The accounting policies and principles of consolidation used for the preparation of the interim consolidated financial statements at June 30, 2006 are the same as those adopted in the preparation of the annual consolidated financial, to which reference should be made, except for the adjustments required by the nature of six-month reporting. In particular, in the interim consolidated financial statements at June 30, 2006, the current income taxes of the individual consolidated companies, as well as the deferred taxes, are conventionally classified in "Deferred tax liabilities". If the balance is an asset it is conventionally recognized in "Deferred tax assets". Income taxes for the six-month period are calculated according to the best possible estimate based on available information and on a reasonable forecast of performance up to the end of the tax period.

Sales of receivables

In the first half of 2006, the Telecom Italia Group sold a significant part of its receivables through either securitization programs or factoring transactions.
In December 2005, the securitization program was partly restructured on the basis of a "Master DPP Transfer Agreement" signed between Telecom Italia S.p.A. and certain financial institutions according to which Telecom Italia S.p.A.'s receivables for DPP on invoices issued between October 1, 2005 and May 31, 2006 were sold without recourse.
As a result of these sales of DPP, the risks and rewards of ownership of such receivables were transferred in full to the financial institutions which, having assumed control over the SPE in accordance with SIC-12 provisions, consolidate TI Securitization Vehicle S.r.l. (TISV).
On July 25, 2006, the securitization program ended and the securities for the two series that were still outstanding, which amounted to a total of euro 700 million, were reimbursed by TISV.

In June, Telecom Italia put into place contracts for the sale of the same kind of receivables, however, under the law on factoring, Law 52/91. These sales are characterized by the transfer of all the risks and rewards of ownership of the receivables to third parties and thus meet IFRS requirements for their derecognition. Specific servicing contracts, by 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.
In addition, the Telecom Italia Group carried out some factoring transactions for other types of trade receivables which, in the majority of cases, meet IFRS requirements for the derecognition of these assets.
In some cases, however, certain receivables sold by factoring transactions do not meet IFRS requirements for assets derecognition. In particular, some sales go back mostly to previous years and generally refer to receivables due from the tax authorities for income taxes that were legally sold without recourse but which required a first loss guarantee by the seller up to a limited amount or included a continuing significant exposure to the cash flows arising from the receivables sold. In such cases, since the risks were not substantially transferred to the third parties, the receivables sold remain in the financial statements and a corresponding financial liability is recorded for the same amount.

New Standards and Interpretations endorsed by the European Union effective beginning on January 1, 2006

Amendments to IAS 19 – Employee benefits
Such amendments, endorsed by the European Union in November 2005 (Regulation EC 1910-2005), provide the option of recognizing actuarial gains and losses in full in the period in which they occur, not in the statement of operations but directly in a specific item of equity.
The Telecom Italia Group did not elect this option as it recognizes all actuarial gains and losses immediately in the statement of operations in the year in which they occur.

IFRIC 4 – Determining whether an arrangement contains a lease
Such Interpretation, endorsed by the European Union in November 2005 (Regulation EC 1910-2005), provides that if an arrangement does not take the legal form of a lease but contains a lease, such lease should be classified as a finance lease or an operating lease in accordance with IAS 17 (*Leasing*).
The application of this interpretation did not have any effect on the interim consolidated financial statements at June 30, 2006.

Amendments to IAS 39 – Cash flows hedge accounting of forecast intragroup transactions
Such amendment, endorsed by the European Union in December 2005 (Regulation EC 2106/2005), allows the foreign currency risk of a highly probable intragroup forecast transaction to qualify as a hedged item in a cash flow hedge in consolidated financial statements, provided that the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction and the foreign currency risk will affect the consolidated statement of operations.
This amendment did not have any impact on the interim consolidated financial statements at June 30, 2006.

IFRIC 6 - Liabilities arising from participating in a specific market – Waste electrical and electronical equipment
Such interpretation, endorsed by the European Union in January 2006 (Regulation EC 108 – 2006), was published after the adoption of the European Union Directive on Waste Electrical and Electronic Equipment (WE&EE) which requires member states to implement a regulated system for the collection, treatment, recovery and ecologically correct decommissioning of the waste of electrical and electronic equipment. This interpretation provides guidelines on the recognition of liabilities for such waste management in the financial statements of producers of electrical equipment based on the sales of such equipment to private households before August 13, 2005 (so-called historical waste). IFRIC 6 has clarified that what triggers the recognition of a provision for the management costs of such waste, in accordance with IAS 37 (*Provisions, Contingent Liabilities and Contingent Assets*), is participation in the market during the measurement period. Consequently, since the obligation arises only on condition that a share of the market exists during the measurement period, the time frame for recognition can be independent of the specific period in which the activities for the management of the waste were undertaken and the relative costs were incurred. The interpretation is applicable starting from 2006.
The Italian government has not as yet enacted the necessary decrees for implementation: therefore, in the absence of a reference framework, the Group is not currently able to evaluate the impact, if any, of the application of this interpretation on the financial statements.

Amendments to IAS 39 and IFRS 4 – Financial guarantee contracts
These amendments, endorsed by the European Union in January 2006 (Regulation EC 108/2006), extend the scope of the IAS 39 to include the recognition of financial guarantee contracts by the issuer (guarantor). However, if an issuer has previously stated explicitly that such contracts are considered as insurance contracts and has accounted for them as such, it may elect to apply either IAS 39 or IFRS 4 (*Insurance Contracts*) to such financial guarantee contracts.

The Telecom Italia Group has elected to apply IAS 39 to these contracts and, consequently, there is no impact from the application of these amendments.

NOTE 3 – TRANSACTIONS AMONG ENTITIES UNDER COMMON CONTROL

Reorganization of the mobile telephone companies in Brazil

In June 2006, the project to reorganize the corporate structure of the companies of the Tim Brasil group was concluded. As a result, Tim Brasil S.A., which prior to the reorganization held a 100% stake in Tim Celular S.A. and a 19.88% stake (economic interest) in Tim Participaçoes S.A., now holds a 69.66% interest (economic interest) in the “new” Tim Participaçoes S.A..
The following corporate-related transactions took place:

- 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 S.A. contributed the Tim Celular S.A. shares to Tim Participaçoes S.A. in exchange for a capital increase reserved for it and thus raised its majority holding in Tim Participaçoes S.A. from 50.33% to 81.19%. The transaction was recorded at carrying amounts, since it was effected within the same group. As a result, the equity of the parent decreased by euro 59 million with a simultaneous increase in the minority interest in equity for the same amount;
- in June 2006
  - ✓ Tim Sul S.A. was merged in Tim Celular S.A;
  - ✓ Tim Nordeste Telecomunicaçoes S.A. was merged in Maxitel S.A. and was renamed Tim Nordeste S.A..

NOTE 4 – FINANCIAL RISK MANAGEMENT

With reference to the management of the financial risks of the Telecom Italia Group, reference should be made to the annual consolidated financial statements.

NOTE 5 – GOODWILL AND OTHER INTANGIBLE ASSETS WITH AN INDEFINITE LIFE

Goodwill and other intangible assets with an indefinite life decreased from euro 43,980 million at December 31, 2005 to euro 43,939 million.

The breakdown of goodwill by business segment and the changes during the period are presented as follows:

(millions of euro)	12/31/2005	Increases	Decreases	Exchange differences	6/30/2006
Wireline	15,364				15,364
Domestic Mobile	26,946				26,946
Brazil Mobile	1,222			5	1,227
Media	230				230
Other activities	218			(46)	172
Total	43,980	-	-	(41)	43,939

Goodwill under IAS 36 is not amortized but is subject to an impairment test at least annually; in accordance with IAS 34, paragraph 16 disclosure requirements, there were no variations except for the positive exchange differences of the Brazilian companies (euro 5 million) and the negative difference of Avea I.H.A.S. (euro 46 million).

NOTE 6 – INTANGIBLE ASSETS WITH A FINITE LIFE

Intangible assets with a finite life decreased from euro 6,810 million at December 31, 2005 to euro 6,644 million. A breakdown of the composition and movements during the period are as follows:

(millions of euro)	12/31/2005	Additions	Amortization	Disposals	Exchange differences	Other changes	6/30/2006
Industrial patents and intellectual property rights	2,810	322	(884)		3	401	2,652
Concessions, licenses, trademarks and similar rights	3,318	42	(153)	(2)	(3)	50	3,252
Other intangible assets	57	27	(11)			(31)	42
Work in progress and advance payments	625	494				(421)	698
Total	6,810	885	(1,048)	(2)	-	(1)	6,644

Additions made during the first half of 2006 include euro 144 million of capitalized internal construction costs.

Industrial patents and intellectual property rights at June 30, 2006 consist almost entirely of applications software purchased outright and user license rights acquired for an indefinite time period (amortized over the useful life estimated in 3 years). These relate mainly to the Wireline Business Unit for euro 1,313 million, Domestic Mobile Business Unit for euro 779 million and the Brazil Mobile Business Unit for euro 443 million.

Concessions, licenses, trademarks and similar rights mainly refer to the Domestic Mobile Business Unit (euro 2,093 million) and the Brazil Mobile Business Unit (euro 671 million) for the remaining unamortized cost of UMTS and PCS licenses, to the Wireline Business Unit (euro 326 million, of which euro 148 million refers to costs for Indefeasible Rights of Use-IRU) and to the Media Business Unit (euro 157 million, mainly for TV frequencies acquired at the end of 2005 through the purchase of the companies Elefante TV and Delta TV).

NOTE 7 – TANGIBLE ASSETS (OWNED AND UNDER FINANCE LEASES)

Property, plant and equipment owned

Property, plant and equipment owned decreased from euro 16,443 million at December 31, 2005 to euro 15,799 million. Details are as follows:

(millions of euro)	12/31/2005	Additions	Depreciation	Disposals	Exchange differences	Other changes	6/30/2006
Land	155			(32)	(1)	16	138
Civil and industrial buildings	972	2	(25)	(143)	(1)	(154)	651
Plant and equipment	12,907	825	(1,465)	(5)	(23)	481	12,720
Manufacturing and distribution equipment	72	5	(17)			4	64
Aircrafts and ships	46	1	(3)			(1)	43
Other	1,174	73	(221)	(2)	2	130	1,156
Construction in progress and advance payments	1,117	424		(2)	1	(513)	1,027
Total	16,443	1,330	(1,731)	(184)	(22)	(37)	15,799

Additions during the first half of 2006 include euro 86 million of capitalized internal construction costs.

Disposals of real estate properties approved by the board of directors on December 21, 2005 for more than 1,300 buildings for a total of about euro 1 billion continued during the first half of 2006. The disposal project will be completed by the end of 2006 after additional contributions are made to the Funds for approximately euro 87 million.
After the first stage of the disposal project concluded in 2005, the following took place:
- in a second stage - in March 2006, 201 properties were contributed to Raissa Fund and 120 to Spazio Industriale Fund for a total amount of euro 229 million. The transaction generated a gross gain on consolidation of euro 91 million and incidental expenses of euro 6 million and reduced consolidated net financial debt by euro 195 million;
- in a third stage – in June 2006, 54 properties were contributed to Spazio Industriale Fund and 57 properties Raissa Fund, for a total amount of euro 88.5 million. The transactions generated a gross gain on consolidation of euro 38 million, and reduced consolidated net debt by euro 77 million.

These effects are after taking into account the recognition, in accordance with the finance method under IAS 17, of 40 buildings sold to Raissa Fund and subsequently leased back under long-term finance leases. These buildings have therefore been reclassified from owned properties to leased properties.

Assets held under finance leases

Assets held under finance leases decreased from euro 1,598 million at December 31, 2005 to euro 1,546 million. Details on the composition and changes are as follows:

(millions of euro)	12/31/ 2005	Additions	Depreciation	Other changes	6/30/2006
Civil and industrial buildings	1,477		(49)	9	1,437
Plant and machinery	1			1	2
Aircrafts and ships	14		(2)		12
Other	71		(13)	1	59
Construction in progress and advance payments	35	1			36
Total	1,598	1	(64)	11	1,546

Other changes in the first half of 2006 include the carrying amount of euro 25 million for 40 buildings sold to Raissa Fund and subsequently leased back which, in accordance with IAS 17, has been reclassified from owned properties to leased properties, and -euro 23 million resulting from the exclusion from the scope of consolidation of RUF Gestion after its sale to OMS Holding BV.

NOTE 8 – OTHER NON-CURRENT ASSETS

Other non-current assets decreased from euro 3,163 million at December 31, 2005 to euro 2,636 million. The composition is as follows:

(millions of euro)	6/30/2006	12/31/2005
Investments accounted for using the equity method in:		
• Associates	725	765
• Joint ventures	15	16
	740	781
Other investments	546	561
Securities and financial receivables		
• Securities other than investments	8	8
• Financial receivables and other non-current financial assets	514	988
	522	996
Miscellaneous receivables and other non-current assets		
• Miscellaneous receivables	321	358
• Medium/long-term prepaid expenses	507	467
	828	825
Total	2,636	3,163

Investments in associates are detailed as follows:

(millions of euro)	12/31/2005	Sales and reimbursements of capital	Valuation using equity method	6/30/2006
Brasil Telecom Participaçoes	21		1	22
Etecsa	329		(11)	318
Italtel Holding	38		1	39
Siemens Informatica	4		(2)	2
Solpart Participaçoes	214		2	216
Tiglio I	95	(19)	(1)	75
Tiglio II	17	(7)	(2)	8
Other	47	(4)	2	45
Total	765	(30)	(10)	725

On July 14, 2006, the contracts were signed for the sale of the investment held by Tim International in Avea I.H.A.S., which was carried in the consolidated financial statements at zero, to Turk Telecom for USD 500 million, as described in the Note on “Events subsequent to June 30, 2006”.
On June 21, 2006, the board of directors of Italtel Holding S.p.A. voted not to proceed with the project to list the company on the Italian Stock Exchange in the immediate future as resolved by the shareholders’ meeting held on February 27, 2006.

Investments in joint ventures include the investments in Perseo S.r.l. and Sofora Telecomunicaciones S.A., in which 50% stakes are held; the decrease from December 31, 2005 is due to their valuation using the equity method

The list of investments 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 reimbursements of capital	Fair value adjustments	Reclassifications	6/30/2006
Capitalia	-			31	36	67
Consortium	20					20
Fin.Priv.	15					15
Assicurazioni Generali	-	4				4
Medio Credito Centrale	36				(36)	-
Mediobanca	227	14		(11)		230
Neuf Télécom	51		(51)			-
Oger Telecom	178					178
Sia	11					11
Other	23		(2)			21
Total	**561**	18	(53)	20	-	**546**

On May 26, 2006, the meeting of the Mediobanca shareholders' agreement approved the early dissolution of the vehicle company Consortium S.r.l. and assigned the direct ownership of the Mediobanca and Assicurazioni Generali shares to the shareholders, in proportion to their respective stakes in the vehicle company.
The transaction took place on the market. Settlement is deferred and will be compensated against the next distribution of profits and reserves by Consortium S.r.l..

On May 11, 2006, the entire stake held in Neuf Télécom by Telecom Italia International (equal to about 4.99% of share capital) was sold to Louis Dreyfus and Societè Française du Radiotelephone at the price of euro 161 million, realizing a gain of euro 110 million.
Telecom Italia International will also have the right to a price adjustment if the share price received in an IPO of Neuf Télécom ordinary shares and or in a transaction for the sale of the majority of capital of the company, will be higher than the sales price of euro 17 per share. In the event Neuf Télécom is neither listed before December 31, 2007 nor the majority of shares is sold before June 30, 2008, Telecom Italia International will nevertheless have the right to an earn-out of 80% of the difference, if any, between the fair market value per share at December 31, 2007 and the agreed price.

Effective January 1, 2006, Medio Credito Centrale S.p.A. (MCC) was non-proportionally partially spun-off to Capitalia S.p.A. by assigning a part of the equity of MCC S.p.A. to the beneficiary Capitalia S.p.A. with allocation of its shares, deriving from the reserved capital increase, to the minority shareholders of MCC S.p.A..
After this transaction, the shares of Capitalia S.p.A., since the company is listed, were measured at fair value and the fair value adjustment was recognized in a specific reserve under equity.

Financial receivables and other non-current financial assets decreased from euro 988 million at December 31, 2005 to euro 514 million. The composition is as follows:

(millions of euro)	6/30/2006	12/31/2005
Financial receivables for lessors' net investments	230	212
Loans to employees	71	79
Hedging instruments relating to hedged items classified as non-current assets/liabilities of a financial nature	134	276
Other financial receivables	79	421
Total	**514**	**988**

Financial receivables for lessors' net investments refer to the non-current portion of Teleleasing lease contracts directly negotiated with customers and guaranteed by Telecom Italia S.p.A.. Such receivables also include the non-current portion of finance lease contracts with customers (which also include the performance of accessory services under the "full rent" formula), relating to assets held under lease contracts.

(millions of euro)	6/30/2006	12/31/2005
Financial receivables for lessors' net investments		
• Non-current portion	230	212
• Current portion	125	122
Total	355	334

Other financial receivables decreased from euro 421 million to euro 79 million mainly due to the release (since the conditions stated in the contract did not occur), and consequent reclassification to cash and cash equivalents, of euro 309 million of deposits at ABN Amro to guarantee the payment that Telecom Italia S.p.A. was required to make to Opportunity.

NOTE 9 – TRADE RECEIVABLES, MISCELLANEOUS RECEIVABLES AND OTHER CURRENT ASSETS

Trade receivables, miscellaneous receivables and other current assets increased from euro 8,856 million at December 31, 2005 to euro 9,927 million and consist of the following:

(millions of euro)	6/30/2006	12/31/2005
Receivables on construction contracts	32	37
Trade receivables:		
• Amounts due from customers	6,130	5,960
• Amounts due from other telecommunication operators	1,304	978
	7,434	6,938
Miscellaneous receivables and other current assets:		
• Other receivables	1,997	1,533
• Trade and miscellaneous prepaid expenses	464	348
	2,461	1,881
Total	9,927	8,856

Trade receivables amount to euro 7,434 million (euro 6,938 million at December 31, 2005) and are net of the provision for bad debts of euro 767 million (euro 773 million at December 31, 2005).
The increase is principally the result of a different presentation of receivables due from other mobile operations which, partly as a result of the revision of the contracts that fell due following the integration of fixed-mobile operations, were no longer shown net of the corresponding liability position.
The caption also includes euro 3 million (euro 4 million at December 31, 2005) of medium/long-term trade receivables from customers.
Trade receivables specifically refer to Telecom Italia (euro 5,808 million) and the Tim Brasil group (euro 686 million).

Other receivables amount to euro 1,997 million (euro 1,533 million at December 31, 2005). Details are as follows:

(millions of euro)	6/30/2006	12/31/2005
Advances to supplier	79	60
Receivables from employees	49	55
Tax receivables	226	230
Receivables on the sale consolidated investments	254	28
Miscellaneous receivables	1,389	1,160
Total	1,997	1,533

Receivables on the sale of consolidated investments include euro 229 million on the sale of Digitel Venezuela.

Miscellaneous receivables include 344 million of receivables from the sales network sold to factors and euro 641 million of receivables from the Financial Administration for the TLC operating fee paid by Telecom Italia S.p.A. (including Tim Italia's share) for the year 1999, recognized in income in 2004 following the ruling by the TAR of Lazio Regional Administrative Court on January 4, 2005 and includes interest due through June 30, 2006. On July 10, 2006, the TAR of Lazio upheld the appeal by Telecom Italia and ordered the Ministries of Economy and Finance and Communications to execute the January 2005 sentences.

NOTE 10 – CASH AND CASH EQUIVALENTS

Cash and cash equivalents decreased from euro 10,323 million at December 31, 2005 to euro 2,958 million. They consist of the following:

(millions of euro)	6/30/2006	12/31/2005
Liquid assets with banks, financial institutions and post offices	2,837	9,956
Cash	1	2
Other assets and deposits for cash flexibility	1	34
Securities other than investments (due within 3 months)	119	331
Total	2,958	10,323

Financial requirements for the repayment of liabilities in the first half, together with the partial early repayment of euro 1,500 million of the revolving credit facility expiring in 2012, in addition to the payment of dividends (euro 2,994 million), led to a reduction in cash and cash equivalents compared to the balance at the end of 2005.

The different technical forms used for the investment of available resources as of June 30, 2006 can be further analyzed as follows:

- Maturities: 82% of deposits have a maximum maturity date of one month;
- Counterpart risk. Deposits are made with leading banks and financial institutions with credit ratings at least equal to A;
- Country risk. The geographic location of deposits is principally on the London financial market.

Securities other than investments (due within 3 months) include euro 113 million of Euro Commercial Paper of Telecom Italia Finance S.A. (euro 327 million at December 31, 2005), maturing within two months. The issuers all have AA and A ratings and are located in Europe.

NOTE 11 – DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE

There are no "Discontinued operations/assets held for sale" at June 30, 2006 owing to the disposals of Gruppo Buffetti (sold in January 2006) and Digitel Venezuela (sold in May 2006).

Sale of Gruppo Buffetti

On January 11, 2006, the sale of 100% of the capital in Gruppo Buffetti S.p.A. to Dylog Italia S.p.A. and Palladio Finanziaria S.p.A. was finalized, with a total positive financial effect of euro 66 million.
There was no effect on the statement of operations for the first half of 2006 since the carrying amount had already been adjusted to the sales price at the end of 2005.

Sale of Digitel Venezuela

On May 25, 2006, the sale of 100% of the capital of Digitel to the company Telvenco S.A. was finalized at a price equal to USD 425 million (enterprise value). As a result, there was a reduction in net financial debt of approximately euro 90 million (due to the deconsolidation of net financial debt) and a net gain of euro 31 million. The receivable arising from the sale, equal to euro 229 million, will be used to reduce net financial debt upon collection, which is expected to be at the end of the year.
In order to guarantee payment of the entire purchase price, Telvenco provided a guarantee on behalf of TIM International which can be executed starting from November 25 of this year, even if authorization is not received from CADIVI (the Venezuelan body which must authorize the conversion of Venezuelan bolivars to US dollars).

NOTE 12 – EQUITY

Equity includes:

(millions of euro)	6/30/2006	12/31/2005
Equity attributable to equity holders of the Parent	24,472	25,662
Equity attributable to Minority interests	1,088	1,323
Total	25,560	26,985

Equity attributable to equity holders of the Parent decreased by euro 1,190 million compared to December 31, 2005. The reduction is mainly due to the distribution of dividends (euro 2,766 million, net of dividends on the shares held by Telecom Italia Finance) and the net income for the period of euro 1,496 million (net income of euro 1,775 million in the first half of 2005).

Dividends paid to shareholders of ordinary and savings shares were, respectively, euro 1,856 million (dividends per share equal to 0.1400) and euro 910 million (dividends per share equal to euro 0.1510) before the taxes that are withheld by law. Earnings that were not distributed as dividends were recorded in retained earnings.

Equity attributable to Minority interests, equal to euro 1,088 million (euro 1,323 million at December 31, 2005), includes the loss for the period of euro 23 million (net income of euro 404 million for the first half of 2005) and decreased by euro 235 million compared to December 31, 2005 principally due to the distribution of dividends (euro 236 million). This item consists mainly of the equity attributable to the minority interests of Telecom Italia Media Group, Tim Participaçoes S.A. and Entel Bolivia S.A.

NOTE 13 – FINANCIAL LIABILITIES (CURRENT AND NON-CURRENT)

(millions of euro)		6/30/2006	12/31/2005
Financial payables (medium/long-term):			
• Bonds		27,393	29,281
• Convertible and exchangeable bonds		469	476
		27,862	29,757
• Amounts due to banks		8,384	9,462
• Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature		1,334	730
• Other financial liabilities		290	303
		37,870	40,252
Finance lease liabilities (medium/long-term)		1,892	1,894
TOTAL NON-CURRENT FINANCIAL LIABILITIES	(A)	39,762	42,146
Financial payables (short-term):			
• Bonds		4,048	6,181
• Convertible and exchangeable bonds		3	2,043
		4,051	8,224
• Amounts due to banks		967	646
• Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature		117	185
• Non-hedging derivatives		31	64
• Other financial payables		180	453
		5,346	9,572
• Finance lease liabilities		245	234
• Other financial liabilities		6	6
TOTAL CURRENT FINANCIAL LIABILITIES	(B)	5,597	9,812
TOTAL FINANCIAL LIABILITIES	(C) = (A)+(B)	45,359	51,958
Liabilities related to discontinued operations/assets held for sale	(D)	-	143
TOTAL GROSS FINANCIAL DEBT	(E) = (C)+(D)	45,359	52,101

Non-current financial liabilities decreased from euro 42,146 million to euro 39,762 million and current financial liabilities decreased from euro 9,812 million to euro 5,597 million.

Bonds total euro 31,441 million (euro 35,462 million at December 31, 2005) and decreased by euro 4,021 million. Details are as follows:

(millions of euro)	6/30/2006	12/31/2005
Non-current portion	27,393	29,281
Current portion	4,048	6,181
Total carrying amount	31,441	35,462
Fair value adjustment and measurement at amortized cost	(64)	(885)
Total nominal amount repayable	31,377	34,577

The nominal amount totals euro 31,377 million and decreased by euro 3,200 million compared to December 31, 2005 (euro 34,577 million), mainly due to new bond issues by Telecom Italia S.p.A. and Telecom Italia Finance S.A. during the first half of 2006 and the difference in the USD /euro exchange rate.
The regulations and/or Offering Circular relating to the bonds described below are available on the corporate website http://www.telecomitalia.it.

Bonds, expressed at the nominal amount of principal, refer to the following:

Bonds issued by Telecom Italia S.p.A. (for a total of euro 10,870 million):
As a supplement to the description provided in the annual consolidated financial statements, the following is mentioned:

- on January 30, 2006, early repayment, at the first date possible according to the issue regulations, of the bonds issued for euro 1,000 million with a quarterly coupon indexed to the 3-month Euribor + 0.33%, maturing October 29, 2007;
- on May 19, 2006, bonds were issued for euro 750 million with an annual fixed-rate coupon of 4.75%, maturing May 19, 2014;
- on May 19, 2006, bonds were issued for GBP 400 million (euro 578 million at June 30, 2006) with an annual fixed-rate coupon of 5.875%, maturing May 19, 2023;
- on June 9, 2006, bonds were issued for euro 750 million with a quarterly coupon equal to the 3-month Euribor + 0.22%, maturing June 9, 2008.

Bonds issued during the first half of 2006 fall under the Euro Medium Term Note Programme of euro 15 billion approved by the board of directors' meeting of Telecom Italia S.p.A. on December 21, 2005.

Bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A. (for a total of euro 12,641 million):
These bonds are described in the 2005 consolidated financial statements, to which reference should be made. The following is mentioned in particular:

- on January 3, 2006, repayment of the bonds originally issued for euro 1,100 million with a quarterly coupon indexed to the 3-month Euribor + 1.25% (euro 1,045 million net of bonds repurchased in 2003 for euro 55 million);
- on April 20, 2006, repayment of the second tranche of the bonds issued on April 20, 2001 originally for euro 3,000 million with an annual fixed-rate coupon of 6.125% + 0.25% step-up (euro 2,464.6 million net of repurchases made during the three years 2004-2006);
- on June 12, 2006, Telecom Italia Finance S.A. exercised the right for the early repayment of the bonds denominated in Swiss francs originally issued for CHF 100 million with an annual fixed-rate coupon of 5.625%, maturing in 2046 (CHF 88 million net of the cancellation of its bonds held in portfolio at December 30, 2005, for CHF 12 million).

Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A. (for a total of euro 7,866 million).
These bonds are described in the 2005 consolidated financial statements, to which reference should be made.
The following table shows the bonds issued to third parties, expressed at the nominal amount repayable and market value, issued by companies in the Telecom Italia Group and divided by issuing company:

Currency	Amount (in millions)	Nominal amount repayable (millions of euro)	Coupon	Issue date	Maturity date	Issue price (%)	Market price at 6/30/2006 (%)	Market value at 6/30/2006 (millions of euro)
Bonds issued by Telecom Italia S.p.A.								
Euro	1,250	1,250	5.625%	02/01/2002	02/01/2007	99.841	101.24	1,266
Euro	750	750	3-month Euribor + 0.22%	06/09/2006	06/09/2008	100	100.05	750
Euro	110	110	3-month Euribor + 0.60%	04/08/2004	03/30/2009	100	100	110
Euro	750	750	4.500%	01/29/2004	01/28/2011	99.56	99.61	747
Euro	1,250	1,250	6.250%	02/01/2002	02/01/2012	98.952	106.93	1,337
Euro	1,000	1,000	3-month Euribor + 0.53%	12/06/2005	12/06/2012	100	99.55	996
Euro	750	750	4.750%	11/23/2004	11/23/2015	99.156	97.84	734
Euro	120	120	3-month Euribor + 0.66%	06/29/2005	12/29/2015	100	100	120
GBP	500	723	5.625%	01/29/2004	01/29/2019	99.878	97.03	701
Euro	1,250	1,250	5.375%	06/24/2004	06/24/2019	99.07	97.91	1,224
GBP	850	1,228	6,375%	01/01/2002	01/01/2022	98.85	102.65	1,261
Euro	261	261	6-month Euribor (365)	11/23/2004	11/23/2015	100	100	261
GBP	400	578	5.875%	05/19/2006	05/19/2023	99.622	98.17	567
Euro	850	850	5.250%	03/17/2005	03/17/2055	99.667	81.60	694
	Subtotal	10,870						10,768
Bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A.								
Euro	500	500	3-month Euribor +1.3% (d)	12/14/2004	12/14/2006	100	100	500
Euro	1,720	1,720	6.500%	04/24/2002	04/24/2007	100.911 (*)	102.27	1,759
Euro	1,674	1,674	5.875%	01/24/2003	01/24/2008	99.937	102.81	1,721
Euro	1,500	1,500	5.150% (b)	02/09/1999	02/09/2009	99.633	102.28	1,534
Euro	2,210	2,210	6.575% (c)	07/30/1999	07/30/2009	98.649 (*)	106.29	2,349
Euro	2,000	2,000	7.250% (a)	04/20/2001	04/20/2011	99.214	111.19	2,224
Euro	1,000	1,000	7.250%	04/24/2002	04/24/2012	101.651 (*)	111.73	1,117
Euro	850	850	6.875%	01/24/2003	01/24/2013	99.332	110.60	940
JPY	20,000	137	3.550%	04/22/2002	05/14/2032	99.25	100	137
Euro	1,050	1,050	7.750%	01/24/2003	01/24/2033	109.646 (*)	118.41	1,243
	Subtotal	12,641						13,524
Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A.								
USD	1,000	787	4.000%	10/29/2003	11/15/2008	99.953	95.92	755
USD	1,250	983	4.000%	10/06/2004	01/15/2010	99.732	93.56	920
USD	700	550	4.875%	09/28/2005	10/01/2010	99.898	95.54	526
USD	400	315	3-month US Libor + 0.48%	09/28/2005	02/01/2011	100	99.88	314
USD	2,000	1,573	5.250%	10/29/2003	11/15/2013	99.742	92,66	1,458
USD	1,250	983	4.950%	10/06/2004	09/30/2014	99.651	89.87	884
USD	1,400	1,101	5.25%	09/28/2005	10/01/2015	99.370	90.57	997
USD	1,000	787	6.375%	10/29/2003	11/15/2033	99.558	90.23	710
USD	1,000	787	6.000%	10/06/2004	09/30/2034	99.081	86.01	677
	Subtotal	7,866						7,241
	Total	31,377						31,533

Notes (a), (b), (c), (d): see the following paragraph "Mechanism describing how coupons change on step-up/step-down bonds".
(*) Weighted average issue price for bonds issued with more than one tranche.

Mechanism describing how coupons change on step-up/step-down bonds in relation to a change in the rating:

The mechanism for coupon changes on step-up/step-down bonds is described in the annual consolidated financial statements and in the corporate website (www.telecomitalia.it) under "Investors", to which reference should be made

Changes in Telecom Italia's ratings:

On March 30, 2006, Standard and Poor's confirmed its rating at BBB+ and modified the outlook from "Stable" to "Negative" and stated that it might be possible to change the outlook back to stable starting from the second half of 2007.

On April 11, 2006, Fitch Ratings changed the Issuer Default Rating ("IDR") of Telecom Italia S.p.A. to BBB+ from A-, with a stable outlook, deeming that Telecom Italia's financial flexibility has been reduced as result of both the pressure exerted on revenues, on profits and on cash flows owing to higher competition caused by changes in regulations and technologies and higher dividends announced on March 7 and 8, 2006.

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

Telecom Italia ratings by the main Rating Agencies are as follows:

S&P's		Moody's		Fitch Ratings	
Last update March 30, 2006		Last update December 7, 2004		Last update April 11, 2006	
Rating	Outlook	Rating	Outlook	Rating	Outlook
BBB+	Negative	Baa2	Stable	BBB+	Stable

Convertible and exchangeable bonds amount to euro 472 million (euro 2,519 million at December 31, 2005) and decreased by euro 2,047 million. The composition is as follows:

(millions of euro)	6/30/2006	12/31/2005
Non-current portion	469	476
Current portion	3	2,043
Total carrying amount	**472**	**2,519**
Fair value adjustment and measurement at amortized cost	102	123
Total nominal amount	**574**	**2,642**

The nominal amount of convertible and exchangeable bonds repayable totals euro 574 million. This is a decrease of euro 2,068 million compared to December 31, 2005 (euro 2,642 million). Such reduction is due to the repayment on maturity (March 15, 2006) of the bonds exchangeable into shares of Telecom Italia S.p.A. or Seat Pagine Gialle and Telecom Italia Media S.p.A. issued in March 2001 by Telecom Italia Finance S.A., which showed a carrying amount of euro 2,035 million at the end of 2005, in addition to the request for the conversion of "Telecom Italia S.p.A. 1.5% 2001-2010 convertible bonds with a repayment premium" (euro 26 million). Additional details on convertible and exchangeable bonds are provided in the annual consolidated financial statements.

A summary of convertible bonds expressed at the nominal amount repayable, issued by Telecom Italia is presented below:

Currency	Nominal amount repayable (millions of euro)	Coupon	Convertible into shares of	Issue date	Maturity date	Issue price (%)	Market price at 6/30/2006 (%)	Market value at 6/30/2006 (millions of euro)
Convertible notes issued by Telecom Italia S.p.A.								
Euro	574	1.50%	TI S.p.A.	11/23/2001	01/01/2010	100	119.43	579

Financial covenants / other covenants / other features of convertible bonds
With regard to financial covenants, other covenants and other features of convertible bonds, reference should be made to the description provided in the annual consolidated financial statements.

Medium/long-term **amounts due to banks** of euro 8,384 million (euro 9,462 million at December 31, 2005) decreased by euro 1,078 million mainly as a result of the early repayment of euro 1.5 billion of the revolving credit facility expiring in 2012, which has been reduced to euro 3 billion.
Short-term amounts due to banks of euro 967 million increased by euro 321 million (euro 646 million at December 31, 2005).

Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature amount to euro 1,334 million (euro 730 million at December 31, 2005). The increase is due to a negative mark to market change connected with the decrease in the value of US dollar against the euro and the rise in rates during the first half which, however, were compensated by a positive change in the underlying amounts. Hedging derivatives relating to hedged items classified as current assets/liabilities total euro 117 million (euro 185 million at December 31, 2005). Additional details are provided in the Note "Financial instruments".

Medium/long-term **other financial liabilities** amount to euro 290 million (euro 303 million at December 31, 2005). They include euro 137 million of the Telecom Italia Finance S.A. loan for JPY 20,000 million maturing in 2029, euro 42 million of payables to the Cassa Depositi e Prestiti and euro 63 million of payables to the Ministry of Economic Development. Short-term other financial liabilities amount to euro 180 million (euro 453 million at December 31, 2005) include euro 43 million of payables to the Cassa Depositi e Prestiti and euro 72 million of payables for factoring transactions.

Medium-long term **finance lease liabilities** total euro 1,892 million (euro 1,894 million at December 31, 2005) and mainly refer to building sale and leaseback transactions recorded in accordance with IAS 17. Short-term finance lease liabilities amount to euro 245 million (euro 234 million at December 31, 2005).

Short-term **non-hedging derivatives** totaling euro 31 million (euro 64 million at December 31, 2005) decreased by euro 33 million and refer to the measurement of derivatives which, although put into place for hedging purposes, do not possess the formal requisites to be considered as such under IFRS.

At June 30, 2006, the unused credit lines of the Telecom Italia Group amount to euro 7,945 million (euro 8,227 million at December 31, 2005), of which unused committed credit lines amount to euro 3.5 billion and euro 3 billion expiring, respectively, in March 2007 and in August 2012. Approximately 98% of the credit lines is denominated in euro and linked to a floating interest rate.

The following tables show the analysis of gross financial debt including the current portion due by June 30, 2007. Discontinued operations are shown separately.

Gross accounting financial debt according to the original currency of the transaction is the following:

	6/30/2006 (millions of foreign currency)	6/30/2006 (millions of euro)	12/31/2005 (millions of foreign currency)	12/31/2005 (millions of euro)
USD	10,491	8,252	10,351	8,774
GBP	1,754	2,534	1,365	1,991
BRL	2,299	836	1,898	687
JPY	31,647	217	19,888	143
CHF	-	-	90	58
EURO	-	33,520	-	40,305
		45,359		51,958
Discontinued operations/assets held for sale		-		143
		45,359		52,101

The analysis of gross financial debt by effective interest rate bracket excluding the effect of derivative hedging instruments, if any, is the following:

(millions of euro)	6/30/2006	12/31/2005
Up to 2.5%	827	9,328
From 2.5% to 5%	15,924	9,055
From 5% to 7.5%	20,505	25,218
From 7.5% to 10%	5,566	5,752
Over 10%	789	496
Accruals/deferrals, MTM and derivatives	1,748	2,109
	45,359	51,958
Discontinued operations/assets held for sale	-	143
	45,359	52,101

However, as a result of the use of derivative hedging instruments, gross financial debt by nominal interest rate bracket is the following:

(millions of euro)	6/30/2006	12/31/2005
Up to 2.5%	929	8,270
From 2.5% to 5%	19,292	18,883
From 5% to 7.5%	19,780	19,432
From 7.5% to 10%	2,600	2,766
Over 10%	1,010	498
Accruals/deferrals, MTM and derivatives	1,748	2,109
	45,359	51,958
Discontinued operations/assets held for sale	-	143
	45,359	52,101

Gross financial debt by maturity date (divided between medium/long-term and short-term) at June 30, 2006 is as follows:

	Medium/long term debt	Short-term debt	Total
By June 30, 2007 (*)	4,859	738	5,597
By June 30, 2008	3,467		3,467
By June 30, 2009	2,815		2,815
By June 30, 2010	7,204		7,204
By 30, 2011	3,897		3,897
After June 30, 2011	22,379		22,379
	44,621	738	45,359

(*) Including accruals and deferrals which increase non-current liabilities due within 12 months by euro 796 million and current liabilities by 35 million.

NOTE 14 – EMPLOYEE SEVERANCE INDEMNITIES AND OTHER EMPLOYEE-RELATED PROVISIONS

Employee severance indemnities and other employee-related provisions decreased from euro 1,494 million at December 31, 2005 to euro 1,480 million. Details are as follows:

(millions of euro)	12/31/2005	Increases	Decreases	Exchange differences	6/30/2006
Provision for employee severance indemnities (a)	1,234	77	(49)		1,262
Provisions for pension plans	34	1	(3)	(1)	31
Provisions for voluntary termination incentives	226	2	(41)		187
Other employee-related provisions (b)	260	3	(44)		218
TOTAL (a+b)	1,494	80	(93)	(1)	1,480
Of which:					
Non-current portion	1,351				1,376
Current portion	143				104

Employee severance indemnities refer only to Italian Group companies. The provision increased by euro 28 million mainly as a result of the charge to the statement of operations (euro 77 million), utilizations for indemnities paid to employees who terminated employment, advances and transfers to pension funds (euro 45 million) and other negative changes (euro 4 million).

In accordance with IAS 19, the "Projected Unit Credit" method was used to measure employee severance indemnities, as it was in the 2005 financial statements.

For the companies affected by the agreements regarding mobility pursuant to Law 223/91 and the plan for the voluntary termination of managers, consideration was given to probable resignations during the years these plans are in effect.

The effect on the statement of operations is as follows:

(millions of euro)	1st Half 2006	1st Half 2005
Current service costs	64	67
Interest expenses	24	23
Net actuarial (gains) losses recognized during the period	(11)	(11)
Total expenses	77	79

Provisions for pension plans principally refer to pension plans operating in foreign companies of the Group.

Provisions for voluntary termination incentives include accruals made both for agreements regarding mobility pursuant to Law 223/91, agreed in December 2005 with the labor unions, and the plan for the voluntary termination of managers for the cases currently pending.
The decrease, due to the termination of employment during the first half of 2006, is shown net of the negative effect of the reversal of the liability discounted to present value of approximately euro 2 million.

NOTE 15 – PROVISIONS FOR RISKS AND FUTURE CHARGES

Provisions for risks and future charges decreased from euro 1,569 million at December 31, 2005 to euro 1,462 million. The composition and changes are as follows:

(millions of euro)	12/31/2005	Increases	Used through statement of operations	Used directly	6/30/2006
Provision for taxation and tax risks	226	7	(14)	-	219
Provision for restoration costs	443	39	-	(2)	480
Provision for legal disputes	148	11	-	(18)	141
Provision for commercial risks	122	10	(2)	(2)	128
Provisions for risks and future charges on investments and corporate-related transactions	429	26	(17)	(17)	421
Other provisions for risks and future charges	201	1	(2)	(127)	73
Total	1,569	94	(35)	(166)	1,462
Of which:					
Non-current portion	797				821
Current portion	772				641

Provision for restoration costs refers to the accrual for the estimated cost to decommission tangible assets and restore the sites of the Parent (euro 325 million) and the companies of Brazil Mobile (euro 154 million).
Compared to December 31, 2005, the provision increased mainly as a result of a higher number of sites leased and the change in the discount rates as well as the release to the statement of operations of the cumulative effect of discounting to present value (euro 26 million).

Provisions for risks and future charges on investments and corporate-related transactions are basically unchanged compared to December 2005. The reason for this is chiefly the opposing effect of the accrual of euro 25 million – to adjust the entire investment in Telecom Italia Learning Services to the price of its sale, which took place on July 17, 2006 – and to release to income euro 17 million from the Avea provision, including the exchange effect, which now amounts to euro 104 million.

Other provisions for risks and future charges decreased as a result of the payment of the fine of euro 115 million levied against Telecom Italia by the Antitrust Authority.

In the first half of 2006, exchange differences are minor in amount.

NOTE 16 – TRADE PAYABLES, MISCELLANEOUS PAYABLES AND OTHER CURRENT LIABILITIES

Trade payables, miscellaneous payables and other current liabilities decreased from euro 12,157 million at December 31, 2005 to euro 10,974 million. The composition is as follows:

(millions of euro)	6/30/2006	12/31/2005
Trade payables:		
• Amounts due to suppliers	4,691	6,230
• Amounts due to other telecommunication operators	871	606
	5,562	6,836
Miscellaneous payables and other current liabilities:		
• Tax payables	1,045	602
• Amounts due for employee compensation	683	712
• Amounts due to social security institutions	324	375
• Short-term trade and miscellaneous deferred income	842	821
• Advances received	63	64
• Customer-related items	1,423	1,465
• Amounts due for the "TLC operating fee"	33	39
• Dividends approved, but yet to be paid to shareholders	28	22
• Other current liabilities	226	306
• Employee-related provisions (except for Employee severance indemnities) expected to be settled within 12 months	104	143
• Other provisions for risks and future charges, expected to be settled within 12 months	641	772
	5,412	5,321
Total	10,974	12,157

The decrease in trade payables to suppliers is due to a higher concentration of investments in the last months of the year while the relevant financial settlement is made in the first months of the following year. The increase in amounts payable to other telecommunication operators is due to the previously mentioned change in the manner of presentation of the corresponding receivables position.

Trade payables particularly refer to Telecom Italia (euro 3,955 million) and to the Tim Brasil group (euro 635 million).

The increase in tax payables is due to a higher liability for VAT since the payable at the end of the year was reduced by the VAT payment on account.

NOTE 17 – FINANCIAL INSTRUMENTS

► Fair value

For a description of the fair value measurement of financial assets and liabilities, reference should be made to the 2005 consolidated financial statements.

Fair values (accruals included) of financial liabilities and financial assets at June 30, 2006 and at December 31, 2005 are set out below:

FINANCIAL LIABILITIES	6/30/2006		12/31/2005	
(millions of euro)	Carrying amount	Fair value (accruals included)	Carrying amount	Fair value (accruals included)
Bonds	31,441	32,106	35,462	37,427
Convertible and exchangeable bonds	472	583	2,519	2,680
Revolving credit facility	6,048	6,075	7,535	7,574
Loans, other debt, finance lease liabilities	7,398	7,168	6,442	6,509
	45,359	45,932	51,958	54,190
Discontinued operations/assets held for sale	-	-	143	143
Total gross financial debt	45,359	45,932	52,101	54,333

FINANCIAL ASSETS	6/30/2006		12/31/2005	
(millions of euro)	Carrying amount	Fair value (accruals included)	Carrying amount	Fair value (accruals included)
Deposits and cash	2,838	2,838	9,958	9,958
Euro commercial papers	113	113	327	327
Deposits for temporary investments maturing beyond 3 months	-	-	90	90
Securities	258	258	390	390
Other receivables	835	835	1,441	1,441
	4,044	4,044	12,206	12,206
Discontinued operations/assets held for sale	-	-	37	37
Total financial assets	4,044	4,044	12,243	12,243

► Derivatives

Derivative financial instruments are used by the Telecom Italia Group to manage its exposure to foreign exchange rate and interest rate risks and to diversify the parameters of debt so that costs and volatility can be reduced to within predetermined operational limits.

Derivative financial instruments at June 30, 2006 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, and cross currency and interest rate swaps (CCIRS) and currency forwards to convert the loans secured in different foreign currencies to the functional currencies of the various companies of the Group.

IRSs and IROs 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 CCIRSs which, in addition to the settlement of periodic interest flows, can involve the exchange of principal, in the respective currencies of denomination, at maturity and at another date.

The following tables show the derivative transactions put into place by the Telecom Italia Group at June 30, 2006 divided between Fair Value Hedge instruments (Table 1), Cash Flow Hedge instruments (Table 2) and Non-Hedge Accounting instruments (Table 3) under IAS 39:

Table 1 - Fair Value Hedge Instruments

Description (millions of euro)	Notional amount	Mark to Market (Clean Price)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing April 2007 on an EIB loan of USD 180 million (equivalent amount of euro 142 million at June 30, 2006)	150	(9)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing June 2007 on Telecom Italia S.p.A. bonds of GBP 850 million (equivalent amount of euro 1,228 million at June 30, 2006) issued in June 2004	1,289	(53)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing November 2008 on the USD 1,000 million (equivalent amount of euro 787 million at June 30, 2006) 5-year tranche of the Telecom Italia Capital S.A. bonds for a total amount of USD 4,000 million issued in October 2003	850	(101)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing May 2032 on bonds of JPY 20 billion (equivalent amount of euro 137 million at June 30, 2006) carried by Telecom Italia Finance S.A. originally issued by Olivetti Finance N.V.S.A. (2002-2032)	171	(74)
CCIRS transactions put into place by Telecom Italia Capital S.A. on bonds issued in October 2004 for a total amount of USD 3,500 million (equivalent amount of euro 2,753 million at June 30, 2006) by Telecom Italia Capital S.A. (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	(332)
CCIRS transactions put into place by Telecom Italia Capital S.A. on bonds issued in September 2005 for a total amount of USD 2,500 million (equivalent amount of euro 1,966 million at June 30, 2006) by Telecom Italia Capital S.A (5-year tranche of USD 700 million, 5.33-year tranche of USD 400 million and 10-year tranche of USD 1,400 million)	2,068	(216)
Total fair value hedge instruments	7,359	(785)

- On the EIB loan in USD 180 million, maturing April 2007, Telecom Italia S.p.A. entered into a CCIRS contract for euro 150 million converting a 3-month Libor in USD to the 3-month Euribor.
- On the bonds of GBP 850 million issued by Telecom Italia S.p.A. in June 2004, Telecom Italia S.p.A. put in place CCIRS contracts for euro 1,289 million maturing June 2007, converting the GBP annual fixed rate of 6.375% to the Euribor.
- On the tranche maturing in November 2008 for USD 1,000 million relating to the bonds issued in October 2003 by Telecom Italia Capital S.A. for a total amount of USD 4,000 million, Telecom Italia S.p.A. put in place CCIRS contracts of euro 850 million converting the fixed rate coupon of 4% in USD to the 3-month Euribor.
- For euro 171 million, on the bonds 2002-2032 of JPY 20 billion with a 3.55% fixed rate coupon and maturing May 2032, originally issued by Olivetti Finance N.V.S.A., the following transactions were put in place:
  - ✓ by Telecom Italia Finance S.A., an IRS contract in which Telecom Italia Finance S.A. receives the semiannual coupon of 3.55% in JPY and pays a semiannual floating rate in JPY;
  - ✓ by Telecom Italia S.p.A., a CCIRS contract, on a floating rate intragroup loan in JPY, in which Telecom Italia S.p.A. receives 6-month Libor in JPY and pays 6-month Euribor.
- On the bonds of USD 3,500 million issued by Telecom Italia Capital S.A. in October 2004, Telecom Italia Capital S.A. put in place CCIRS contracts for euro 2,831 million converting the fixed rate coupon 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 fixed rate coupon in USD to the 6-month Euribor.

Table 2 - Cash Flow Hedge Instruments

Description (millions of euro)	Notional amount	Mark to Market (Clean Price)
Forward sale transactions of USD 129 million (equivalent amount of euro 102 million at June 30, 2006) put into place by TIM International N.V. maturing December 2006	100	-
EUR call / USD put options purchased by TIM International N.V. maturing December 2006	125	3
Forward purchase transactions of USD 3 million (equivalent amount of euro 2 million at June 30, 2006) put into place by Telecom Media News S.p.A. with monthly maturities between January 2007 and December 2008	2	-
USD Call / EUR Put options purchased by Telecom Media News S.p.A. maturing December 2009, December 2010 and February 2011	3	-
Differential contract put into place by Telenergia S.r.l. for the purchase of electrical energy maturing December 2006	11	3
IRS transactions put into place by Telecom Italia S.p.A. maturing March 2009 on bonds of euro 110 million carried by Telecom Italia S.p.A. (2004-2009)	110	3
IRS transactions put into place by Telecom Italia S.p.A. maturing January 2010 on the 5-year tranche C of the Term Loan for a total amount of euro 12,000 million finalized on December 2004 in connection to cash tender offer by Telecom Italia for TIM S.p.A.	3,000	93
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 1,573 million at June 30, 2006) on the bonds issued by Telecom Italia Capital S.A. in October 2003 for a total amount of USD 4,000 million	1,709	(267)
IRS transactions put into place by Telecom Italia S.p.A. maturing November 2015 on bonds of euro 120 million carried by Telecom Italia S.p.A. (2004-2015)	120	8
CCIRS transactions put into place by Telecom Italia S.p.A. maturing December 2015 on bonds of GBP 500 million (equivalent amount of euro 723 million at June 30, 2006) issued by Telecom Italia S.p.A. in June 2005	751	6
CCIRS transactions put into place by Telecom Italia S.p.A. maturing May 2023 on bonds of GBP 400 million (equivalent amount of euro 578 million at June 30, 2006) issued by Telecom Italia S.p.A. in May 2006	587	(8)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing October 2029 related to the “Dual-Currency” loan with a notional principal of JPY 20 billion (equivalent amount of euro 137 million at June 30, 2006) originally received by Olivetti International Finance N.V.S.A. and now carried by Telecom Italia Finance S.A.	174	(63)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing November 2033 on the 30-year tranche of USD 1,000 million (equivalent amount of euro 787 million at June 30, 2006) on the bonds issued by Telecom Italia Capital S.A. in October 2003 for a total amount of USD 4,000 million	849	(187)
Total cash flow hedge instruments	7,541	(409)

- Forward sale transactions in USD, for an equivalent amount of euro 100 million, put into place by TIM International N.V. to the hedge the exchange rate risk deriving from the sale of Digitel Venezuela.
- EUR call / USD put options, for an equivalent amount of euro 125 million, purchased by TIM International N.V. to hedge the exchange rate risk deriving from the sale of Digitel Venezuela.
- Forward purchase transactions in USD, for an equivalent amount of euro 2 million, put into place by Telecom Media News S.p.A. to hedge the exchange rate risk on the commitment to make monthly payments in USD from January 2007 to December 2008.
- USD call / EUR put options, for an equivalent amount of euro 3 million, purchased by Telecom Media News S.p.A. to hedge the exchange rate risk on the commitment to make monthly payments in USD from January 2009 to February 2011.
- Differential contract for euro 11 million by which Telenergia S.r.l. sets the price of a part of the energy purchased at euro 55.50 per MWh. The contract expires in December 31, 2006.

- 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%.
- In reference to the term loan for a total amount of euro 12,000 million finalized on December 2004 in connection with the cash tender offer for TIM S.p.A., Telecom Italia S.p.A. put in place IRS contracts for a total amount of euro 3,000 million converting the 6-month Euribor on tranche C to an annual fixed rate of 3.088%, maturing January 2010.
- On the tranche maturing in November 2013 of USD 2,000 million relating to the bonds issued in October 2003 by Telecom Italia Capital S.A. for a total amount of USD 4,000 million, Telecom Italia S.p.A. put in place CCIRS contracts for euro 1,709 million converting the coupon rate of 5.25% in USD to a fixed rate of 5.035% in euro.
- On the bonds 2004-2015 of euro 120 million at a quarterly floating rate issued by Telecom Italia S.p.A. maturing November 2015, Telecom Italia S.p.A. put in place IRS contracts converting the 3-month Euribor to an annual fixed rate of 4.161%.
- On the bonds 2005-2015 of GBP 500 million issued by Telecom Italia S.p.A. in June 2005, Telecom Italia S.p.A. put in place CCIRS contracts for euro 751 million converting a fixed rate of 5.625% in GBP to a fixed rate of 4.34% in euro.
- On the bonds 2006-2023 of GBP 400 million issued by Telecom Italia S.p.A. in May 2006, Telecom Italia S.p.A. put into place CCIRS contracts for euro 587 million converting a fixed rate of 5.875% in GBP to a fixed rate of 5.53% in euro.
- For euro 174 million, with reference to the “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.S.A., now carried by Telecom Italia Finance S.A., equivalent to euro 137 million at June 30, 2006, the following was put in place:
  - ✓ by Telecom Italia Finance S.A., an IRS contract with which Telecom Italia Finance S.A. converts the 5% fixed rate in USD to the 6-month Libor in JPY.
  - ✓ by Telecom Italia S.p.A., a CCIRS contract with which Telecom Italia S.p.A., with regard to the intragroup loan in JPY, receives 6-month Libor in JPY and pays 6-month Euribor.
  - ✓ by Telecom Italia S.p.A. an IRS contract converting the semiannual floating rate in Euro to a 6.94% fixed rate up to maturity.
- On the tranche of USD 1,000 million maturing in November 2033 relating to the bonds issued in October 2003 by Telecom Italia Capital S.A. for a total amount of USD 4,000 million, Telecom Italia S.p.A. put in place CCIRS contracts for euro 849 million converting the fixed rate of 6.375% in USD to the fixed rate of 6% in euro.

The selected method to test the effectiveness, retrospectively and prospectively, of Fair Value Hedge instruments and Cash Flows Hedge instruments is the Volatility Risk Reduction (VRR) Test. This test assesses the ratio between the portfolio risk (where the portfolio means the hedging instrument and the item hedged) and the risk of the hedged item taken separately. In short, the portfolio risk must be less than the risk of the item hedged:

VRR = 1 – (portfolio risk / risk of the hedged item)

The better the hedging ratio, the more VRR tends to the value 1. To establish if a hedge is effective, this ratio must be higher than the threshold over which the test identifies the hedging as “highly effective” as required by IAS.

Table 3 – Non-Hedge Accounting Instruments

Description (millions of euro)	Notional amount	Mark to Market (Clean Price)
Floating to floating IRS contracts put into place by Telecom Italia S.p.A.	36	-
FRA contracts put into place by Telecom Italia S.p.A. maturing September 2006	200	-
IRS contracts put into place by Telecom Italia Finance S.A. maturing July 2009 on bonds of euro 2,350 million carried by Telecom Italia Finance S.A., originally issued by Olivetti International Finance N.V.S.A. (1999-2009)	500	(8)
Interest rate and foreign exchange contracts put into place by Group companies	687	1
Total non-hedge accounting instruments	**1,423**	**(7)**

- The floating to floating IRS contracts put in place by Telecom Italia S.p.A. for a notional amount of euro 36 million refer to loans indexed at domestic parameters (Rendint, Rolint, Robot) with conversion to the 6-month Euribor.

- Sale of forward rate agreement, for a notional amount of euro 200 million, by which Telecom Italia S.p.A. receives a monthly fixed rate of 3.17% in September 2006 and pays a 1-month Euribor at the fixed for September 2006.

- On the bonds 1999-2009 with an original notional amount of euro 2,350 million at an annual 6.125% fixed rate with a step-up of +0.45%, carried by Telecom Italia Finance S.A. (originally issued by Olivetti International Finance N.V.S.A.), maturing July 2009, Telecom Italia Finance S.A. put in place an IRS contract for euro 500 million in which Telecom Italia Finance S.A. receives a semiannual floating rate in euro and pays a semiannual floating rate in euro set in arrears with the following additional transactions:
    a) purchase of a cap at 4.50%;
    b) sale of a cap at 5.50%.

    Moreover, in the last two years, Telecom Italia Finance S.A. will receive these amounts if the 5-year swap rate in euro remains higher than the 1-year swap rate in euro.

- Interest rate and foreign exchange contracts for a total amount of euro 687 million are composed of:
    - ✓ Foreign exchange contracts carried by Telecom Italia S.p.A. for euro 46 million;
    - ✓ Foreign exchange contracts carried by Telecom Italia Finance S.A. for euro 284 million;
    - ✓ Foreign exchange contracts carried by Telecom Italia Capital S.A. for euro 1 million;
    - ✓ Foreign exchange contracts carried by Olivetti S.p.A. for euro 5 million;
    - ✓ Foreign exchange contracts carried by TI Sparkle S.p.A. for euro 36 million;
    - ✓ Interest rate and foreign exchange contracts carried by Tim Nordeste S.A. for euro 96 million;
    - ✓ Interest rate and foreign exchange contracts carried by TIM Celular S.A. for euro 219 million.

The following table shows the derivative financial instruments of the Telecom Italia Group by type:

Type	Hedged risk	Notional amount (millions of euro)	Mark to Market Spot (Clean Price) at 6/30/2006 (millions of euro)	Mark to Market Spot (Clean Price) at 12/31/2005 (millions of euro)
Cross Currency and Interest Rate Swaps	Interest rate risk and foreign currency exchange rate risk	7,359	(785)	(62)
Total Fair Value Hedge Instruments		7,359	(785)	(62)
Interest rate swaps	Interest rate risk	3,230	104	13
Cross Currency and Interest Rate Swaps	Interest rate risk and Foreign currency exchange rate risk	4,070	(519)	(405)
Commodity Swap	Commodity risk	11	3	-
Forward and FX Options	Foreign currency exchange rate risk	230	3	-
Total Cash Flow Hedge Instruments		7,541	(409)	(392)
Non-Hedge Accounting Instruments		1,423	(7)	(19)
Total Telecom Italia Group Derivatives		16,323	(1,201)	(473)

The following table shows, for Cash Flow Hedge Instruments, the amount recognized in the Reserve for fair value adjustments of hedging instruments during the first half of 2006 and the portion reversed from the reserve to the statement of operations as an exchange rate adjustment, before the relative tax effect:

Description	Reserve for fair value adjustments of cash flow hedge instruments at June 30, 2006 (millions of euro)	Reserve for fair value adjustments of cash flow hedge instruments at December 31, 2005 (millions of euro)	Mark to Market change recognized in the Reserve for fair value adjustments of hedging derivatives (millions of euro)	Amount reversed from the Reserve for fair value adjustments of hedging instruments to the statement of operations as an exchange rate adjustment (millions of euro)	Impact of cash flow hedge instruments in the first half of 2006 on the Reserve for fair value adjustments of hedging instruments (millions of euro)
Cash flow hedge instruments	(125)	(311)	(21)	207	186

NOTE 18 – FINANCIAL ASSETS PLEDGED AS COLLATERAL FOR FINANCIAL LIABILITIES

The contracts for easy-term loans granted by the Brazilian development bank BNDES (Banco Nacional de Desevolvimento Economico e Social) to certain operating companies of the TIM Brasil S.A. group for a total equivalent amount of euro 460 million are guaranteed by a part of the receipts of those companies which pass through bank accounts that are pledged in favor of BNDES. The bank will have access to such amounts only in the case of default by the company, otherwise the funds will be automatically transferred to accounts on which the company has full access.

NOTE 19 – CONTINGENT LIABILITIES AND ASSETS, COMMITMENTS AND OTHER GUARANTEES

The information given in the Annual Report for 2005 on the main disputes involving the Telecom Italia Group is updated below. Unless expressly indicated otherwise, no provisions have been made, for lack of a definite and objective basis and/or because an adverse outcome of the dispute is considered unlikely.

a) Contingent liabilities

VODAFONE

Preceded by articles in the press, on 20 July 2006 Telecom Italia was notified that Vodafone had cited it before the Milan Court of Appeal for damages amounting to approximately euro525 million in relation to Telecom Italia's alleged abuse of a 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 not only household but also business customers. Telecom Italia intends to defend the case and counter Vodafone's claims.

FASTWEB

On 16 May 2006 the Milan Court of Appeal issued an order upholding the urgent petition resubmitted by Fastweb in March (after the Rome Court of Appeal had declared it did not have jurisdiction) to obtain urgent measures to counter Telecom Italia's alleged win-back strategy in the retail household market for broadband access to the Internet.

In particular Fastweb accused Telecom Italia of asymmetrically exploiting information on final customers, creating a system of incentives for its sales network aimed at excluding Fastweb from the retail market, conducting a campaign of soliciting Fastweb customers with a view to convincing them to withdraw from contracts already signed with that company, and making personalized, discriminatory offers reserved to such customers. Telecom Italia is confident that its arguments will be accepted in the subsequent trial proceeding.

However, since Fastweb did not initiate the trial proceeding within the time limit provided for in Article 669-*octies* of the Code of Civil Procedure, Telecom Italia has applied to the Court of Appeal for the above-mentioned order to be declared ineffective under Article 669-*novies*.

H3G

On 14 July 2006 Telecom Italia began an arbitration proceeding with H3G to ascertain non-compliance with the interconnection agreement in force, with reference to H3G's challenge of the prices agreed (based on the principle of reciprocity) for calls originating on its mobile network and terminating on Telecom Italia's mobile network, and vice versa. It is also intended to establish that the larger amount (approximately euro65 million) demanded by H3G on the basis of the different prices it has indicated is not due.

Telecom Italia has also asked for the arbitration to determine its right to indemnification, in an amount to be fixed during the proceeding.

ANTITRUST PROCEEDING A-357

The Telecom Italia Group is still a party to the proceeding initiated by the Antitrust Authority on 23 February 2005 against Tim for alleged violations of antitrust rules (Inquiry A-357).

On 15 March 2006 the Antitrust Authority decided that, following the merger of Tim into Telecom Italia, the proceeding would continue against Telecom Italia S.p.A. The deadline for completion of the proceeding has been postponed to 15 February 2007.

On 7 June 2006 the Antitrust Authority and the Communications Regulatory Authority began a fact-finding inquiry into the top-up prices for mobile telephony.

The inquiry will be completed within 120 days of the starting date.

BRAZIL

In connection with the implementation of the agreements signed by Telecom Italia/Telecom Italia International on 28 April 2005, the following developments should be noted with respect to what was reported in the Annual Report for 2005:

- some indirect shareholders of Techold succeeded in preventing the homologation of the "Transacao" concerning the dispute between Telecom Italia International, Techold and Timepart, together with Solpart, Brasil Telecom Participações and Brasil Telecom, pending before the court of Rio de Janeiro. Telecom Italia International has appealed against the non-homologation of the "Transacao";
- Techold has initiated two arbitration proceedings at the International Chamber of Commerce of Paris (ICC) to obtain a declaration of invalidity of: (i) the above-mentioned "Transacao"; and (ii) the Settlement Agreement in respect of the close of the arbitration proceeding initiated in December 2003 by Techold and Timepart against Telecom Italia and Telecom Italia International. In both arbitration proceedings Telecom Italia International submitted a counterclaim and applied for damages for the losses sustained following Techold's violation of certain clauses of the above-mentioned agreements.

***

As regards the Merger Agreement signed on 28 April 2005 by Tim International, Tim Brasil, Brasil Telecom (BT) and Brasil Telecom Celular (BTC), providing, *inter alia*, for the merger of BTC into Tim Brasil (which also served to overcome the overlapping of licences between Tim Brasil and BT/BTC in some parts of Brazil, in compliance with some indications of the sector's regulatory authority, ANATEL), it should be noted that:

- the court of Rio de Janeiro has issued an order in which it reserves the right to decide on the applications concerning the precautionary measures granted with regard to the implementation of the agreement together with the merits of the case;
- in the arbitration proceeding initiated by BT and BTC against Tim International and Tim Brasil, already described in the first 2006 quarterly report, Tim International and Tim Brasil filed a counterclaim aimed at: (i) the dismissal of the plaintiffs' applications; (ii) the

ascertainment of the responsibility for non-performance of the Merger Agreement by BT and BTC; (iii) as a secondary matter, the declaration of the plaintiffs' responsibility for the non-performance of several representations and warranties provided for by contract; and (iv) the award of damages for the losses sustained by Tim International and Tim Brasil.

***

In May the Federal Court dismissed the application made by the association of small shareholders of listed Brazilian telecommunications companies (ANIMEC), already dismissed in the precautionary proceeding, to reconsider the decision of the Brazilian Antitrust Authority (CADE), which had recognized the right of Telecom Italia International to be readmitted to the group controlling Solpart (with some restrictions), with the consequent right to appoint the independent members of the Boards of Directors of Solpart, Brasil Telecom Participações S.A. and Brasil Telecom.

***

As regards the arbitration proceedings initiated at the ICC in 2005 by Telecom Italia International against Techold and Timepart and described in the Annual Report for 2005, the Arbitration Board is carrying out its investigation of the issues. In August, in the proceeding concerned with the violations of the Solpart shareholders' agreement committed by Techold, the latter's application for the case to be joined with one it had itself initiated was dismissed.

***

With respect to what was set out in the Annual Report for 2005, there have been no material changes in:

- the petition filed by some indirect shareholders of Solpart concerning the amendment of the agreement between some of the company's shareholders (Telecom Italia International, Techold and Timepart) executed on 28 April 2005;
- the petition filed by Telecom Italia International requesting a stay of the agreement between the shareholders of Zain – the investment vehicle indirectly controlling Techold in which Brazilian pension funds and Citigroup-operated investment funds have interests – and of the put agreement executed between the above-mentioned pension funds and investment funds.

ETECSA

As regards the dispute between the affiliate ETECSA and Bancomext, which was described in the 2005 Annual Report, the hearing of ETECSA's appeal against the Turin Court's decision of November 2005 has been scheduled for December 2006.

In light of the above-mentioned decision and a subsequent attachment order notified to ETECSA in July, in the same month Bancomext initiated additional enforcement proceedings against Telecom Italia, Telecom Italia Sparkle and Wind.

TELEXTRA AND EUTELIA

As regards the legal actions brought against Telecom Italia by these two companies and mentioned in the first 2006 quarterly report, it should be noted that the disputed conduct ceased during the first half of the year.

TELEQUE COMMUNICATIONS

As regards the dispute between Teleque Communications and Telecom Italia, which was referred to in the 2005 Annual Report, it should be noted the Rome Court of Appeal rejected the application made by the trustee in bankruptcy for Telecom Italia to pay damages.

OTHER CONTINGENT LIABILITIES

As part of the major company disposals made in prior years and in the first half of 2006, the Telecom Italia Group undertook to indemnify the buyers in the event of the companies incurring certain liabilities up to a maximum equal to a percentage of the purchase price. The amounts in question mainly refer to contingent liabilities arising from guarantees contained in the contracts and problems in the legal, tax, social security and labour law fields.

At 30 June 2006 these potential obligations amounted to approximately euro700 million. The Telecom Italia Group also undertook to indemnify buyers in other cases for which no maximum amount was fixed, so that it is not possible to estimate the contingent liability.

b) Contingent assets

FASTWEB

On 16 May 2006 the Milan Court of Appeal filed its decision dismissing the urgent petition submitted in March by Telecom Italia against Fastweb concerning inverse interconnection.

Telecom Italia had accused Fastweb of abusing its dominant position in the market for the supply of wholesale termination services for calls on its fixed telephony network, thereby altering the competitive conditions in the retail markets for business voice telephony services.

Although the Court of Appeal accepted the configuration of the relevant market identified by Telecom Italia and recognized that Fastweb held a dominant position in that market, it noted that as matters stood there were no regulatory provisions establishing how the termination price was to be determined. The court therefore ruled that Telecom Italia's urgent petition was inadmissible since quantifying the termination price presupposed a discretionary technical evaluation which the court was precluded from performing and for which the Communications Regulatory Authority was competent.

Telecom Italia has appealed the decision.

CHALLENGE OF COMMUNICATIONS REGULATORY AUTHORITY RESOLUTIONS CONCERNING INVERSE TERMINATION

With an appeal to the Council of State filed in March and supplemented in July Telecom Italia applied for the suspension and annulment of the Lazio Administrative Court's decision of January 2006 dismissing the appeal initiated in 2003 for the partial annulment of Communications Regulatory Authority Resolutions nos. 11/03/CIR and 289/03/CONS. These resolutions allowed so-called alternative operators to apply differentiated charges for termination services. In practice they allowed competitors to set termination charges autonomously without giving Telecom Italia a chance to pass on the higher cost incurred to final users. Some operators, notably Fastweb and Wind, set very high termination charges that caused Telecom Italia serious harm and are the subject of arbitration proceedings under the arbitration clause contained in the respective interconnection contracts.

* * *

With an appeal to the Lazio Administrative Court filed in July Telecom Italia also challenged the part of Communications Regulatory Authority Resolution no. 16/06/CIR in which, having arranged on its own authority for a technical appraisal to determine possible minimum and maximum termination charges on Fastweb's network, it denied Telecom Italia's technical consultants access to the confidential documentation submitted by Fastweb.

The dispute concerns the application of the above-mentioned Resolution no. 11/03/CIR, with special reference to the obligation for Telecom Italia to modify, at Fastweb's request, the interconnection agreement concluded in 2000, which established, according to the principle of reciprocity, the economic conditions for the termination of traffic originating on the fixed network of one operator and directed towards the fixed network of the other operator. As a precautionary measure Telecom Italia petitioned for the suspension of the work of the technical consultants until it had been put in a position to exercise its right of defence. The Lazio Administrative Court dismissed the petition on 20 July 2006, but it has been upheld by the Council of State.

Telecom Italia has therefore requested the Communications Regulatory Authority to suspend the proceeding until the documentation submitted by Fastweb has been fully accessed.

CONSIP TENDER

Fastweb was awarded the contract in the tender held by Consip in 2005 for fixed telephony, IP connectivity and satellite data transmission services for governmental bodies.

With an appeal filed with the Lazio Administrative Court on 6 July 2006 Telecom Italia applied for the suspension and annulment of the award in view of the evident anomalies in the economic conditions of Fastweb's bid. It also applied for the annulment of the Consip letters in which the application for access to the tender documents was granted only in part.

In August Fastweb requested that access be denied to all the tender documentation, which in the meantime had been entered in the records of the proceeding, or at least to the percentage division between local loop unbundling and carrier pre-selection services and the list showing the geographical distribution and date of takeover of unbundled lines. The court upheld the petition but only as regards the list showing the geographical distribution and date of takeover of unbundled lines.

The documentation acquired is in the process of being examined.

APPEAL AGAINST PAYMENT OF LICENCE FEES FOR 1998

With reference to the appeals submitted by Telecom Italia and Tim regarding their right to the restitution of the licence fees they paid for 1998 (euro386 million for Telecom Italia and euro143 million for Tim, plus interest), in May the Lazio Administrative Court applied to the European Court of Justice for a ruling on the compatibility with Community law of Article 20 of Law 488/1998, which, in an already liberalized market, had extended the obligation to pay the licence fee to 1998. The Italian court considered this provision to be potentially in conflict with Directive 97/13 and therefore to fall within the scope of the European Court's decision on the illegitimacy of the levy referred to under the previous heading.

The similar appeal submitted by Tim is still pending.

APPEAL TO THE SUPREME COURT AGAINST THE COUNCIL OF STATE'S RULING ON THE ANTITRUST AUTHORITY'S DECISION ON CASE A-351

In December 2004 Telecom Italia appealed to the Lazio Administrative Court against the Antitrust Authority's decision on case A-351, whereby Telecom Italia was fined euro152 million for alleged abuse of a dominant position in the market for public and private sector business users.

In its decision published in May 2005 the court largely upheld the appeal and annulled the sanction. In February 2006, however, the Council of State reinstated the decision while reducing the amount of the fine to euro115 million, which was paid in June 2006.

The Company had applied for the annulment of the measure on several grounds, including the fact that the Antitrust Authority was not competent to decide on the matter. In fact, from the very beginning of the proceeding Telecom Italia had argued that the only body competent to investigate the Company's conduct and the alleged violations (which concerned regulatory rules) was the Communications Regulatory Authority, so that the Antitrust Authority had taken the decision on case A-351 without the necessary powers.

Accordingly, on 6 July 2006 Telecom Italia submitted an appeal to the Supreme Court for the annulment of the decision of the Council of State arguing that it did not have jurisdiction and that it was up to the ordinary courts to rule on the nullity of measures adopted by an administrative authority without the necessary powers. If the appeal is upheld, the ruling of the Council of State will be quashed, together with the obligation for Telecom Italia to pay the amount of the fine it had determined.

EMPLOYEE BENEFIT OBLIGATIONS UNDER LAW 58/1992

Pursuant to Law 58/1992 Telecom Italia is required to provide uniform social security coverage for all the employees of Stet, Sip, Italcable and Telespazio on their payrolls at 20 February 1992 and for all the employees transferred from the public sector to the former Iritel through the "Pension Fund for Public Telephony Employees", which on 1 January 2000 became part of the general Employee Pension Fund.

The total liability is still only estimated owing to disagreements with the National Social Security Institute (INPS) regarding the calculation of the amounts due and the fact that at 30 June 2006 INPS had not yet notified the Company of all the positions to be unified.

The dispute with INPS concerns how the criteria established by Law 29/1979 are to be applied for employees (except for those of the former Iritel) who had already applied for benefits under this law and which INPS has still not processed. The parties have agreed that the determination of the applicable provisions is to be settled through test appeals before the ordinary courts. While proceedings are pending, Telecom Italia has agreed to pay the amounts requested by INPS, subject to subsequent equalization adjustments if the Courts ultimately accept the Company's interpretation. The amounts due were calculated by INPS and are to be paid in 15 equal annual deferred instalments (including annual interest of 5%), starting when INPS formally submits its requests.

The sums due to social security institutions under this heading amount to euro991 million (euro950 million of principal and euro41 million of accrued interest not yet paid), of which some euro211 million is due in the short-term.

c) Commitments and other guarantees

Guarantees provided amounted to euro394 million, net of euro383 million of counter-guarantees received, and consisted mainly of sureties provided by Telecom Italia on behalf of affiliates (of which euro104 million in favour of Avea and euro138 in favour of other affiliates) and others for medium and long-term loans.

In addition, the 47.80% interest in Tiglio I and the 49.47% interest in Tiglio II have been pledged to the banks that financed the two affiliates.

Purchase and sale commitments at 30 June 2006 amounted to euro 504 million and euro89 million respectively and referred to the part of commitments not falling within the normal "operating cycle" of the Group still to be fulfilled.

The purchase commitments consisted mainly of:

- ✓ euro195 million of property leasing rentals under contracts lasting more than 6 years;
- ✓ euro267 million of orders to suppliers of Telenergia in relation to the electricity supply agreements reached with Endesa for the three-year period 2004-06.

The sale commitments comprised euro87 million in respect of undertakings to sell buildings to the closed-end real estate funds Fondo Raissa and Fondo Spazio Industriale.

The parent company, Telecom Italia, issued letters of patronage for a total of euro278 million, chiefly on behalf of affiliates to guarantee insurance policies, lines of credit and overdraft facilities.

Guarantees provided by third parties for obligations of Group companies referred to loans (euro1,630 million) and the performance of contracts (euro395 million). The total included sureties issued by BBVA for euro817 million, by Sanpaolo IMI for euro315 million and by Sumitomo for euro73 million in respect of EIB loans for the Tim Mobile Network Project.

NOTE 20 – FINANCIAL INCOME

Financial income amounts to euro 1,649 million and decreased by euro 351 million compared to the first half of 2005. Details are as follows:

(millions of euro)		1st Half 2006	1st Half 2005
Income from investments	(A)	115	68
Other financial income:			
Income from financial receivables classified as non-current assets		6	9
Income from securities other than investments, classified as non-current assets		1	-
Income from securities other than investments, classified as current assets		7	25
Income other than the above:			
Interest income		112	76
Foreign exchange gains		150	366
Income from fair value hedges		193	263
Reversal of the Reserve for fair value adjustments of cash flow hedges (interest rate component) to the statement of operations		124	44
Income from non-hedging derivatives financial instruments		23	37
Miscellaneous financial income		36	376
	(B)	652	1,196
Positive fair value adjustments to:			
Fair value hedges		-	640
Underlying financial assets and liabilities of fair value hedges		749	5
Non-hedging derivative financial instruments		133	88
	(C)	882	733
Impairment reversals on financial assets	(D)	-	3
Total	(A+B+C+D)	1,649	2,000

Income from investments include gains of euro 110 million on the sale of the entire 4.99% holding in Neuf Télécom; in the first half of 2005, such income referred to gains on the sale of C-Mobil (euro 61 million) and the sale of the investment in Intelsat by Entel Bolivia (euro 2 million).

Foreign exchange gains of euro 150 million decreased by euro 216 million compared to the first half of 2005 (euro 366 million). This amount is net of euro 207 million of foreign exchange losses originating from the reversal of the Reserve for fair value adjustments of cash flow hedges to the statement of operations (euro 9 million in the first half of 2005).

Income from fair value hedges (euro 193 million) decreased by euro 70 million compared to the first half of 2005 (euro 263 million) and refers to euro 192 million on CCIRS contracts and euro 1 million on IRS contracts.

Reversal of the Reserve for fair value adjustments of cash flow hedges to the statement of operations (euro 124 million) increased by euro 80 million compared to the first half of 2005 (euro 44 million) and refers to euro 92 million on CCIRS contracts and euro 32 million on IRS contracts.

Income from non-hedging derivative financial instruments (euro 23 million) decreased by euro 14 million compared to the first half of 2005 (euro 37 million) and refers to euro 4 million on CCIRS contracts and euro 19 million on IRS contracts.

Miscellaneous financial income decreased by euro 340 million mainly due to the effect of the release to income of provisions recorded for guarantees provided to the banks which had financed Avea, since there was no longer a risk because the guarantees themselves were cancelled (euro 17 million in the first half of 2006 and euro 343 million in the first half of 2005).

Positive fair value adjustments to fair value hedges decreased by euro 640 million compared to the first half of 2005, and is equal to zero. Such amount is counterbalanced by the negative fair value adjustments of the underlying financial assets and liabilities of fair value hedges which amount to euro 36 million (euro 640 million in the first half of 2005). Additional information is provided in the Note “Financial expenses”.

Positive fair value adjustments to underlying financial assets and liabilities of fair value hedges (euro 749 million), increased by euro 744 million compared to the first half of 2005 (euro 5 million) with a counterbalance to the negative fair value adjustments of the corresponding fair value hedges (euro 722 million; euro 5 million in the first half of 2005). Additional information is provided in the Note “Financial expenses”.

NOTE 21 – FINANCIAL EXPENSES

Financial expenses amount to euro 2,743 million and decreased by euro 115 million compared to the first half of 2005. Details are as follows:

(millions of euro)		1st Half 2006	1st Half 2005
Charges on investments	(A)		
Interest expenses and other borrowing costs:			
Interest expenses and other costs relating to bonds		922	819
Interest expenses to banks		178	141
Interest expenses paid to others		131	292
Commissions		12	44
Foreign exchange losses		176	245
Charges from fair value hedges		132	142
Reversal of the Reserve for fair value adjustments of cash flow hedges (interest rate component) to the statement of operations		133	91
Charges from non-hedging derivative financial instruments		38	88
Miscellaneous financial expense		113	117
	(B)	1,835	1,979
Negative fair value adjustments to:			
Fair value hedges		722	5
Underlying financial assets and liabilities of fair value hedges		36	640
Non-hedging derivative financial instruments		143	224
	(C)	901	869
Impairment losses on financial assets	(D)	7	10
Total	(A+B+C+D)	2,743	2,858

Interest expenses on bonds, to banks and others decreased by euro 21 million mainly as a result of a reduction in the average debt exposure.

Foreign exchange losses (euro 176 million) decreased by euro 69 million compared to the first half of 2005 (euro 245 million). Such amount in the first half of 2005 is net of euro 275 million of foreign exchange gains arising from the reversal of the Reserve for fair value adjustments of cash flow hedges to the statement of operations.

Charges from fair value hedges (euro 132 million) decreased by euro 10 million compared to the first half of 2005 (euro 142 million) and refer to euro 118 million on CCIRS contracts and euro 14 million on IRS contracts.

Reversal of the Reserve for fair value adjustments of cash flow hedges to the statement of operations (euro 133 million) increased by euro 42 million compared to the first half of 2005 (euro 91 million) and refers to euro 90 million on CCIRS contracts and euro 43 million on IRS contracts.

Charges from non-hedging derivative financial instruments (euro 38 million) decreased by euro 50 million compared to the first half of 2005 (euro 88 million) and refer to euro 15 million on CCIRS contracts, euro 20 million on IRS contracts and euro 3 million on other derivative contracts.

Negative fair value adjustments to fair value hedges (euro 722 million) increased by euro 717 million compared to the first half of 2005 (euro 5 million). Such amount is counterbalanced by the positive fair value adjustments of the underlying financial assets and liabilities of fair value hedges which amount to euro 749 million (euro 5 million in the first half of 2005. Additional information is provided in the Note “Financial income.

Negative fair value adjustments of underlying financial assets and liabilities of fair value hedges (euro 36 million) decreased by euro 604 million compared to the first half of 2005 (euro 640 million). The counterpart of this amount is represented by the positive fair value adjustments of the corresponding fair value hedges (euro 640 million in the first half of 2005). Additional information is provided in the Note “Financial income”.

NOTE 22 – SEGMENT INFORMATION

a) Segment information

The integration of fixed and mobile operations begun at the end of 2005, followed by the merger of Tim Italia S.p.A. in Telecom Italia S.p.A. of March 1, 2006, and still in progress, has resulted in a reorganization of the Group. The accounting representation by business segment, starting from the interim consolidated financial statements at June 30, 2006, is as follows:

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

In order to facilitate the comparability of the data, segment information for prior periods presented have been restated on a consistent basis.

SEGMENT INTERIM CONSOLIDATED STATEMENT OF OPERATIONS

(millions of euro)	Wireline		Domestic Mobile		Brazil Mobile		Media		Olivetti		Other activities		Adjustments and eliminations		Consolidated Total	
	1st Half 2006	1st Half 2005	1st Half 2006	1st Half 2005	1st Half 2006	1st Half 2005	1st Half 2006	1st Half 2005	1st Half 2006	1st Half 2005	1st Half 2006	1st Half 2005	1st Half 2006	1st Half 2005	1st Half 2006	1st Half 2005
Third-party revenues	8,298	8,096	4,847	4,784	1,720	1,222	95	82	185	196	190	148	-	-	15,335	14,528
Intragroup revenues	679	765	135	146	2	2	3	1	27	27	572	490	(1,418)	(1,431)	-	-
Revenues by segment	8,977	8,861	4,982	4,930	1,722	1,224	98	83	212	223	762	638	(1,418)	(1,431)	15,335	14,528
Other income	121	115	114	49	48	5	4	4	8	8	46	84	(30)	(42)	311	223
Total operating revenues and other income	**9,098**	**8,976**	**5,096**	**4,979**	**1,770**	**1,229**	**102**	**87**	**220**	**231**	**808**	**722**	(1,448)	**(1,473)**	**15,646**	**14,751**
Personnel costs	(3,750)	(3,581)	(2,310)	(2,081)	(1,009)	(772)	(109)	(96)	(192)	(189)	(802)	(672)	1,403	1,413	(6,769)	(5,978)
Other operating expenses	(1,379)	(1,318)	(251)	(272)	(105)	(70)	(40)	(38)	(45)	(51)	(174)	(190)	2	10	(1,992)	(1,929)
of which accrual for employee severance indemnities	*(58)*	*(54)*	*(7)*	*(18)*	-	-	*(2)*	*(2)*	*(2)*	*(2)*	*(8)*	*(3)*	-	-	*(77)*	*(79)*
Other operating expenses	(272)	(264)	(59)	(65)	(302)	(206)	(8)	(5)	(6)	(5)	(39)	(109)	20	12	(666)	(642)
of which accrual for bad debts and accruals to risk provisions	*(78)*	*(90)*	*(12)*	*(15)*	*(82)*	*(44)*	*(1)*	*(1)*	*(2)*	*(2)*	*(7)*	*(18)*	5	-	*(177)*	*(170)*
Changes in inventories	26	17	46	49	-	(10)	2	-	(3)	16	(2)	1	-	(1)	69	72
Capitalized internal construction costs	179	160	31	26	-	-	1	1	-	-	1		18	24	230	211
OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS	**3,902**	**3,990**	**2,553**	**2,636**	**354**	**171**	**(52)**	**(51)**	**(26)**	**2**	**(208)**	**(248)**	**(5)**	**(15)**	**6,518**	**6,485**
Depreciation and amortization	(1,607)	(1,500)	(676)	(610)	(432)	(275)	(27)	(16)	(9)	(8)	(120)	(122)	28	35	(2,843)	(2,496)
Gains (losses) realized on non-current assets	(2)	(2)	(1)	3	-	(1)	-	-	-	-	154	-	1	(1)	152	(1)
Impairment reversals (losses) on non-current assets	-	(1)	(2)	(4)	-	(8)	-	-	-	-	(25)	-	1	4	(26)	(9)
OPERATING INCOME (LOSS)	**2,293**	**2,487**	**1,874**	**2,025**	**(78)**	**(113)**	**(79)**	**(67)**	**(35)**	**(6)**	**(199)**	**(370)**	**25**	**23**	**3,801**	**3,979**
Share of earnings of associates and joint ventures accounted for using the equity method	-	2	-	-	-	-	-	-	-	-	25	(17)	-	-	25	(15)
Financial income															1,649	2,000
Financial expenses															(2,743)	(2,858)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES															**2,732**	**3,106**
Income taxes															(1,305)	(1,352)
NET INCOME FROM CONTINUING OPERATIONS															**1,427**	**1,754**
Net income from discontinued operations/assets held for sale															46	425
NET INCOME FOR THE PERIOD															**1,473**	**2,179**
Attributable to: * equity holders of the Parent															**1,496**	**1,775**
* Minority interests															(23)	404

SEGMENT CAPITAL EXPENDITURE INFORMATION

(millions of euro)	Wireline		Domestic Mobile		Brazil Mobile		Media		Olivetti		Other activities		Adjustments and eliminations		Consolidated Total	
	1st Half 2006	1st Half 2005	1st Half 2006	1st Half 2005	1st Half 2006	1st Half 2005	1st Half 2006	1st Half 2005	1st Half 2006	1st Half 2005	1st Half 2006	1st Half 2005	1st Half 2006	1st Half 2005	1st Half 2006	1st Half 2005
- intangible assets	550	382	205	159	92	81	45	16	-	-	24	20	(31)	5	885	663
- tangible assets	944	1,118	238	178	101	179	14	6	5	8	30	25	(1)	(9)	1,331	1,505
	1,494	1,500	443	337	193	260	59	22	5	8	54	45	(32)	(4)	2,216	2,168

SEGMENT HEADCOUNT AT PERIOD-END

(number)	Wireline		Domestic Mobile		Brazil Mobile		Media		Olivetti		Other activities		Consolidated Total	
	6/30/2006	12/31/2005	6/30/2006	12/31/2005	6/30/2006	12/31/2005	6/30/2006	12/31/2005	6/30/2006	12/31/2005	6/30/2006	12/31/2005	6/30/2006	12/31/2005
Headcount (*)	56,694	56,987	11,283	11,720	9,290	9,043	944	886	1,570	1,750	4,914	5,098	84,695	85,484

(*) The headcount at the end of the period does not take into account the headcount relating to discontinued operations.

SEGMENT OTHER INFORMATION

(millions of euro)	Wireline		Domestic Mobile		Brazil Mobile		Media		Olivetti		Other activities		Adjustments and eliminations		Consolidated Total	
	6/30/2006	12/31/2005	6/30/2006	12/31/2005	6/30/2006	12/31/2005	6/30/2006	12/31/2005	6/30/2006	12/31/2005	6/30/2006	12/31/2005	6/30/2006	12/31/2005	6/30/2006	12/31/2005
Operating assets by segment	35,442	35,561	34,874	35,797	5,462	5,627	639	591	289	305	2,913	4,113	(576)	(3,193)	79,043	78,801
Investment accounted for by the equity method	7	7	-	-			-	-	1	1	732	773	-	-	740	781
Discontinued operations/assets held for sale															-	528
Unallocated assets															6,385	15,900
Total assets															**86,168**	**96,010**
Operating liabilities by segment	9,396	9,646	3,203	4,467	1,009	1,605	202	201	233	252	1,037	2,659	(441)	(2,882)	14,639	15,948
Liabilities relating to discontinued operations/assets held for sale															-	285
Unallocated liabilities															45,969	52,792
Equity															25,560	26,985
Total Equity and Liabilities															**86,168**	**96,010**

Key economic and other data referring to discontinued operations

(millions of euro)		Discontinued Operations						
		Mobile (1)	Media (2)	Entel Chile Group	IT Market	**Subtotal**	*Other, Adjustments and eliminations (3)*	**Total**
Revenues	1st Half 2006	121	-	-	-	121	(1)	120
	1st Half 2005	538	71	238	289	1,136	(45)	1,091
Operating result before depreciation and amortization, capital gains/losses, impairment reversals/losses on non-current assets	1st Half 2006	31	-	-	-	31	-	31
	1st Half 2005	140	8	77	7	232	(33)	199
Operating income (3)	1st Half 2006	15			-	15	31	46
	1st Half 2005	45	5	36	(3)	83	395	478
Net income (loss) from discontinued operations/assets held for sale	1st Half 2006	15	-	-	-	15	31	46
	1st Half 2005	13	2	26	(11)	30	395	425
Capital expenditures	1st Half 2006	10	-	-	-	10	-	10
	1st Half 2005	42	1	27	5	75	-	75
Net financial debt	6/30/2006	-	-	-	-	-	-	-
	12/31/2005	90	16	-	-	106	-	106
Employees at period-end (number)	6/30/2006	-	-	-	-	-	-	-
	12/31/2005	863	184	-	-	1,047	-	1,047

(1) Includes: Tim Hellas (sold at the beginning of June 2005), Tim Perù (sold in August 2005) and Digitel Venezuela (sold in May 2006).
(2) Gruppo Buffetti (sold in January 2006).
(3) Adjustments and eliminations relating to the operating result include:
- in the first half of 2006, the gain on the sale of Digitel Venezuela net of the relative incidental charges;
- in the first half of 2005, the gain on the sale of Tim Hellas (euro 410 million, net of the relative incidental charges) as well as the losses and incidental expenses on the sale of Entel Chile and Finsiel Group for a total of euro 15 million.

b) Disclosure by geographical area

REVENUES B Y GEOGRAPHICAL AREA

Breakdown of revenues by customer geographic location:

(millions of euro)	1st Half 2006	1st Half 2005
Italy	11,691	11,868
Rest of Europe	1,391	946
North America	188	189
Central and South America	1,856	1,337
Australia, Africa and Asia	209	188
Total	**15,335**	**14,528**

NOTE 23 – RELATED PARTY TRANSACTIONS

Related party transactions, including intragroup 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 economic, balance sheet and financial effects of related party transactions on the interim consolidated financial statements of the Telecom Italia Group at June 30, 2006 are detailed below. The statement of operations and capital expenditures are compared with those for the first half of 2005 and the balance sheet data is compared with that of December 31, 2005. The following table present the major economic, balance sheet and financial transactions between companies consolidated line-by-line and the associates and the joint ventures.

(millions of euro)	1st Half 2006	1st Half 2005	
Revenues	136	158	These mainly refer to revenues in respect of Teleleasing S.p.A. euro 106 million (euro 94 million for the first half of 2005), LI.SIT S.p.A. euro 7 million (euro 40 million for the first half of 2005), Shared Service Center Scrl euro 10 million (euro 11 million for the first half of 2005), Telecom Argentina S.A. euro 6 million (euro 5 million for the first half of 2005),and EtecSA euro 5 million (euro 3 million for the first half of 2005)
Other income	3	2	This mainly refers to cost recoveries for off-site personnel by certain subsidiaries and associates
Purchases of materials and external services	54	138	These refer mainly to costs for TLC equipment from Teleleasing S.p.A. euro 8 million (euro 12 million for the first half of 2005), for software and computer materials and for maintenance and assistance contracts from Siemens Informatica S.p.A. euro 10 million (euro 28 million for the first half of 2005), for maintenance and assistance contracts from Shared Service Center Scrl euro 12 million (euro 16 million for the first half of 2005), sponsorship costs from Luna Rossa Challenge 2007 SL euro 8 million, TLC services from EtecSA euro 4 million (euro 56 million for the first half of 2005), for TLC services from Telecom Argentina S.A. euro 3 million (euro 2 million for the first half of 2005), costs for accessories and consumables from Baltea S.r.l. euro 2 million, costs for remote medicine services from Telbios S.p.A. euro 1 million, costs for rent from Tiglio I S.r.l. euro 1 million (euro 7 million for the first half of 2005) and Tiglio II S.r.l. euro 2 million (euro 10 million for the first half of 2005)
Financial income	-	2	This includes accrued interest income on loans made to certain associates
Financial expenses	14	17	These mainly refer to interest expenses to Teleleasing S.p.A. euro 14 million (euro 11 million for the first half of 2005) for finance leases. In the first half of 2005, they had included interest expenses to Tiglio I S.r.l. euro 3 million and Tiglio II S.r.l. euro 3 million for sale and leaseback transactions.
Capital expenditures in tangible and intangible assets	64	69	These refer mainly to acquisitions of computer projects from Shared Service Center Scrl euro 40 million (euro 38 million for the first half of 2005), Siemens Informatica S.p.A. euro 25 million (euro 30 million for the first half of 2005). In the first half of 2005, they had included acquisition from Value Team (euro 1 million).

(millions of euro)	6/30/2006	12/31/2005	
Securities and non-current financial receivables	24	24	These refer to medium/long term loans made to Aree Urbane S.r.l. euro 24 million (euro 21 million at December 31, 2005). At December 31, 2005, they had also included loans due from Tiglio II S.r.l. (euro 3 million)
Miscellaneous receivables and other non-current assets	13	15	These refer to receivables from LI.SIT S.p.A. for the residual additional paid-in capital paid
Trade receivables, miscellaneous receivables and other current assets	204	214	These refer mainly to receivables from LI.SIT. S.p.A. euro 118 million (euro 102 million at December 31, 2005), Teleleasing S.p.A. euro 53 million (euro 75 million at December 31, 2005), Telecom Argentina S.A. euro 8 million (euro 4 million at December 31, 2005), Luna Rossa Challenge 2007 SL euro 8 million, AVEA IHAS euro 6 million (euro 5 million at December 31, 2005), Shared Service Center Scrl euro 3 million (euro 4 million at December 31, 2005), EtecSA euro 4 million (euro 3 million al 31,12,2005). At December 31, 2005, they had also included the receivables from Nord.com S.p.A euro 1 million and Tiglio I S.r.l. euro 1 million
Cash and cash equivalents	1	14	These refer to treasury accounts with associates
Non-current financial liabilities	281	279	These refer to non-current financial payables for finance leases to Teleleasing S.p.A. euro 272 million (euro 203 million at December 31, 2005), for sale and leaseback transactions to Tiglio I S.r.l. euro 7 million (euro 43 million at December 31, 2005) and Tiglio II S.r.l. euro 2 million (euro 33 million at December 31, 2005)
Miscellaneous payables and other non-current financial liabilities	10	10	These refer to the medium/long-term portion of deferred income on the sale of "IRU" transmission capacity to Telecom Argentina S.A.
Current financial liabilities	146	124	These refer to current financial payables for finance leases to Teleleasing S.p.A. euro 146 million (euro 113 million at December 31, 2005). At December 31, 2005, they had included liabilities due to Tiglio I euro 8 million and Tiglio II euro 3 million for sale and leaseback transactions
Trade payables, miscellaneous payables and other current liabilities	101	118	These mainly refer to payables for supply transactions connected with operating and investment activities with Siemens Informatica S.p.A. euro 43 million (euro 56 million at December 31, 2005), Shared Service Center Scrl euro 29 million (euro 18 million at December 31, 2005), Teleleasing S.p.A. euro 5 million (euro 6 million at December 31, 2005), EtecSA euro 12 million (euro 11 million at December 31, 2005), Telbios S.p.A. euro 1 million (euro 2 million at December 31, 2005), Telecom Argentina S.A. euro 2 million (euro 1 million at December 31, 2005), Baltea S.r.l. euro 2 million (euro 1 million al 31,12,2005), AVEA IHAS euro 1 million (euro 1 million al 31,12,2005), Tiglio I S.r.l. euro 2 million (euro 2 million at December 31, 2005), Tiglio II euro 3 million. At December 31, 2005, they had included accruals regarding LI.SIT S.p.A. for euro 11 million relating to the portion of deferred income from investments

In addition to transactions with associates, the following table presents transactions with companies controlled by associates: the companies of the Italtel group, a related party through the investment in the parent Italtel Holding S.p.A., and the companies of the Brasil Telecom Participaçoes S.A. group, a related party through Solpart Participaçoes S.A. starting on July 1, 2005.

(millions of euro)	1st Half 2006	1st Half 2005	
Revenues	99	2	These mainly refer to revenues for telecommunications services rendered to the Brasil Telecom Participaçoes group euro 98 million
Purchases of materials and external services	18	10	These refer to costs for maintenance and assistance contracts from the Italtel group euro 7 million (euro 10 million for the first half of 2005) and TLC service costs from the Brasil Telecom Participaçoes group euro 11 million
Capital expenditures in tangible and intangible assets	187	147	These refer to the purchase of telephone exchanges from the Italtel group

(millions of euro)	6/30/2006	12/31/2005	
Trade receivables, miscellaneous receivables and other current assets	39	8	These refer to receivables from the Brasil Telecom Participaçoes group connected with TLC operations and dividends to be collected euro 37 million (euro 4 million at December 31, 2005) and telephone services rendered to the Italtel group euro 2 million (euro 2 million at December 31, 2005)
Trade payables, miscellaneous payables and other current liabilities	109	101	These refer to supply transactions connected with investment and operating activities with the Italtel group euro 105 million (euro 101 million at December 31, 2005) and with the Brasil Telecom Participaçoes group euro 4 million.

The Telecom Italia Group has also provided guarantees on behalf of associates, subsidiaries of associates and related parties, for a total of euro 242 million (euro 276 million at December 31, 2005) of which euro 104 million is on behalf of AVEA I.H.A.S. (euro 121 million at December 31, 2005), euro 54 million on behalf of Tiglio I S.r.l. (euro 54 million at December 31, 2005), euro 43 million on behalf of Aree Urbane S.r.l. (euro 44 million at December 31, 2005), euro 27 million on behalf of Italtel Group companies (euro 31 million at December 31, 2005) and euro 14 million on behalf of other companies (euro 13 million at December 31, 2005). At December 31, 2005, there were also guarantees provided on behalf of Tiglio II for euro 13 million.

The following table presents the major economic, balance sheet and financial transactions and balances between companies consolidated line-by-line and parties related to Telecom Italia S.p.A. through directors, statutory auditors and key managers of the Company.

(millions of euro)	1st Half 2006	1st Half 2005	
Revenues	9	15	These refer to information system and computer services, and energy and telephone services supplied to the Pirelli group euro 5 million (euro 4 million for the first half of 2005), to the Edizione Holding group euro 3 million (euro 2 million for the first half of 2005). In the first half of 2005, they had included euro 7 million to the Unipol group and euro 1 million to the STMicroelectronics group, which are no longer related parties
Purchases of materials and external services	52	58	These refer to R&D expenditures, consulting and services regarding intellectual property rights and real estate activities from the Pirelli group euro 40 million (euro 37 million for the first half of 2005), Document management services from Telepost euro 9 million (euro 10 million for the first half of 2005), commissions paid to Autogrill S.p.A (Edizione Holding group) for the sale of prepaid telephone cards euro 1 million (euro 1 million for the first half of 2005), sponsorship and content provider costs from F.C. Internazionale Milano S.p.A., a related company through Mr. Moratti, euro 1 million (euro 4 million for the first half of 2005) and the supply of energy by Camfin euro 1 million. In the first half of 2005, they had included euro 5 million relating to insurance services from the Unipol group and euro 1 million from STMicroelectronics, which are no longer related parties
Capital expenditures in tangible and intangible	41	54	These mainly refer to purchases of cables, modems and ADSL equipment from the Pirelli group

(millions of euro)	6/30/2006	12/31/2005	
Trade receivables, miscellaneous receivables and other current assets	4	6	These mainly refer to the above-mentioned services under revenues and purchases rendered to the Edizione Holding group euro 2 million (euro 2 million at December 31, 2005), to the Pirelli group euro 2 million (euro 2 million at December 31, 2005). At December 31, 2005, they had included euro 2 million due from the Unipol group, which is no longer a related party
Trade payables, miscellaneous payables and other current liabilities	41	43	These mainly refer to supply transactions connected to the performance of services and investment activities with the Pirelli group euro 35 million (euro 34 million at December 31, 2005), costs for Document Management services from Telepost euro 4 million (euro 7 million at December 31, 2005), transactions with F.C. Internazionale Milano euro 1 million

Description of the main contracts between the Telecom Italia Group and associates, subsidiaries of associates and related parties through directors and key executives

Transactions with:

Avea I.H.A.S.
Revenue related
The transactions refer to international telecommunications services, particularly roaming by Avea customers on the Telecom Italia network, technical assistance services rendered and the recovery of costs for Telecom Italia staff on loan to Avea.
Expense related
The transactions refer to interconnection fees for roaming traffic by Telecom Italia customers on the Avea network.

Baltea S.p.A
Expense related
The transactions refer to purchases of accessories and consumable stores for Olivetti S.p.A. photocopiers destined for resale.

EtecSA
Revenue related
The transactions refer to Telecom Italia Sparkle data traffic and contracts for technical assistance rendered by Telecom Italia.
Expense related
The transactions relate to roaming traffic originating from mobile customers to Cuba.

LI.SIT S.p.A.
Revenue related
The contract provides for developing and implementing the computer and information network for the social health system of the Lombardy Region, making services available online to all the regional health structures by supplying:

- cards with microchips for all citizens and health operators in Lombardy;
- outsourcing services for the management of the Internet Data Center and hardware and software systems;
- professional and applications consulting for the implementation and management of the system.

Luna Rossa Challenge 2007 SL
Expense related
The contracts refer to the sponsorship of the Luna Rossa sailboat during the XXXII America's Cup. According to these contracts, Telecom Italia Group became the Main Sponsor of Luna Rossa and Partner and Official Sponsor of the race. It also acquired the sublicense rights on the "Luna Rossa" trademark for certain categories of goods.

Nordcom S.p.A.
Revenue related
The transactions refer to the supply of data network connections and software applications.
Expense related
The contract refers to the development of systems and computer solutions.

Shared Service Center Scarl

Revenue related

The contracts provide for the supply of telephone and data transmission services as well as the operation of the client's software applications at the Telecom Italia data center.

Expense related

The contracts refer to the supply of computer and information services relating to:

- design, implementation, release, operation and management of portals, institutional sites, SAP and dedicated solutions;
- SAP application maintenance and service management services.

Siemens Informatica S.p.A.

Expense related

The contracts provide for the supply of software services to Group companies, as well as specific services, such as: applications management services, support services for the operation of Telecom Italia OSS systems, and support services for the computer technology distributed and applications software development and technical services for Telecom Italia.

Telecom Argentina Group

Revenue related

The contracts refer to technical assistance provided by Telecom Italia for broadband development and for the study and implementation of Value Added Services, as well as data transmission and voice services as well as the supply of "IRU" transmission capacity by Telecom Italia Sparkle.

Expense related

The transactions relate to international telecommunications and roaming services.

Teleleasing S.p.A.

Revenue related

The transactions mainly arise from the application of the commercial cooperation agreement signed in 2000 between Telecom Italia and Teleleasing S.p.A., a company in the Mediobanca group. By virtue of this agreement, Telecom Italia offers customers the possibility of leasing telecommunications equipment. Teleleasing purchases the equipment from Telecom Italia and signs the leasing contract with the customer; Telecom Italia sees to the collection of lease payments after having acquired the rights.

Expense related

The contracts refer both to the lease of instrumental goods to Telecom Italia and its subsidiaries and the financial lease of a building.

Tiglio I S.r.l.

Expense related

The contracts refer to:

- the lease of buildings, premises also housing telecommunications equipment, with a term of 21 years and the possibility of tacit renewal, unless notice of termination is given by Telecom Italia S.p.A., for successive periods of six years, at the same terms and conditions as originally agreed;
- the lease of buildings solely for office use, for standard lease periods.

Tiglio II S.r.l.

Expense related

The contracts refer to:

- the lease of buildings, premises also housing telecommunications equipment, with a term of 19 years and the possibility of tacit renewal, unless notice of termination is given, by Telecom Italia S.p.A. for successive periods of six years, at the same terms and conditions as originally agreed;

- the lease of buildings solely for office use, for standard lease periods.

Telbios S.p.A.
Expense related
The contracts refer to the supply of services, products and hardware systems and software under remote medicine plans.

* * *

Brasil Telecom Participaçoes Group
Revenue related
The transactions refer to telecommunications services, interconnection services in particular, and site sharing.
Expense related
These refer to telecommunications services, interconnection services in particular, site sharing and line leases.

Italtel Group
Revenue related
The contracts provide for the supply of telephone and data transmission services.
Expense related
The contracts provide for the supply and maintenance of traditional switching and innovative switching (VoIP) and the relative services, as well as the supply of innovative devices and their maintenance for the data networks using CISCO technology.

* * *

Camfin S.p.A.
Expense related
The contract refers to the supply of gas with the company Cam Gas S.p.A.

Edizione Holding Group
Revenue related
The contracts provide for the supply of telephone and data transmission services that are operated by outsourcing with dedicated assistance.
Expense related
The transactions refer to commissions paid to Autogrill S.p.A. for the sale of prepaid telephone cards and occupancy charges for public telephones located at their structures.

F.C. Internazionale Milano S.p.A.
Revenue related
The contracts provide for the supply of telephone and data transmission services.
Expense related
The 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 provide for the possibility of using the Inter brand and logo for all advertising activities and the sale of mobile telephone products, the participation of Inter in the Trofeo TIM and the visibility of the TIM brand during the Inter home games and the TIM Cup.

Pirelli & C. S.p.A.
Revenue related
The contracts provide for the supply of telecommunications and computer and information services.
Expense related
The following contracts should be noted:

- consulting and services contract regarding patent rights
  In May 2002, a contract was signed with Pirelli under which services and consulting were rendered for:
  - defining strategies regarding patent rights;
  - determination of the competitive positioning of the various businesses of the Telecom Italia Group in comparison with similar business of the competition;
  - assistance in negotiations over partnerships, licenses and cooperation contracts;
  - litigation and analyses of patents of the competition;
  - obtaining patents (drawing up documents, filings in Italy and outside Italy, continuation during the stages of examination, challenges and conflicts);
  - control over costs by project and/or by business;
  - training of technicians;
  - insertion of patent data and relative reports using a database;
  - control over results reached;
  - patent research;
  - filing and classification of important documents regarding patents;
  - brands, including their management (research, filings in Italy and outside Italy, renewals, challenges, disputes, licenses inside and outside the Group).
- contract regarding research and development
  The contract refers to technical cooperation between Telecom Italia and Pirelli in the areas of optical devices and advanced telecommunications networks.
  The contract provides:
  - 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.
  - 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, under an exclusive arrangement, to Telecom Italia and to companies which it controls, 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.
- contracts for the supply of apparatus and cables
  These contracts provide for the supply of user apparatus for network access and broadband services, the supply of "POTS Splitter" (apparatus installed in the exchange which allows the combined transmission of voice and data on the same duplex cable) as well as supplying cables.
- cooperation agreement concerning joint initiatives
  Under this contract, Pirelli has developed two research projects for Telecom Italia: one relating to the "Distributed Sensor Network" and the second to "Third-generation poles

for the wireline network". The agreements 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, such as cards of the SIM-card type or network poles, and b) characterized by the inclusion of specific chemical compositions and/or treatments using specific chemical processes.

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).

Furthermore, Pirelli & C. Real Estate makes 35% investments in the capital of the companies which hold the closed-end real estate investment funds Raissa and Spazio Industriale to which the properties were contributed as part of the real estate transaction approved by the board of directors on December 21, 2005 and controls the management companies (Pirelli & C. Real Estate SGR and Pirelli & C. Real Estate SGR Opportunities) of the above real estate funds.

Telepost S.p.A.

Expense related

The contracts refer to the management of services connected with incoming and outgoing correspondence, outgoing correspondence generated on files with printing by a specialized center, management of the distribution of correspondence, management of the paper archives and management of all photocopy machines.

Benefits to key executives

"Key executives", that is, those persons having authority and responsibility, directly or indirectly, for planning, management and control of the activities of Telecom Italia, including directors, are as follows:

Name:	
Marco Tronchetti Provera	Chairman
Carlo Orazio Buora	Chief Executive Officer
Riccardo Ruggiero	Chief Executive Officer of Operations General Manager
Executives:	
Gustavo Bracco	Head of the Human Resources and Organization Group Function
Enrico Parazzini	Head of the Finance, Administration and Control Group Function Head of the Media Business Unit Chief Executive Officer of Telecom Italia Media S.p.A.
Massimo Castelli	Chief Marketing Officer Head of Market Development in Operations
Francesco Chiappetta	General Counsel Head of the Corporate and Legal Affairs Group Function
Luca Luciani	Head of Sales & Customer Services in Operations
Giuseppe Sala (*)	General Manager Head of Top Client and Customer Services in Operations
Stefano Pileri	Chief Technology Officer Head of Technology in Operations
Germanio Spreafico	Head of Purchasing Service Unit

(*) up to May 31, 2006

The total compensation paid by Telecom Italia or by companies controlled by the Group to key managers was euro 11.6 million, divided as follows:

(millions of euro)	1st Half 2006
Short-term compensation	9.1
Long-term compensation	2.5

NOTE 24 - STOCK OPTION PLANS OF THE TELECOM ITALIA GROUP

Telecom Italia S.p.A. Stock Option Plans

Changes in Telecom Italia S.p.A. stock option plans from January 1, 2006 to June 30, 2006 are as follows:

- "Stock Option Plan 2000".
  At December 31, 2005, as at June 30, 2006, 10,699,996 options of the Stock Option Plan 2000 were outstanding, corresponding to 35,319,216 equivalent options, at an exercise price equal to euro 4.185259 per equivalent option.
  At December 31, 2005, as at June 30, 2006, the market price of the Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

- "Stock Option Plan 2001".
  At December 31, 2005, as at June 30, 2006, 31,862,500 options of the Stock Option Plan 2001 were outstanding, corresponding to 105,173,383 equivalent options, at an exercise price equal to euro 3.177343 per equivalent option.
  At December 31, 2005, as at June 30, 2006, the market price of the Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

- "Stock Option Plan 2002 Top".

At December 31, 2005, as at June 30, 2006, 9,480,001.33 options of the Stock Option Plan 2002 Top, were outstanding, corresponding to 31,292,243 equivalent options, at an exercise price equal to euro 2.788052 per equivalent option.
At December 31, 2005, as at June 30, 2006, the market price of the Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

- "Stock Option Plan 2002".
  1. Grants in March 2002.
     At December 31, 2005, 19,905,053.50 options of the March 2002 grants were outstanding. During the first half of 2006, 2,631,000 options lapsed as a result of the termination of service. At June 30, 2006, 17,274,053.50 options were outstanding, corresponding to 57,019,037 equivalent options, at an exercise price of euro 2.928015 per equivalent option.
     At December 31, 2005, as at June 30, 2006, the market price of the Telecom Italia ordinary shares was lower than the exercise price per equivalent option.
  2. Grants in August 2002.
     At December 31, 2005, 719,000.43 options of the August 2002 grants were outstanding. During the first half of 2006, 719,000.43 options were outstanding, corresponding to 2,373,319 equivalent options, at an exercise price of euro 2.409061 per equivalent option.
     At December 31, 2005, the market price of the Telecom Italia ordinary shares was higher than the exercise price per equivalent option, while at June 30, 2006, the market price was lower than the exercise price per equivalent option.
  3. Grants in October 2002.
     At December 31, 2005, the options had been completely exercised.

Changes in TIM stock option plans (pre-merger Telecom Italia S.p.A.) from January 1, 2006 to June 30, 2006 are as follows:

- "Stock Option Plans 2000-2002".
  At December 31, 2005, 11,735,653 options of the Stock Option Plans 2000-2002 were outstanding. During the first half of 2006, 1,339,998 options lapsed as a result of the termination of service. At June 30, 2006, 10,395,655 options were outstanding, corresponding to 17,984,482 equivalent options, at an exercise price of euro 3.710983 per equivalent option.
  At December 31, 2005, as at June 30, 2006, the market price of the Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

- "Stock Option Plans 2002-2003".
  At December 31, 2005, 22,025,000 options of the Stock Option Plans 2002-2003 were outstanding. During the first half of 2006, 2,885,000 options lapsed as a result of the termination of service. At June 30, 2006, 19,140,000 were outstanding, corresponding to 33,112,200 equivalent options, at an exercise price of euro 3.277457 per equivalent option.
  At December 31, 2005, as at June 30, 2006, the market price of the Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

- "Stock Option Plans 2003-2005".
  At December 31, 2005, 1,915,900 options of the Stock Option Plans 2003-2005 were outstanding, corresponding to 3,314,507 equivalent options. During the first half of 2006, 70,000 options lapsed as a result of the termination of service. At June 30, 2006, 1,845,900 options were outstanding, corresponding to 3,193,407 equivalent options, at an exercise price of euro 2.930636 per equivalent option.
  At December 31, 2005, as at June 30, 2006, the market price of the Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

Movements in all Telecom Italia stock option plans from January 1, 2006 to June 30, 2006 (including TIM S.p.A. stock option plans) are as follows:

	Number of equivalent options	Weighted average price per equivalent option (in euro)
Options outstanding at December 31, 2005.........	**301,582,198**	**3,24**
Lapsed [1]..	(16,114,911)	3,15
Options outstanding at June 30, 2006.........	**285,467,287**	**3,25**

(1) These options lapsed since they could no longer be exercised as a result of the termination of employment and/or other reasons (e.g. relinquished by the interested party).

Telecom Italia stock option plans outstanding at June 30, 2006 and December 31, 2005, grouped by the exercise price range and shown with the residual weighted average life and the weighted average grant price of the equivalent options are presented in the following tables:

Price range	Equivalent options outstanding at June 30, 2006			Equivalent options exercisable at June 30, 2006	
(euro)	Equivalent options	Residual weighted average life (years)	Weighted average grant price (euro)	Equivalent options	Weighted average grant price (euro)
2.41	2,373,319	2.80	2.41	2,373,319	2.41
2.78 – 2.94	91,504,687	2.82	2.88	91,504,687	2.88
3.17 – 3.72	156,270,065	1.35	3.26	156,270,065	3.26
4.18 – 5.01	35,319,216	0.50	4.19	35,319,216	4.19
	285,467,287			285,467,287	

Price range	Equivalent options outstanding at December 31, 2005			Equivalent options exercisable at December 31, 2005	
(euro)	Equivalent options	Residual weighted average life (years)	Weighted average grant price (euro)	Equivalent options	Weighted average grant price (euro)
2.41	2,373,319	3.30	2.41	2,373,319	2.41
2.78 – 2.94	100,310,351	3.34	2.88	100,310,351	2.88
3.17 – 3.72	163,579,312	1.90	3.27	163,579,312	3.27
4.18 – 5.01	35,319,216	1.00	4.19	35,319,216	4.19
	301,582,198			301,582,198	

Telecom Italia Media S.p.A. Stock Option Plans

All Telecom Italia Media stock option plans give the right to subscribe to a quantity of Telecom Italia Media ordinary shares equal to the number of options exercised, at a specific exercise price.

Changes in the Telecom Italia Media stock option plans from January 1, 2006 to June 30, 2006 are as follows:

- "Key People Plan".
  At December 31, 2005, as at June 30, 2006, 2,250,000 options were outstanding.
  At December 31, 2005, as at June 30, 2006, the market price of Telecom Italia Media ordinary shares was lower than the exercise price.
- "Plan 2005".
  At December 31, 2005, 25,254,830 options were outstanding. During the first half of 2006, 6,100,000 options were exercised and 1,505,000 options lapsed as a result of the termination of service. At June 30, 2006, 17,649,830 options were outstanding.
  At December 31, 2005, the market price of Telecom Italia Media ordinary shares was higher than the exercise price, while at June 30, 2006, the market price was lower.

Movements in Telecom Italia Media stock option plans from January 1, 2006 to June 30, 2006 are as follows

	Number of options	Weighted average price per option (in euro)
Options outstanding at December 31, 2005..........	27,504,830	0.42
Exercised	(6,100,000)	0.38
Lapsed (1)	(1,505,000)	0.38
Options outstanding at June 30, 2006..........	19,899,830	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).

Telecom Italia Media stock option plans outstanding at June 30, 2006 and December 31, 2005, grouped by the exercise price range and shown with the residual weighted average life and the weighted average grant price of the options are presented in the following tables:

Price range	Options outstanding at June 30, 2006			Options exercisable at June 30, 2006	
(euro)	Options	Residual weighted average life (years)	Weighted average grant price (euro)	Options	Weighted average grant price (euro)
0.38	17,649,830	2.50	0.38	7,937,330	0.38
0.85	2,250,000	1.92	0.85	2,250,000	0.85
	19,899,830			10,187,330	

At June 30, 2006, 19,899,830 options were outstanding, of which 10,187,330 were exercisable at that date. The remaining 9,712,500 will become exercisable starting from January 2007.

Price range	Options outstanding at December 31, 2005			Options exercisable at December 31, 2005	
(euro)	Options	Residual weighted average life (years)	Weighted average grant price (euro)	Options	Weighted average grant price (euro)
0.38	25,254,830	3.00	0.38	4,044,830	0.38
0.85	2,250,000	2.42	0.85	2,250,000	0.85
	27,504,830			6,294,830	

NOTE 25 – OTHER INFORMATION

EXCHANGE RATES USED TO TRANSLATE FOREIGN CURRENCY FINANCIAL STATEMENTS (1)

local currency units per euro 1		Period-end exchange rates (balance sheet)		Period average exchange rate (statement of operations)	
		6/30/2006	12/31/2005	1st Half 2006	1st Half 2005
Europe					
CHF	Swiss Franc	1.56720	1.55510	1.56121	1.54615
GBP	Pound sterling	0.69210	0.68530	0.68705	0.68589
TRY	Turkish lira (*)	2.00950	1.58750	1.70700	1.72290
North America					
CAD	Canadian dollar	1.41320	1.37250	1.39989	1.58753
USD	U.S. dollar	1.27130	1.17970	1.22966	1.28480
Central and South America					
VEB	Venezuelan bolivar (*)	2,733.29500	2,536.35500	2,643.76900	2,662.99211
BOB	Bolivian boliviano	10.09412	9.37862	9.77486	10.35181
PEN	Peruvian nuevo sol	4.13808	4.05522	4.07496	4.18601
ARS	Argentinean peso	3.92323	3.57685	3.77047	3.73977
CLP	Chilean peso	685.61209	604.59625	648.10767	744.95790
COP	Colombian peso	3,273.34324	2,695.67349	2,892.30484	3,012.63141
MXN	Mexican peso	14.34598	12.58303	13.38926	14.22137
BRL	Brazilian real	2.75147	2.76132	2.69628	3.30534
Other countries					
HKD	Hong Kong dollar	9.87450	9.14740	9.53982	10.01306
SGD	Singapore dollar	2.01370	1.96280	1.97692	2.11629
ILS	Israeli shekel	5.63440	5.42426	5.63718	5.62813
JPY	Japanese yen	145.75000	138.90000	142.16570	136.20717

(*) Turkey and Venezuela are considered high-inflation countries. Consequently, the period-end exchange rate is used to translation the statement of operations, up to December 31, 2005.

(1) Source: data processed taken from the Central European Bank, Reuters and major central banks

NOTE 26 – EVENTS SUBSEQUENT TO JUNE 30, 2006

Telecom Italia Capital S.A. bond issue

On July 18, 2006, Telecom Italia Capital S.A. issued new multi-tranche bonds on the United States market for a total of USD 2,600 million, guaranteed by Telecom Italia S.p.A.. The bonds are divided into three tranches:

- USD 850 million (equal to euro 667 million at the pricing date), quarterly interest indexed to the 3-month Libor plus 0.61%, issue price at 100%, maturing July 18, 2011;
- USD 750 million (equal to euro 589 million at the pricing date), 6.20% annual fixed rate with semiannual interest coupon, issue price at 99.826%, maturing July 18, 2011;
- USD 1,000 million (equal to euro 785 million at the pricing date), 7.20% annual fixed rate with semiannual interest coupon, issue price at 99.440%, maturing July 18, 2036.

Bond redemption

On July 2006, Telecom Italia Finance repurchased Telecom Italia Finance S.A. 5.875% bonds maturing January 24, 2008 for euro 15 million.

Withdrawal of Tim Participaçoes S.A. preferred shares offering

On July 3, 2006, Telecom Italia announced that it had withdrawn its partial offer for the sale of Tim Participaçoes S.A. preferred shares held through the subsidiary Tim Brasil S.A.. The offer was withdrawn because of negative performance and higher volatility on the international stock markets especially in the emerging markets segment.
Accordingly, the preliminary documentation filed with the Comissão de Valores Mobiliários (the Brazilian securities and exchange commission) was withdrawn on May 15, 2006.

Sale of Avea I.H.A.S.

On July 14, 2006, the contracts were signed for the sale of the investment held by Tim International in Avea (equal to a 40.56% stake) to Turk Telekom for consideration of USD 500 million.
This sale constituted one of the assumptions established in the July 2005 contracts between Telecom Italia and Saudi Oger.
Execution of the sale is contingent upon obtaining the necessary authorizations from the competent Turkish authorities.
As a result of this acquisition, Turk Telekom, which already holds a 40.56% stake in Avea, will increase its investment to 81.12%, while the residual 18.88% interest remains in the possession of IS Bank.
Telecom Italia Group, when the transaction is closed, will be released from the obligations and guarantees which it had provided on loans received, up to an amount of USD 150 million.
Furthermore, TIM International, when the transaction is closed, will reinvest half of the proceeds from the sale (USD 250 million) in the share capital of Oger Telecom, in which a 13.33% stake is held at June 30, 2006, and must also disburse a subordinated loan of up to USD 150 million to Avea, earning interest at market rates, on condition that Avea manages to obtain a structured loan within one year of the closing date of the transaction.

Under the framework of the above transactions for the sale of Avea, TIM International renegotiated its partnership with Saudi Oger in a new Shareholders' Agreement which guarantees TIM International a greater participation in the governance of Oger Telecom, thus strengthening the Group's protection of its investment in Oger Telecom.

Sale of Solpart Participaçoes S.A.

During July 2006, Telecom Italia S.p.A. expressed its intention of evaluating whether to sell the investment in Solpart Participaçoes S.A. which is held through the Dutch holding company, Telecom Italia International N.V.

Sale of Telecom Italia Learning Services S.p.A.

On July 17, 2006, the sales contract signed on June 15, 2006 was executed for the sale of Telecom Italia Learning Services S.p.A. to TILS Holding S.p.A., a company held by CEGOS, a French multinational company offering training services, and by Camporlecchio Educational, an operator specialized in consulting and corporate organization, at the symbolic price of euro 1 after having recapitalized the company.

REORGANISATION OF THE GROUP

The Board of Directors of Telecom Italia met on September 11, 2006, having shared and assumed the strategic option of accentuating the Group's focus on the broadband and media services business in Italy and the rest of Europe, examined and approved the roadmap for the reorganization of the Telecom Italia Group which entails:

1. The separation from Telecom Italia S.p.A. of the business of national mobile communication, through the conferment of the corresponding industrial complex into a separate controlled company, also of new constitution;
2. The separation from Telecom Italia S.p.A. of the network for local wired access through the conferment of the corresponding industrial complex to a separate controlled company, also of new constitution, with mandate for the Chairman to identify possible further assets suitable to integrate the above mentioned industrial complex.

The Board of Directors will examine the opportunities of value enhancement of network activities and of the mobile communication business which may present themselves, as well as any further or different initiatives, according to the operational needs and sustainable development of the company.

NOTE 27 – LIST OF COMPANIES OF THE TELECOM ITALIA GROUP

In accordance with Consob resolution 11971 dated May 14, 1999, as amended, the list of significant companies and investments held by the Group is provided herein.

The list is divided by type of investment, consolidation method and business segment.

The following is indicated for each company: the name, head office, country, the share capital in the original currency, in addition to the percentage holding of share capital, the percentage of voting rights in the ordinary shareholders' meeting if different than the percentage holding of share capital, and which companies hold the investment.

List of companies consolidated on a line-by-line basis

Name		Currency	Share Capital	% Ownership	% of voting rights	Held by
WIRELINE						
TELECOM ITALIA S.p.A. (WIRELINE BUSINESS)						
BBEYOND B.V. (telecommunications services)	AMSTERDAM (HOLLAND)	EUR	18,000	100.0000		BBNED N.V.
BBNED N.V. (telecommunications services)	AMSTERDAM (HOLLAND)	EUR	82,430,000	99.9939 0.0061		TELECOM ITALIA INTERNATIONAL N.V. BBNED N.V.
ELETTRA TLC S.p.A. (services rendered in connection with submarine cable systems for telecommunications)	ROME (ITALY)	EUR	10,329,200	70.0000		MEDITERRANEAN NAUTILUS S.A.
EMAX TRADE S.r.l. (in liquidation) (Internet site management)	MILAN (ITALY)	EUR	100,000	100.0000		MATRIX S.p.A.
HANSENET TELEKOMMUNIKATION GmbH (telecommunications services)	HAMBURG (GERMANY)	EUR	91,521,500	100.0000		TELECOM ITALIA DEUTSCHLAND HOLDING GmbH
I.T. TELECOM S.r.l. (other software development and software consulting)	POMEZIA (ROME) (ITALY)	EUR	7,000,000	100.0000		TELECOM ITALIA S.p.A.
INTERCALL S.A. (telecommunications services and sale of prepaid phone cards)	PUTEAUX (FRANCE)	EUR	807,060	88.6342		LIBERTY SURF GROUP S.A.
LATIN AMERICAN NAUTILUS ARGENTINA S.A. (installation and maintenance of submarine cable systems)	BUENOS AIRES (ARGENTINA)	ARS	2,000,000	99.9700 0.0300		LATIN AMERICAN NAUTILUS S.A. LATIN AMERICAN NAUTILUS Ltd
LATIN AMERICAN NAUTILUS BOLIVIA S.r.l. (installation and maintenance of submarine cable systems)	LA PAZ (BOLIVIA)	BOB	6,730,600	99.9985 0.0015		LATIN AMERICAN NAUTILUS S.A. LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS BRASIL Ltda (installation and maintenance of submarine cable systems)	RIO DE JANEIRO (BRAZIL)	BRL	105,353,711	99.9999 0.0001		LATIN AMERICAN NAUTILUS BRASIL PARTICIPACOES Ltda LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS BRASIL PARTICIPACOES Ltda (holding company)	RIO DE JANEIRO (BRAZIL)	BRL	105,354,710	99.9999 0.0001		LATIN AMERICAN NAUTILUS S.A. LATIN AMERICAN NAUTILUS Ltd
LATIN AMERICAN NAUTILUS CHILE S.A. (installation and maintenance of submarine cable systems)	SANTIAGO (CHILE)	CLP	8,779,132,671	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS COLOMBIA Ltda (installation and maintenance of submarine cable systems)	BOGOTA' (COLOMBIA)	COP	4,148,521,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS Ltd (installation and maintenance of submarine cable systems)	DUBLIN (IRELAND)	USD	1,000,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS MEXICO S.A. (installation and maintenance of submarine cable systems)	MEXICO, D.F. (MEXICO)	MXN	100,000	99.9900 0.0100		LATIN AMERICAN NAUTILUS S.A. 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 S.A.
LATIN AMERICAN NAUTILUS PERU' S.A. (installation and maintenance of submarine cable systems)	LIMA (PERÙ)	PEN	43,374,195	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS S.A. (holding company)	LUXEMBOURG (LUXEMBOURG)	USD	55,500,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
LATIN AMERICAN NAUTILUS SERVICE Inc. (installation and maintenance of submarine cable systems)	FLORIDA (USA)	USD	10,000	100.0000		LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS St. Croix LLC (installation and maintenance of submarine cable systems)	VIRGIN ISLANDS (USA)	USD	10,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS USA Inc. (installation and maintenance of submarine cable systems)	FLORIDA (USA)	USD	20,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LATIN AMERICAN NAUTILUS VENEZUELA C.A. (installation and maintenance of submarine cable systems)	CARACAS (VENEZUELA)	VEB	43,425,000	100.0000		LATIN AMERICAN NAUTILUS S.A.
LIBERTY SURF GROUP S.A. (internet services)	PARIS (FRANCE)	EUR	282,559,451	100.0000		TELECOM ITALIA S.p.A.
LIBERTY SURF NETWORK B.V. (internet services)	AMSTERDAM (HOLLAND)	EUR	20,001	100.0000		LIBERTY SURF GROUP S.A.S
LIBERTY SURF COMMUNICATIONS LTD (in liquidation) (internet services)	LONDON (UK)	GBP	1,000	100.0000		LIBERTY TELECOM B.V.
LIBERTY TELECOM B.V. (wireline telephone)	AMSTERDAM (HOLLAND)	EUR	3,871,142	100.0000		LIBERTY SURF NETWORK B.V.
LOQUENDO SOCIETA' PER AZIONI (research, development and marketing of technologies and equipment regarding voice synthesis recognition and/or interaction)	TURIN (ITALY)	EUR	3,573,741	99.9846		TELECOM ITALIA S.p.A.
MATRIX S.p.A. (Internet services)	MILAN (ITALY)	EUR	1,100,000	100.0000		TELECOM ITALIA S.p.A.
MED-1 (NETHERLANDS) B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	18,151	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)	TEL AVIV (ISRAEL)	NIS	55,886,866	99.9123		TELECOM ITALIA SPARKLE S.p.A.
MEDITERRANEAN NAUTILUS BV (holding company)	AMSTERDAM (HOLLAND)	EUR	18,003	100.0000		MEDITERRANEAN NAUTILUS Ltd
MEDITERRANEAN NAUTILUS GREECE Ltd (installation and management of submarine cable systems)	ATHENS (GREECE)	EUR	111,600	100.0000		MEDITERRANEAN NAUTILUS B.V.
MEDITERRANEAN NAUTILUS Inc. (telecommunications services)	DELAWARE (USA)	USD	500	100.0000		MEDITERRANEAN NAUTILUS B.V.
MEDITERRANEAN NAUTILUS ISRAEL Ltd (TLC services, installation and management of submarine cable systems)	TEL AVIV (ISRAEL)	NIS	1,000	100.0000		MEDITERRANEAN NAUTILUS B.V.
MEDITERRANEAN NAUTILUS ITALY S.p.A. (installation and management of submarine cable systems)	ROME (ITALY)	EUR	3,100,000	100.0000		MEDITERRANEAN NAUTILUS B.V.
MEDITERRANEAN NAUTILUS Ltd (installation and management of submarine cable systems)	DUBLIN (IRELAND)	USD	153,259	100.0000		MEDITERRANEAN NAUTILUS S.A.
MEDITERRANEAN NAUTILUS S.A. (holding company)	LUXEMBOURG (LUXEMBOURG)	EUR	100,000,000	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA FINANCE S.A.
MEDITERRANEAN NAUTILUS TELEKOMÜNIKASYON HIZMETLERI TICARET ANONIM SIRKETI (telecommunications services)	ISTANBUL (TURKEY)	TRY	350,000	99.9988 0.0003 0.0003 0.0003 0.0003		MEDITERRANEAN NAUTILUS B.V. MEDITERRANEAN NAUTILUS Ltd MEDITERRANEAN NAUTILUS ITALY S.p.A. MEDITERRANEAN NAUTILUS ISRAEL Ltd MEDITERRANEAN NAUTILUS GREECE Ltd
NUOVA TIN.IT S.r.l.. (internet services)	MILAN (ITALY)	EUR	10,000,000	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.
TELECOM ITALIA SAN MARINO S.p.A. (telecommunications services in San Marino)	ROVERETA (REP. OF S. MARINO)	EUR	1,550,000	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA S.p.A.

List of companies consolidated on a line-by-line basis

Name		Currency	Share Capital	% Ownership	% of voting rights	Held by
TELECOM ITALIA DEUTSCHLAND HOLDING GmbH (holding company)	HAMBURG (GERMANY)	EUR	25,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA NETHERLANDS B.V. (telecommunications services)	AMSTERDAM (HOLLAND)	EUR	18,200	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA S.A.S. (Internet access provider)	PARIS (FRANCE)	EUR	3,478,234	100.0000		LIBERTY SURF GROUP S.A.S.
TELECOM ITALIA SPAIN SL UNIPERSONAL (telecommunications services)	MADRID (SPAIN)	EUR	2,003,096	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE OF NORTH AMERICA, INC. (telecommunications and promotional services)	NEW YORK (USA)	USD	15,550,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE S.p.A. (public and private telecommunication services management)	ROME (ITALY)	EUR	200,000,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA SPARKLE SINGAPORE PTE. LTD (telecommunications services)	SINGAPORE	USD	500,000	99.9998 0.0002		TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA SPARKLE OF NORTH AMERICA, Inc.
TELECOM MEDIA INTERNATIONAL ITALY-CANADA Inc. (in liquidation) (telecommunications services)	MONTREAL (CANADA)	CAD	952,100	100.0000		TMI - TELEMEDIA INTERNATIONAL Ltd
TELECONTACT CENTER S.p.A. (telemarketing services)	NAPLES (ITALY)	EUR	770,000	100.0000		TELECOM ITALIA S.p.A.
TELEFONIA MOBILE SAMMARINESE S.p.A. (mobile telephony services)	BORGO MAGGIORE (REP. OF S. MARINO)	EUR	78,000	51.0000		TELECOM ITALI A SAN MARINO S.p.A.
TELEMEDIA INTERNATIONAL USA Inc. (telecommunications services)	WILMINGTON (USA)	USD	154,022,889	100.0000		TMI - TELEMEDIA INTERNATIONAL Ltd
THINX-SM TELEHOUSE INTERNET EXCHANGE S.r.l (housing and hosting)	GUALDICCIOLO (REP. OF S. MARINO)	EUR	25,800	99.9999 0.0001		TELECOM ITALI A SAN MARINO S.p.A. TELECOM ITALIA SPARKLE S.p.A.
TI BELGIUM S.P.R.L. - B.V.B.A (telecommunications services)	BRUSSELS (BELGIUM)	EUR	3,000,000	99.9967		TELECOM ITALIA SPARKLE S.p.A.
TI GERMANY GmbH (telecommunications services)	FRANKFURT (GERMANY)	EUR	25,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SWITZERLAND GmbH (telecommunications services)	ZURICH (SWITZERLAND)	CHF	2,000,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI TELECOM ITALIA (AUSTRIA) TELEKOMMUNICATIONDIESTE Gmbh (telecommunications services)	VIENNA (AUSTRIA)	EUR	2,735,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI UNITED KINGDOM Ltd (telecommunications services)	LONDON (UK)	GBP	4,150,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TIS FRANCE S.A.S. (telecommunications services)	PUTEAUX (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)	SAO PAOLO (BRAZIL)	BRL	2,589,317	100.0000		TMI - TELEMEDIA INTERNATIONAL Ltd
DOMESTIC MOBILE						
TELECOM ITALIA S.p.A. (MOBILE BUSINESS)						
BRAZIL MOBILE						
TIM NORDESTE S.A. (ex-MAXITEL S.A.) (mobile telephony operator)	JABOATAO DOS GUARARAPES (BRAZIL)	BRL	1,560,040,068	100.0000		TIM CELULAR S.A.
TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A. (holding company)	RIO DE JANEIRO (BRAZIL)	BRL	10,948,214,541	100.0000		TIM INTERNATIONAL N.V.
TIM CELULAR S.A. (mobile telephony operator)	SAO PAOLO (BRAZIL)	BRL	8,409,375,745	100.0000		TIM PARTICIPAÇÕES S.A.
TIM PARTICIPAÇÕES S.A. (holding company for operating companies providing mobile network services)	RIO DE JANEIRO (BRAZIL)	BRL	7,455,859,037	69.6581	81.1904	TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
MEDIA						
BEIGUA S.r.l. (purchase, sale, management and maintenance of installation for the repair and distribution of radio and TV broadcasting)	ROME (ITALY)	EUR	51,480	51.0004		TI MEDIA BROADCASTING S.r.l.
GIALLO VIAGGI. It S.r.l. (in liquidation) (purchase, sale, management and maintenance of installation for the repair and distribution of radio and TV broadcasting)	MILAN (ITALY)	EUR	10,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
HOLDING MEDIA & COMUNICAZIONE PUBBLICITA' S.r.l. (in liquidation) (purchase, sale, management and maintenance of installation for the repair and distribution of radio and TV broadcasting)	ROME (ITALY)	EUR	10,000	100.0000		HOLDING MEDIA E COMUNICAZIONE H.M.C. S.p.A.
HOLDING MEDIA E COMUNICAZIONE H.M.C. S.p.A. (production, marketing on TV and press)	ROME (ITALY)	EUR	5,064,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
MTV ITALIA S.r.l. (services in the field of radio and TV broadcasting, production and sale of radio, TV and cinema programs)	ROME (ITALY)	EUR	12,151,928	51.0000		TELECOM ITALIA MEDIA S.p.A.
MTV PUBBLICITA' S.r.l. (advertising agency)	MILAN (ITALY)	EUR	10,400	100.0000		MTV ITALIA S.r.l.
SCS COMUNICAZIONE INTEGRATA S.p.A. (in liquidation) (marketing and communication consulting)	ROME (ITALY)	EUR	600,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
TELECOM ITALIA MEDIA S.p.A. (management of all activities connected with the handling of information)	ROME (ITALY)	EUR	100,510,259	65.7069 2.2471	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.
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.
TIN WEB S.r.l. (in liquidation) (purchase, sale, management and maintenance of installation for the repair and distribution of radio and TV broadcasting)	MILAN (ITALY)	EUR	10,000	100.0000		TELECOM ITALIA MEDIA S.p.A.

List of companies consolidated on a line-by-line basis

Name		Currency	Share Capital	% Ownership	% of voting rights	Held by
OLIVETTI						
CONSORZIO MAEL (participation in bids and competitions held by public and private entities)	ROME (ITALY)	EUR	52,000	60.0000 40.0000		OLIVETTI S.p.A TIEMME SISTEMI S.r.l.
DIASPRON DO BRASIL S.A. (in liquidation) (manufacture and export of typewriters and printers)	SAO PAOLO (BRAZIL)	BRL	5,135,417	100.0000		OLIVETTI DO BRASIL S.A.
MULTIDATA S.A. ELETRONICA INDUSTRIA E COMERCIO (in liquidation) (manufacture and export of typewriters and printers)	MANAUS (BRAZIL)	BRL	5,583,350	100.0000		OLIVETTI DO BRASIL S.A.
OLIVETTI ARGENTINA S.A.C.e.I. (in liquidation) (manufacture and export of typewriters and printers)	BUENOS AIRES (ARGENTINA)	ARS	7,590,000	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI AUSTRIA G.m.b.H (sale of office equipment and accessories)	VIENNA (AUSTRIA)	EUR	36,336	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI CHILE S.A.(in liquidation) (sale and maintenance of office equipment, accessories and software)	SANTIAGO (CHILE)	CLP	2,574,015,843	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI COLOMBIANA S.A. (in liquidation) (sale of office and industrial equipment)	BOGOTA' (COLOMBIA)	COP	2,500,000,000	90.5299 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)	NUREMBERG (GERMANY)	EUR	25,600,000	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI DO BRASIL S.A. (manufacture and sale of typewriters, accessories, spare parts and assistance)	SAO PAOLO (BRAZIL)	BRL	111,660,625	96.6446 3.3554		OLIVETTI INTERNATIONAL B.V. OLIVETTI MEXICANAS.A.(in liquidation)
OLIVETTI ENGINEERING S.A. (product research and development based on ink-jet technology)	YVERDON LES BAINS (SWITZERLAND)	CHF	100,000	100.0000		OLIVETTI I-JET S.P.A.
OLIVETTI FRANCE S.A. (sale and maintenance of office equipment, accessories and software)	PUTEAUX (FRANCE)	EUR	2,200,000	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI I-JET S.P.A. (manufacture and sale of products and accessories for office equipment)	ARNAD (AOSTA) (ITALY)	EUR	15,000,000	100.0000		OLIVETTI S.p.A
OLIVETTI INTERNATIONAL B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	355,027,092	100.0000		OLIVETTI S.p.A
OLIVETTI MEXICANAS.A. (in liquidation) (manufacture and sale, import-export of typewriters, adding machines, accessories and spare parts, technical assistance services)	MEXICO CITY (MEXICO)	MXN	34,637,065	99.9999 0.0001		OLIVETTI INTERNATIONAL B.V. OLIVETTI S.p.A
OLIVETTI S.p.A (manufacture and sale of products and accessories for office equipment)	IVREA (TURIN) (ITALY)	EUR	154,000,000	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI TECNOST (H.K.) Ltd (in liquidation) (sale of equipment and systems in the Pacific area and other areas)	HONG KONG (CHINA)	HKD	200,000	99.5000 0.5000		OLIVETTI INTERNATIONAL B.V. OLIVETTI S.p.A
OLIVETTI TECNOST ESPANA S.A. (sale and maintenance of office equipment, consulting and telematic network management)	BARCELONA (SPAIN)	EUR	1,229,309	99.9863		OLIVETTI INTERNATIONAL B.V.
OLIVETTI TECNOST NEDERLAND B.V. (sale of office accessories and products)	LEIDERDORP (HOLLAND)	EUR	6,468,280	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI UK Ltd (sale of office accessories and products)	MILTON KEYNES (UK)	GBP	6,295,712	100.0000		OLIVETTI INTERNATIONAL B.V.
TIEMME SISTEMI S.r.l. (electric, electromechanical, electronic equipment and related systems)	CARSOLI (L'AQUILA) (ITALY)	EUR	1,040,000	100.0000		OLIVETTI S.p.A
TIESSE S.c.p.A. (electric, electromechanical, electronic equipment and related systems)	ROME (ITALY)	EUR	103,292	42.0000 19.0000		OLIVETTI S.p.A TIEMME SISTEMI S.r.l.
TOP SERVICE S.p.A. (electronic diagnostics and repairs of computer products)	MODUGNO (BARI) (ITALY)	EUR	293,618	91.2069		OLIVETTI S.p.A
OTHER ACTIVITIES						
TELECOM ITALIA S.p.A. (GROUP FUNCTIONS AND SERVICE UNITS)						
ASCAI SERVIZI S.r.l. (in liquidation) (insurance mediation)	ROME (ITALY)	EUR	73,337	64.9576		SAIAT SOCIETA' ATTIVITA'INTERMEDIE AUSILIARIE TLC P.A.
BLAH! Inc (in liquidation) (mobile network services)	FLORIDA (USA)	USD	23,464,000	100.0000		TIM INTERNATIONAL N.V.
CONS. FORM.PROF. MEZZOGIORNO D'ITALIA E PAESI AREA MEDITERRANEA - NAUTILUS (professional training)	ROME (ITALY)	EUR	30,000	31.0000 20.0000		TELECOM ITALIA LEARNING SERVICES S.p.A. MEDITERRANEAN NAUTILUS Ltd
CONSORZIO REISS FORM (in liquidation) (information consulting and services)	ROME (ITALY)	EUR	53,684	95.0000		TELECOM ITALIA LEARNING SERVICES S.p.A.
DATACOM S.A. (data transmission services)	LA PAZ (BOLIVIA)	BOB	66,938,200	100.0000		ENTEL S.A. - EMPRES.A. NACIONAL DE TELECOMUNICACIONES
DOMUS ACADEMY S.P.A. (specialized design courses)	MILAN (ITALY)	EUR	140,000	67.3336		TELECOM ITALIA S.p.A.
EDOTEL S.p.A. (holding company)	TURIN (ITALY)	EUR	4,847,193	100.0000		TELECOM ITALIA FINANCE 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.
ENERGIA GRUPPO TELECOM ITALIA (in liquidation) (coordination of power for fixed and mobile networks of consortia)	ROME (ITALY)	EUR	10,000	100.0000		TELECOM ITALIA S.p.A.
ENTEL S.A. - EMPRES.A. NACIONAL DE TELECOMUNICACIONES (telecommunications services)	LA PAZ (BOLIVIA)	BOB	1,280,898,800	50.0000		ETI - EURO TELECOM INTERNATIONAL N.V.
ETI - EURO TELECOM INTERNATIONAL N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	50,050	100.0000		ICH - INTERNATIONAL COMMUNICATION HOLDING N.V.
ICH - INTERNATIONAL COMMUNICATION HOLDING N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	50,000	100.0000		TELECOM ITALIA INTERNATIONAL N.V.
IRIDIUM ITALIA S.p.A. (in liquidation) (satellite telecommunications services)	ROME (ITALY)	EUR	2,575,000	65.0000		TELECOM ITALIA S.p.A.
NETESI S.p.A. (in liquidation) (telecommunications and multimedia services)	MILAN (ITALY)	EUR	434,715	100.0000		TELECOM ITALIA S.p.A.
O&B COSTRUZIONI GENERALI S.r.l. (real estate purchases, exchanges and sales)	IVREA (TURIN) (ITALY)	EUR	100,000	50.1000		OLIVETTI MULTISERVICES S.p.A.
OFI CONSULTING S.r.l. (administrative consulting)	IVREA (TURIN) (ITALY)	EUR	95,000	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI GESTIONI IVREA S.p.A. (in liquidation) (real estate services)	IVREA (TURIN) (ITALY)	EUR	1,300,000	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI HOLDING B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	15,882,770	100.0000		TELECOM ITALIA FINANCE S.A.
OLIVETTI MULTISERVICES S.p.A. (real estate management)	MILAN (ITALY)	EUR	20,337,161	100.0000		TELECOM ITALIA S.p.A.

List of companies consolidated on a line-by-line basis

Name		Currency	Share Capital	% Ownership	% of voting rights	Held by
OLIVETTI SYSTEMS TECHNOLOGY CORPORATION (real estate management)	YOKOHAMA (JAPAN)	JPY	100,000,000	100.0000		TELECOM ITALIA FINANCE S.A.
OMS HOLDING B.V. (financing)	AMSTERDAM (HOLLAND)	EUR	20,000	100.0000		OLIVETTI MULTISERVICES S.p.A.
PROGETTO ITALIA S.p.A. (development and improvement of the Teleco Italia brand)	MILAN (ITALY)	EUR	1,000,000	100.0000		TELECOM ITALIA S.p.A.
SAIAT SOCIETA' ATTIVITA' INTERMEDIE AUSILIARIE TLC P.A. (financing)	TURIN (ITALY)	EUR	35,745,120	100.0000		TELECOM ITALIA S.p.A.
SATURN VENTURE PARTNERS Llc (holding company)	DELAWARE (USA)	USD	27,166,100	56.9600 17.8500		TELECOM ITALIA LAB S.A. TELECOM ITALIA S.p.A.
TECNOSERVIZI MOBILI S.r.l. (management of movable assets)	ROME (ITALY)	EUR	26,000	51.0000		TELECOM ITALIA S.p.A.
TECO SOFT ARGENTINA S.A. (in liquidation) (design, development and sale of software)	BUENOS AIRES (ARGENTINA)	ARS	12,000	99.9900		TELECOM ITALIA S.p.A.
TELECOM ITALIA AMERICA LATINA S.A. (telecommunications and promotional services)	SAO PAOLO (BRAZIL)	BRL	43,614,072	99.9996		TELECOM ITALIA S.p.A.
TELECOM ITALIA AUDIT AND COMPLIANCE SERVICES scarl (internal auditing for the Telecom Italia Group)	MILAN (ITALY)	EUR	2,750,000	81.8182 18.1818		TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
TELECOM ITALIA CAPITAL S.A. (financing)	LUXEMBOURG (LUXEMBOURG)	EUR	2,336,000	99.9990 0.0010		TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.
TELECOM ITALIA FINANCE S.A. (financing)	LUXEMBOURG (LUXEMBOURG)	EUR	542,090,241	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA INTERNATIONAL N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	2,399,483,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA LAB S.A. (holding company)	LUXEMBOURG (LUXEMBOURG)	USD	163,870	99.9939 0.0061		TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.
TELECOM ITALIA LEARNING SERVICES DO BRASIL LTDA (information consulting and services)	SAO PAOLO (BRAZIL)	BRL	174,040	99.9989		TELECOM ITALIA LEARNING SERVICES S.p.A.
TELECOM ITALIA LEARNING SERVICES S.p.A. (professional training)	MILAN (ITALY)	EUR	1,560,000	100.0000		TELECOM ITALIA S.p.A.
TELENERGIA S.r.l. (import, export, purchase, sale and exchange of electrical energy)	ROME (ITALY)	EUR	50,000	100.0000		TELECOM ITALIA S.p.A.
TELSI Unlimited (financing company)	LONDON (UK)	GBP	496,661,807	100.0000		TELECOM ITALIA FINANCE S.A.
TELSY ELETTRONICA E TELECOMUNICAZIONI S.p.A. (manufacturing and sale of systems for encrypted telecommunications)	TURIN (ITALY)	EUR	390,000	100.0000		TELECOM ITALIA S.p.A.
TI AUDIT LATAM S.A. (internal auditing)	SAO PAOLO (BRAZIL)	BRL	1,500,000	100.0000		TELECOM ITALIA AUDIT AND COMPLIANCE SERVICES scarl
TIM INTERNATIONAL N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	555,431,000	100.0000		TELECOM ITALIA S.p.A.
TRAINET S.p.A. (in liquidation) (development, operation and sales of teleteaching systems)	ROME (ITALY)	EUR	674,446	100.0000		TELECOM ITALIA S.p.A.

List of companies accounted for by the equity method

Name	Head Office	Currency	Share Capital	% Ownership	% of voting rights	Held by
ARCHEO S.p.A. (in liquidation) (services)	BARI (ITALY)	EUR	464,400	25.0000		OFI CONSULTING S.r.l.
AREE URBANE S.r.l. (real estate)	MILAN (ITALY)	EUR	307,717	31.6499 0.9700		TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
ASSCOM INSURANCE BROKERS S.r.l (insurance mediation)	MILAN (ITALY)	EUR	100,000	20.0000		TELECOM ITALIA S.p.A.
AVEA ILETISIM HIZMETLERI A.S. (mobile telephony operator)	ISTANBUL (TURKEY)	OLD TL	7,024,867,230,970,000	40.5647		TIM INTERNATIONAL N.V.
BALTEA S.r.l. (manufacture and sale of office equipment and computer and telecommunications services)	IVREA (TURIN) (ITALY)	EUR	2,220,000	49.0000		OLIVETTI S.p.A
BROAD BAND SERVICE S.A. (production and sales of multimedia services)	SERRAVALLE (REP.OF S.MARINO)	EUR	258,000	20.0000		TELECOM ITALIA SAN MARINO S.p.A.
CABLE INSIGNIA S.A. (in liquidation) (telecommunications services)	ASUNCIÓN (PARAGUAY)	PYG	2,600,000,000	75.0000		TELECOM PERSONAL S.A.
CONSORZIO E O (in liquidation) (professional training)	ROME (ITALY)	EUR	30,987	50.0000		TELECOM ITALIA S.p.A.
CONSORZIO S.I.A.R.C. (in liquidation) (supply of information products and services)	NAPLES (ITALY)	EUR	25,821	30.0000		TELECOM ITALIA S.p.A.
CONSORZIO SCUOLA SUPERIORE ALTA FORMAZIONE UNIVERSITARIA FEDERICO II (professional training)	NAPLES (ITALY)	EUR	127,500	20.0000		TELECOM ITALIA S.p.A.
CONSORZIO TURISTEL (online tourism services)	ROME (ITALY)	EUR	77,460	33.3300		TELECOM ITALIA S.p.A.
Empresa de Telecomunicaciones de Cuba S.A. ETEC-SA (telecommunications services)	HAVANA (CUBA)	USD	1,749,313,080	27.0000		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 (telecommunications services and sale of prepaid telephone cards)	ATHENS (GREECE)	EUR	496,696	29.4100		INTERCALL S.A.
IN.VA. S.p.A. (information systems)	AOSTA (TURIN) (ITALY)	EUR	520,000	40.0000		TELECOM ITALIA S.p.A.
ISCE Investors in Sapient & Cuneo Europe S.A. (investment company)	LUXEMBOURG (LUXEMBOURG)	EUR	4,334,400	25.0000		TELECOM ITALIA MEDIA S.p.A.
ITALTEL HOLDING S.p.A. (holding company)	MILAN (ITALY)	EUR	115,459,344	19.3733		TELECOM ITALIA FINANCE S.A.
LI.SIT. - LOMBARDIA INTEGRATA SERVIZI INFOTELEMATICI PER IL TERRITORIO S.p.A. (information, TLC services and products for the local public administration)	MILAN (ITALY)	EUR	6,500,000	24.2000		TELECOM ITALIA S.p.A.
LUNA ROSSA CHALLENGE 2007 S.L. (promotion, organization of sailboat races include the America's Cup)	VALENCIA (SPAIN)	EUR	4,000,000	49.0000		TELECOM ITALIA S.p.A.
LUNA ROSSA TRADEMARK Sarl (purchase, management, development of intellectual property rights)	LUXEMBOURG (LUXEMBOURG)	EUR	20,000,000	49.0000		TELECOM ITALIA S.p.A.
MIAECONOMIA S.r.l. (publishing in the field of personal finance)	ROME (ITALY)	EUR	1,000,000	30.0000		MATRIX S.p.A
MICRO SISTEMAS S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	210,000	99.9900 0.0100		TELECOM ARGENTINA S.A. PUBLICOM S.A.
MOVENDA S.p.A (technological platforms for the development of mobile Internet services)	ROME (ITALY)	EUR	133,333	25.0000		TELECOM ITALIA LAB SA
NAVIGATE CONSORTIUM (terrestrial and satellite network integration)	MILAN (ITALY)	EUR	582,716	20.0000		TELECOM ITALIA S.p.A.
NORDCOM S.p.A. (application service provider)	MILAN (ITALY)	EUR	5,000,000	42.0000		TELECOM ITALIA S.p.A.
NORTEL INVERSORA S.A. (holding company)	BUENOS AIRES (ARGENTINA)	ARS	78,633,050	51.0400	67.7883	SOFORA TELECOMUNICACIONES SA
NUCLEO S.A. (telecommunications services)	ASUNCIÓN (PARAGUAY)	PYG	71,200,000,000	67.5000		TELECOM PERSONAL S.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.
PUBLICOM S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	16,000,000	99.9900 0.0100		TELECOM ARGENTINA S.A. NORTEL INVERSORA S.A.
SHARED SERVICE CENTER Scarl (planning, design, installation running of computer services)	MILAN (ITALY)	EUR	1,756,612	45.4500 4.5500		TELECOM ITALIA S.p.A. OLIVETTI S.p.A
SIEMENS INFORMATICA S.p.A. (supply of innovating solutions in the field of electronic and mobile business)	MILAN (ITALY)	EUR	6,192,000	49.0000		TELECOM ITALIA S.p.A.
SOFORA TELECOMUNICACIONES S.A. (holding company)	BUENOS AIRES (ARGENTINA)	ARS	439,702,000	32.5000 17.5000		TELECOM ITALIA S.p.A. TELECOM ITALIA INTERNATIONAL N.V.
SOLPART PARTICIPACOES S.A. (holding company for investment in Brasil Telecom Participaçoes S.A.)	RIO DE JANEIRO (BRAZIL)	BRL	1,657,200,000	38.0000		TELECOM ITALIA INTERNATIONAL N.V.
TELBIOS S.p.A. (technological services supporting the health sector)	MILAN (ITALY)	EUR	2,458,330	31.0800		TELECOM ITALIA S.p.A.
TELECOM ARGENTINA S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	984,380,978	54.7364		NORTEL INVERSORA S.A.
TELECOM ARGENTINA USA Inc. (telecommunications services)	DELAWARE (USA)	USD	249,873	100.0000		TELECOM ARGENTINA S.A.
TELECOM PERSONAL S.A. (telecommunications services)	BUENOS AIRES (ARGENTINA)	ARS	310,514,481	99.9923 0.0077		TELECOM ARGENTINA S.A. PUBLICOM S.A.
TELEGONO S.r.l. (real estate management)	ROME (ITALY)	EUR	1,000,000	40.0000		TELECOM ITALIA S.p.A.
TELELEASING - LEASING DI TELECOMUNICAZIONI E GENERALE S.p.A. (financial leasing of real estate and other assets)	MILAN (ITALY)	EUR	9,500,000	20.0000		SAIAT SOCIETA' ATTIVITA'INTERMEDIE AUSILIARIE TLC P.A.
TIGLIO I S.r.l. (real estate management)	MILAN (ITALY)	EUR	5,255,704	45.7000 2.1000		TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
TIGLIO II S.R.L. (real estate management)	MILAN (ITALY)	EUR	14,185,288	49.4700		TELECOM ITALIA S.p.A.
UBA-NET S.A. (in liquidation) (teleteaching systems)	BUENOS AIRES (ARGENTINA)	ARS	12,000	50.0000		TRAINET S.p.A. (in liquidation)
WEMACOM TELEKOMMUNIKATION GmbH (telecommunications services)	SCHWERIN (GERMANY)	EUR	60,000	25.0000		HANSENET TELEKOMMUNIKATION GmbH

Other significant investments in accordance with Consob resolution No. 11971 dated May 14, 1999

Name	Head Office	Currency	Share Capital	% Ownership	% of Voting	Held by
ATESIA - Telemarketing Comunicazione Telefonica e Ricerche di Mercato S.p.A. (telemarketing)	ROME (ITALY)	EUR	3,150,406	19.9000		TELECOM ITALIA S.p.A.
CEFRIEL S.r.l. (updating and research in the electronic engineering sector)	MILAN (ITALY)	EUR	100,000	11.6000		TELECOM ITALIA S.p.A.
CELL-TEL S.p.A. (telecommunications equipment, plant, systems)	IVREA (TURIN) (ITALY)	EUR	500,000	15.0000		OLIVETTI S.p.A
FIN.PRIV. S.r.l. (financing)	MILAN (ITALY)	EUR	20,000	14.2900		TELECOM ITALIA S.p.A.
IFM INFOMASTER S.p.A. (planning and development of call center solutions)	GENOA (ITALY)	EUR	161,765	12.0000		TELECOM ITALIA LAB S.A.
INNOVIS S.p.A. (computer, online and telecommunications equipments and services)	IVREA (TURIN) (ITALY)	EUR	325,000	15.0000		OLIVETTI S.p.A.
INSULA S.p.A. (telecommunications services)	VENICE-MESTRE (ITALY)	EUR	2,064,000	12.0000		TELECOM ITALIA S.p.A.
ITALBIZ.COM Inc. (telecommunications services)	CALIFORNIA (USA)	USD	4,720	19.5000		TELECOM ITALIA MEDIA S.p.A
LEISURE LINK HOLDINGS Ltd (manufacture of gaming and leisure-time machines)	STAFFORDSHIRE (UK)	GBP	7,809,179	11.4700		TELECOM ITALIA FINANCE S.A.
LOCATIONET SYSTEM Ltd ("middle-ware" platform development for supply of localization services)	NETANYA (ISRAEL)	NIS	0	12.9700		TELECOM ITALIA LAB S.A.
OGER TELECOM LIMITED (investment holding company)	DUBAI (ARAB EMIRATES)	USD	1,703,102,011	13.3300		TIM INTERNATIONAL N.V.
PIEDMONT INTERNATIONAL S.A. (financing)	LUXEMBOURG (LUXEMBOURG)	USD	10,507,500	17.1300	10.3000	TELECOM ITALIA FINANCE S.A.
RETAIL NETWORK SERVICES B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	15,129,484	13.6543		OLIVETTI S.p.A
TWICE SIM S.p.A. (investment services)	MILAN (ITALY)	EUR	8,450,000	14.2300		TELECOM ITALIA MEDIA S.p.A.
USABLENET Inc (development of software for the analysis of web site usability)	DELAWARE (USA)	USD	4	18.1081		TELECOM ITALIA LAB S.A.

REPORT ON CORPORATE GOVERNANCE – HALF YEARLY UPDATE.

The half-yearly update to Telecom Italia's Report on Corporate Governance is intended to provide information on the changes made to the Company's system of corporate governance as described in detail in the Corporate Governance section of the Annual Report for 2005 (p. 277 et seq.).

1. On 13 April 2006, following the resignations of Marco De Benedetti and Giovanni Consorte from the Company's Board of Directors, the ordinary shareholders' meeting of Telecom Italia brought the board up to its full complement of 21 by appointing Diana Bracco and Vittorio Merloni.
   Recourse was not made to the slate voting system for the appointments because the Bylaws provide for it to be used only when the whole board is renewed.
   As a result of these appointments, the number of independent directors on Telecom Italia's Board increased (to 13 out of 21), since, on the basis of the declarations they submitted, both Diana Bracco and Vittorio Merloni qualified as independent.
   In view of the expiry of the appointments of the members of the Board of Auditors, the shareholders' meeting of 13 April also elected new members for the three years 2006-08 using the slate voting system. The following were elected: Paolo Golia and Stefano Meroi (from a list presented by minority shareholders under Article 17 of the Bylaws) and Salvatore Spiniello, Ferdinando Superti Furga and Gianfranco Zanda (candidates presented by the shareholder Olimpia).
   In accordance with the law on the protection of savings (Law 262/2005) and the consequent inapplicability of the bylaw providing for the Board of Auditors to elect its chairman from among its members, the shareholders' meeting appointed the chairman of the Board of Auditors from among the members elected from the minority list, in the person of Paolo Golia.
   The shareholders' meeting also set the gross annual compensation of each of the members of the Board of Auditors at €128,000 and that of the chairman at €171,000. In addition, it provided for an annual supplement of €20,000 to be paid to the member appointed to the supervisory body referred to in Legislative Decree 231/2001 (Ferdinando Superti Furga).

2. As regards the transparency of transactions involving shares issued by Telecom Italia or other financial instruments linked to them that are carried out directly or through nominees by relevant persons or by persons closely associated with them (internal dealing), the matter is now entirely governed by Consob rules (Article 152-*sexies* et seq. of Consob Regulation 11971/1999 on issuers). It follows that the Code of Conduct on Insider Dealing adopted by the Company in December 2002 ceased to apply as of 1 April 2006.

3. As for compliance with the implementing provisions of the Sarbanes-Oxley Act, work continued in the first half of 2006 on carrying out Project 404, which involves the whole Group and, under the guidance of the related Steering Committee, is intended to equip the Company with the most suitable instruments to ensure timely compliance with the requirements concerning attestations "on internal control over financial reporting" introduced by Section 404 of the Act. Telecom Italia will be subject to these requirements as of its Annual Report for 2006.

4. Following the recent transposition in the 2004 Community Legislation Implementation Law of the Market Abuse Directive, the approval in 2005 of the law on the protection of savings and the introduction in March 2006 of Borsa Italiana's "new" Corporate Governance Code, which the Company has adopted, Telecom Italia has set up a working group to examine and revise some of its corporate governance documents accordingly, including the Bylaws, the Rules of Proceeding for the Shareholders' Meeting, the Self-Regulatory Code, the document setting out the tasks and aims of the Disclosure Committee, and that on the information the governing bodies are to receive on a regular basis. The results of this activity and the implementation of the recommendations of the Corporate Governance Code will be described in detail in the Corporate Governance section of the Annual Report for 2006.

5. On 30 June 2006 Olimpia S.p.A. continued to be the largest shareholder of Telecom Italia S.p.A. with a holding equal to approximately 18% of the ordinary share capital (2,407 million ordinary shares). At the date this report was approved the shareholders of Olimpia S.p.A. were: Pirelli & C. S.p.A. (70.46%), Edizione Finance International S.A. (10.62%), Edizione Holding S.p.A. (9.38%), UniCredito Italiano S.p.A. (4.77%) and Banca Intesa S.p.A. (4.77%).
   In fact on 12 July 2006 Pirelli & C., Edizione Finance International S.A. and Edizione Holding S.p.A. purchased all the Olimpia shares held by Hopa (equal to approximately 16% of the capital).
   According to notices published in the Italian press, at the date of this report the following shareholders' agreements were in place between the shareholders of Olimpia:
   ⇒ agreement between Pirelli & C. S.p.A. (formerly Pirelli S.p.A.) and Edizione Holding S.p.A. – Edizione Finance International S.A., concluded on 7 August 2001 and subsequently amended;
   ⇒ agreement between Pirelli & C. S.p.A. (formerly Pirelli S.p.A.), Unicredito Italiano S.p.A. and Banca Intesa S.p.A., concluded on 14 September 2001 and subsequently amended; this agreement will terminate on 4 October 2006 following the withdrawal of Unicredito Italiano S.p.A. and Banca Intesa S.p.A., as disclosed to the market on 5 April 2006.

   In addition, a notice was published in the Italian press with the complete text of the pre-emption agreement concluded on 12 July 2006 between Olimpia S.p.A. and Holinvest S.p.A. with regard to ordinary shares of Telecom Italia S.p.A.

THE PARENT
TELECOM ITALIA S.P.A.

INTERIM FINANCIAL STATEMENTS AT JUNE 30, 2006 OF TELECOM ITALIA S.P.A.

BALANCE SHEETS

(thousands of euro)	6/30/2006	12/31/2005
ASSETS		
NON-CURRENT ASSETS		
Intangible assets		
Goodwill and other intangible assets with an indefinite life	39,184,082	39,184,082
Intangible assets with a finite life	4,865,621	1,679,516
	44,049,703	40,863,598
Tangible assets		
Property, plant and equipment owned	12,470,893	10,665,535
Assets held under finance leases	1,530,607	1,557,592
	14,001,500	12,223,127
Other non-current assets		
Investments	11,953,820	16,110,069
Securities, financial receivables and other financial assets	455,621	646,744
Miscellaneous receivables and other non-current assets	548,785	1,089,310
	12,958,226	17,846,123
Deferred tax assets	1,435,048	2,398,677
TOTAL NON-CURRENT ASSETS (A)	72,444,477	73,331,525
CURRENT ASSETS		
Inventories	173,841	75,575
Trade receivables, miscellaneous receivables and other current assets	8,001,926	6,699,484
Current tax assets	-	50,961
Investments	80	92
Financial receivables and other current financial assets	186,592	195,848
Cash and cash equivalents	929,166	6,601,126
TOTAL CURRENT ASSETS (B)	9,291,605	13,623,086
TOTAL ASSETS (A+B)	81,736,082	86,954,611
EQUITY AND LIABILITIES		
EQUITY		
- Share capital	10,673,053	10,667,432
- Share capital issued	10,673,753	10,668,132
less: Treasury shares	(700)	(700)
- Reserves	7,971,021	10,759,564
- Retained earnings, including net income for the period	4,908,118	1,100,726
TOTAL EQUITY (C)	23,552,192	22,527,722
NON-CURRENT LIABILITIES		
Non-current financial liabilities	42,056,365	41,139,876
Employee severance indemnities and other employee-related provisions	1,247,444	1,104,479
Deferred tax liabilities	-	-
Provisions for risks and future charges	587,559	392,808
Miscellaneous payables and other non-current liabilities	1,663,599	1,879,864
TOTAL NON-CURRENT LIABILITIES (D)	45,554,967	44,517,027
CURRENT LIABILITIES		
Current financial liabilities	3,281,259	12,868,815
Trade payables, miscellaneous payables and other current liabilities	9,309,362	7,032,139
Current tax liabilities	38,302	8,908
TOTAL CURRENT LIABILITIES (E)	12,628,923	19,909,862
TOTAL LIABILITIES (F=D+E)	58,183,890	64,426,889
TOTAL EQUITY AND LIABILITIES (C+F)	81,736,082	86,954,611

STATEMENTS OF INCOME

(thousands of euro)	1st Half 2006	1st Half 2005
Revenues	10,710,051	8,038,452
Other income	203,490	168,957
Total operating revenues and other income	**10,913,541**	**8,207,409**
Purchases of materials and external services	(4,156,614)	(3,170,253)
Personnel costs	(1,540,757)	(1,335,207)
Other operating expenses	(286,266)	(345,410)
Change in inventories	44,425	16,087
Capitalized internal construction costs	193,314	121,071
OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) OF NON-CURRENT ASSETS	5,167,643	3,493,697
Depreciation and amortization	(1,996,395)	(1,420,553)
Gains (losses) on disposals of non-current assets	129,346	(1,075)
Impairment reversals (losses) on non-current assets	(425)	-
OPERATING INCOME	3,300,169	2,072,069
Financial income	2,402,830	1,611,960
Financial expenses	(1,610,524)	(1,385,666)
INCOME BEFORE TAXES	4,092,475	2,298,363
Income taxes	(956,186)	(463,043)
NET INCOME FOR THE PERIOD	3,136,289	1,835,320

STATEMENT OF CHANGES IN EQUITY IN THE FIRST HALF OF 2005

(thousands of euro)	Share capital	Additional paid-in capital	Reserve for fair value adjustments of hedging instruments	Reserve for fair value adjustments of financial assets available for sale	Other	Retained earnings, including net income for the period	Total
Balance at December 31, 2004 under Italian GAAP	8,864,858	120,381			4,809,448	3,015,876	16,810,563
Adoption of IFRS	(1,516)	(57,827)	(183,575)	55,031	(196,470)	(1,724,221)	(2,108,578)
Balance at December 31, 2004 under IFRS	8,863,342	62,554	(183,575)	55,031	4,612,978	1,291,655	14,701,985
Movements in equity during the period:							
Fair value adjustment of financial assets available for sale:							
Unrealized gains and losses on fair value adjustments				49,922			49,922
Fair value adjustment of hedging instruments:							
Unrealized gains and losses on fair value adjustments of cash flow hedge instruments			69,878				69,878
Gains and losses transferred to the statement of operations			(256,825)				(256,825)
Tax effect			61,693				61,693
Total net gains and losses for the period recognized directly in equity (a)			(125,254)	49,922			(75,332)
Net gains and losses for the period recognized in the statement of operations (b)						1,835,320	1,835,320
Total net gains and losses for the period (a+b)			(125,254)	49,922		1,835,320	1,759,988
Dividends paid						(1,923,237)	(1,923,237)
Conversion of bonds	487,425	1,639,406			(315,305)		1,811,526
Exercise of stock options	5,426	21,913					27,339
Tim Italia merger and tender offer	1,309,631	4,736,014					6,045,645
Other movements	816	2,390			99,877	(95,450)	7,633
Balance at June 30, 2005 under IFRS	10,666,640	6,462,277	(308,829)	104,953	4,397,550	1,108,288	22,430,879

STATEMENT OF CHANGES IN EQUITY IN THE FIRST HALF OF 2006

(thousands of euro)	Share capital	Additional paid-in capital	Reserve for fair value adjustments of hedging instruments	Reserve for fair value adjustments of financial assets available for sale	Other	Retained earnings, including net income for the period	Total
Balance at December 31, 2005 under Italian GAAP	10,668,132	1,669,188			4,756,397	4,874,377	21,968,094
Adoption of IFRS	(700)	4,795,540	(213,367)	107,970	(356,165)	(3,773,650)	559,628
Balance at December 31, 2005 under IFRS	10,667,432	6,464,728	(213,367)	107,970	4,400,232	1,100,727	22,527,722
Application of art. 7 of Legislative Decree 38/2005		(4,795,540)			1,021,890	3,773,650	
Balance at January 1, 2006 under IFRS	10,667,432	1,669,188	(213,367)	107,970	5,422,122 (*)	4,874,377	22,527,722
Movements in equity during the period:							
Fair value adjustment of financial assets available for sale:							
Unrealized gains and losses on fair value adjustments				20,346			20,346
Fair value adjustment of hedging instruments:							
Unrealized gains and losses on fair value adjustments of cash flow hedge instruments			158,858				158,858
Gains and losses transferred to the statement of operations			218,186				218,186
Tax effect			(124,425)	(1,074)			(125,499)
Total net gains and losses for the period recognized directly in equity (a)			252,619	19,272			271,891
Net gains and losses for the period recognized in the statement of operations (b)						3,136,289	3,136,289
Total net gains and losses for the period (a+b)			252,619	19,272		3,136,289	3,408,180
Dividends paid						(2,783,064)	(2,783,064)
Conversion of bonds	5,621	19,235			(3,202)		21,654
Exercise of stock options							
Tim Italia merger					378,574		378,574
Other movements					318,609	(319,483)	(874)
Balance at June 30, 2006 under IFRS	10,673,053	1,688,423	39,252	127,242	6,116,103	4,908,119	23,552,192

(*) At January 1, 2006, Other reserves under IFRS, equal to euro 5,422,122 thousand, include the undistributable reserve ex art. 7, paragraph 7, Legislative Decree 38/2005 equal to euro 578,234 thousand.

STATEMENTS OF CASH FLOWS

(thousands of euro)	1st Half 2006	1st Half 2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income for the period	3,136,289	1,835,320
Adjustments to reconcile net income from continuing operations to cash flows generated by (used in)		
Depreciation and amortization	1,996,395	1,420,553
Impairment (reversals) losses of non-current assets (including investments)	123,799	38,318
Net change in deferred tax assets and liabilities	838,727	442,514
Net realized (gains) losses on disposals of non-current assets (including investments)	(129,342)	8,742
Change in employee severance indemnities and other employee-related provisions	(10,211)	24,362
Change in other operating assets/liabilities:		
Change in inventories	(44,435)	(16,087)
Change in trade receivables and net receivables on construction contracts	(468,458)	36,978
Change in trade payables	(115,247)	(436,724)
Net change in miscellaneous receivables/payables and other assets/liabilities	(304,914)	(12,534)
CASH FLOWS GENERATED BY (USED IN) OPERATING ACTIVITIES (A)	**5,022,603**	**3,341,442**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of intangible assets on an accrual basis	(679,221)	(358,574)
Acquisitions of tangible assets on an accrual basis	(1,015,985)	(940,968)
Total acquisitions of intangible and tangible assets on an accrual basis	(1,695,206)	(1,299,542)
Change in amounts due to fixed asset suppliers	(82,516)	127,028
Total acquisitions of intangible and tangible assets on a cash basis	(1,777,722)	(1,172,514)
Acquisitions of other non-current assets	(459)	(13,847,303)
Acquisitions of investments in subsidiaries and businesses (I)	(90,441)	(728,593)
Acquisition of cash and cash equivalents as a result of the merger with Tim Italia	1,312,932	
Change in financial receivables and other financial assets	222,572	(2,233,136)
Proceeds on sale of investments in subsidiaries (II)	12,378	69,536
Proceeds on the distribution of dividends by Telecom Italia Media	361,654	
Proceeds on sale of tangible, intangible and other non-current assets	302,380	13,899
CASH FLOWS GENERATED BY (USED IN) INVESTING ACTIVITIES (B)	**343,294**	**(17,898,111)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in current financial liabilities	(4,371,179)	1,122,844
Proceeds from non-current financial liabilities (including current portion)	4,148,678	11,382,042
Repayments of non-current financial liabilities (including current portion)	(8,044,860)	(679,794)
Proceeds from equity instruments		27,337
Dividends paid (distribution of reserves included)	(2,782,207)	(1,921,543)
CASH FLOWS GENERATED BY (USED IN) FINANCING ACTIVITIES (C)	**(11,049,568)**	**9,930,886**
AGGREGATE CASH FLOWS (D=A+B+C)	**(5,683,671)**	**(4,625,783)**
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (E)	**5,812,567**	**5,438,244**
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (G=D+E+F)	**128,896**	**812,461**

(I) Net of change in payables following the related acquisition.
(II) Net of change in receivables following the related disposal.

(thousands of euro)	1st Half 2006	1st Half 2005
ADDITIONAL CASH FLOW INFORMATION:		
Income taxes paid	351,509	8,285
Interest expense paid	1,504,050	924,250
Interest income received	242,050	193,980
Dividends received	2,022,780	1,383,767
ANALYSIS OF NET CASH AND CASH EQUIVALENTS:		
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD:		
Cash and cash equivalents	6,601,126	6,007,554
Bank borrowings repayable on demand	(788,559)	(569,310)
	5,812,567	5,438,244
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD:		
Cash and cash equivalents	929,166	1,594,751
Bank borrowings repayable on demand	(800,270)	(782,290)
	128,896	812,461

NOTE 1 – FORM AND CONTENT

The financial statements (balance sheets, statements of operations, statements of changes in equity and the statements of cash flows) have been prepared in accordance with the provisions of art. 81 of the Regulation for Issuers 11971 issued by CONSOB on May 14, 1999, as amended.

Following the coming into force of European Regulation 1606/2002 and the national laws implementing that Regulation, starting from January 1, 2006, Telecom Italia S.p.A. adopted International Financial Reporting Standards (IFRS) in the preparation of its separate financial statements. Accordingly, the interim financial statements of the Parent for the first half ended June 30, 2006 and the comparative financial statements for the year 2005 have been prepared in accordance with IFRS.

NOTE 2 – ACCOUNTING POLICIES

The accounting policies for the preparation of the interim financial statements at June 30, 2006 of Telecom Italia S.p.A. are the same since as those used in the preparation of the interim consolidated financial statements at June 30, 2006, to which reference should be made, except as disclosed below.
The effect of the adoption of IFRS on the published 2005 financial statements prepared in accordance with Italian GAAP are provided in the Appendix.

The accounting policies specifically adopted for the preparation of the separate financial statements of Telecom Italia are as follows:

Investments

Investments in subsidiaries, associates and joint ventures are stated at cost and adjusted by impairment losses. When the conditions that give rise to an impairment loss no longer exist, the carrying amount of the investment is increased up to the original carrying amount at cost. This reversal is recognized as income in the statement of operations.
For investments in other companies, reference should be made to the notes on the interim consolidated financial statements at June 30, 2006.

Dividends

Dividends received are recognized in the statement of operations on the accrual basis, that is, in the year in which the right to receive the dividends arises, following approval of the distribution of the dividends by the holdings.

NOTE 3 –WIRELINE AND MOBILE TELECOMMUNICATIONS INTEGRATION PROCESS

In 2005 and in the first half of 2006, the Company implemented the project for corporate integration begun in December 2004 and approved by the boards of directors of Telecom Italia and TIM. This led to the acquisition of the remaining TIM S.p.A. ordinary and savings shares through a tender offer, TIM share purchases on the market and the subsequent merger of TIM in Telecom Italia S.p.A. with effect on June 30, 2005, as well as the merger of TIM Italia S.A. in Telecom Italia S.p.A. with effect on March 1, 2006.

Such transactions are not explicitly dealt with by IFRS, with particular reference to separate financial statements. In the absence of a Standard or an Interpretation specifically related to a transaction, the Company elected to apply the following accounting policy.

- Tender offer and merger of TIM S.p.A. in Telecom Italia S.p.A.

  The merger of the percentage interest held prior to the tender offer was accounted for at the carrying amount in the separate financial statements at December 31, 2005 prepared in accordance with IFRS since the acquired company is already controlled by the acquiring company and thus the conditions for the application of IFRS 3 (*Business combinations*) do not exist.

  The purchase of the remaining TIM shares, considered as a purchase of a minority interest, is not regulated either by IFRS 3 or any other IFRS and was accounted for at fair value using the parent-entity extension method.

  The merger was recognized on June 30, 2005 and from that date, the assets, liabilities, costs and revenues of TIM were included in the financial statements of Telecom Italia. The dividends received in 2005 and relating to the TIM shares acquired under the tender offer were deducted from the amount of the investment; the remaining dividends represent the earnings to which the Parent is entitled and were recognized in the statement of operations.

  Goodwill on the merger was recognized for euro 39,184,082 thousand (euro 34,307,270 thousand, which is the difference between the carrying amount of TIM shares in portfolio, including those acquired through the tender offer and the additional share purchases, and the share of equity acquired, and euro 4,876,812 thousand, which is the difference between the capital increase to service the share exchange valued at the market price of the new share issue and the share of equity acquired).

- Merger of Tim Italia S.p.A. in Telecom Italia S.p.A.

  The merger was accounted for at the carrying amount in the separate interim financial statements at June 30, 2006 prepared in accordance with IFRS since the acquired company is entirely owned by the acquiring company and therefore the conditions for the application of IFRS 3 (*Business combinations*) do not exist.

  The merger was recognized on March 1, 2006 and from that date, the assets, liabilities, costs and revenues of Tim Italia were included in the financial statements of Telecom Italia. The merger resulted in a cancellation surplus (being the difference between the equity of the acquired company and the carrying amount of Tim Italia in the financial statements of the acquiring company), equal to euro 378,574 thousand, basically represented by Tim Italia’s earnings in January and February 2006. The dividends received in 2006 by Telecom Italia represent the earnings to which the acquiring company is entitled and are recognized in the statement of operations.

NOTE 4 – RECONCILIATION BETWEEN ITALIAN GAAP AND IFRS OF EQUITY AT JUNE 30, 2005 AND NET INCOME FOR THE FIRST HALF OF 2005

The application of IFRS as well as the options elected by Telecom Italia from among the accounting options provided by IFRS (additional information is presented in the Appendix under "Transition to International Financial Reporting Standards (IFRS)" by Telecom Italia S.p.A.) required the restatement of the accounting data for the first half of 2005, prepared in accordance with the previous Italian law, resulting in significant effects, in some cases, on the equity and net income, which can be summarized as follows (before tax):

(in thousands of euro)		Equity June 30, 2005	Net income 1st Half 2005
TOTAL AMOUNTS ACCORDING TO ITALIAN GAAP	(A)	19,427,060	1,351,687
ADJUSTMENTS TO ITEMS OF THE FINANCIAL STATEMENTS ACCORDING TO ITALIAN GAAP:			
1 Derecognition of start-up and expansion costs		(5,771)	5,771
2 Land		94,791	3,158
3 Sale and lease-back of properties		(335,141)	(14,309)
4 Investments in listed companies other than subsidiaries, associates and joint ventures		104,953	-
5 Derivative financial instruments		(482,714)	4,662
6 Bonds (including convertible bonds)		80,522	(14,726)
7 Employee severance indemnities		87,831	21,078
8 Expenses under Law 58/1992		(671,919)	98,820
9 Provisions for risks and future charges		11,476	(1,500)
10 Restoration costs		(46,787)	(4,235)
11 Recognition of revenues		(432,794)	4,677
12 Dividends		0	1,382,278
13 Telecom Italia S.p.A./TIM S.p.A. merger		3,880,522	(1,024,133)
14 Elimination of revaluations of investments, by law		(97,185)	-
15 Impairment of investments		41,912	41,912
Other		(17,863)	17,097
Tax effect on items in reconciliation		791,986	(36,917)
TOTAL ADJUSTMENTS	(B)	3,003,819	483,633
TOTAL AMOUNTS ACCORDING TO IFRS	(C =A+B)	22,430,879	1,835,320

1) derecognition of start-up and expansion costs: in accordance with IFRS, start-up and expansion costs incurred in relation to transactions regarding share capital are directly deducted from the reserves in equity at the date of the transaction; the other start-up and expansion costs are charged to the statement of operations, since the recognition requirements for their recognition as an intangible assets have not been met, are charged to the statement of operations. The impact of this different accounting treatment is the

following: a decrease in *equity* at June 30, 2005 of euro 5,771 thousand before a positive tax effect of euro 2,164 thousand and an increase in *pre-tax income* for the first half of 2005 of euro 5,771 thousand due to the derecognition, before the relevant negative tax effect of euro 2,164 thousand.

2) land: in accordance with Italian GAAP, land appurtenant pertaining to buildings is depreciated together with the same buildings, while in accordance with IFRS land must be classified separately and no longer depreciated. The impact of this different accounting treatment is as follows: an increase in *equity* at June 30, 2005 of euro 94,791 thousand, before a negative tax effect of euro 35,536 thousand, including the increase in *pre-tax income* for the first half of 2005 of euro 3,158 thousand, before the relative negative tax effect of euro 1,177 thousand. Such effects are due to the derecognition of accumulated depreciation on land and the depreciation charge for the first half.

3) sale and leaseback of properties: some transactions for the sale of properties carried out by Telecom Italia in prior years were recorded in accordance with the finance method provided by IAS 17 in that the present value of the contractually provided payments approximates the fair value of the properties under lease. Accordingly, in the balance sheet, the assets sold and leased back are recognized in the assets and the residual payable is recorded in liabilities; in the statement of operations, the depreciation charge and interest expense are recorded, instead of the lease payments, while the gain realized at the time of sale is deferred over the period of the contract. The application of this method has the following impact: a decrease in *equity* at June 30, 2005 of euro 335,141 thousand, before a positive tax effect of euro 87,006 thousand. Such effect was due to an increase in tangible assets (buildings) of euro 1,282,638 thousand, an increase in financial payables of euro 1,603,470 thousand and a decrease in *pre-tax income* for the first half of 2005 equal to euro 14,309 thousand, before a positive tax effect of euro 5,436 thousand. The latter decrease is due to higher depreciation (euro 39,861 thousand) and higher financial expenses (euro 63,742 thousand), partly compensated by lower operating costs as a result of the reversal of lease payments (euro 89,294 thousand).

4) investments in listed companies other than subsidiaries, associates and joint ventures: these investments are classified as assets available for sale and measured at fair value in accordance with IAS 39 (*Financial instruments: recognition and measurement*). The application of this standard at June 30, 2005 resulted in an increase in *equity* of euro 104,953 thousand after the measurement of the investment in Mediobanca at the market price.

5) derivative financial instruments: under Italian GAAP, derivative financial instruments are normally presented as “off-balance sheet” items, whereas under IAS 39, it is mandatory to record derivative financial instruments in the financial statements at fair value. The impact of the adoption of this principle is the following: a decrease in *equity* at June 30, 2005of euro 482,714 thousand, before a positive tax effect of euro 159,297 thousand, including a positive impact on *pre-tax income* for the first half of 2005 equal to euro 4,662 thousand, before the negative tax effect of euro 1,538 thousand.

6) bonds (including convertible bonds): in accordance with Italian GAAP, bonds (including convertible bonds) are recorded at the residual nominal amount (principal); moreover, any issue premiums or discounts, as well as issue expenses, are deferred and amortized over the bond period.
Under IFRS, bonds (without implicit derivatives) are stated in accordance with the amortized cost method, that is, at the initial amount (fair value) net of repayments of principal already made, adjusted by the amortization (at the effective interest rate) of any differences (such as premiums/discounts, issue expenses and repayment premiums) between the initial amount and the amount repayable at maturity. Instead, t, whereas the amount of compound financial

instruments (convertible bonds), under IFRS, should be allocated between the liability component and the implicit derivative financial instrument component. In particular, for convertible bonds, the amount of the liability component is the present value of future cash flows based on the market interest rate at the time of issue with reference to instruments having the same characteristics but without the option, whereas the amount of the option is determined as the difference between the net amount received and the amount of the liability component and is recorded as a specific component of equity. These recording methods have the following impact: an increase in *equity* of euro 80,522 thousand at June 30, 2005 (before a negative tax effect equal to euro 26,889 thousand) referring to “Telecom Italia 2001 – 2010” bonds for euro 77,362 thousand; this increase takes into account a decrease in *pre-tax income* for the first half of 2005 of euro 14,726 thousand, before a positive tax effect of euro 4,859 thousand.

7) employee severance indemnities: Italian GAAP require recognition of the liability for employee severance indemnities (TFR) based on the nominal liability matured to the end of the reporting period, in accordance with the statutory regulations in force. Under IFRS, TFR falls under the category of defined benefit plans subject to actuarial valuation (taking into account mortality, foreseeable changes in salaries/wages, etc.) to express the present value of the benefit, payable upon termination of employment, that employees have matured up to the balance sheet date. Furthermore, all actuarial gains and losses are recognized in the statement of operations. The impact of this different accounting treatment is as follows: an increase in *equity* at June 30, 2005 of euro 87,831 thousand, before a negative tax effect of euro 28,976 thousand, including the increase in *pre-tax income* for the first half of 205 of euro 21,078 thousand, before a negative tax effect of euro 6,955 thousand.

8) expenses under Law 58/1992: these expenses relating to Law 58/1992 (principal and interest) were recorded in income on a cash basis in the statutory financial statements under Italian GAAP except for the residual principal relating to former Iritel employees which had already been recorded in the financial statements on the basis of the estimate referring to former ASST staff which the specific Ministerial Commission formed under Law 58/1992 had made when the assets conferred by Amministrazione P.T. to Iritel were valued and which Iritel had recorded in the financial statements at December 31, 1993.
Under IFRS, such expenses are recorded on the accrual basis both with respect to the principal (relating to employees of the former companies of the Stet Group and the former Iritel) and interest. The impact of this different accounting treatment is as follows: a decrease in *equity* at June 30, 2005 of euro 671,919 thousand, before a positive tax effect of euro 221,747 thousand, due to the recognition of the remaining liability for principal referring to the employees of the companies of the former Stet Group and for the accrual of the portion of interest due up to January 1, 2005; this decrease is partly compensated by *pre-tax income* for the first half of 2005 of euro 98,820 thousand, before a negative tax effect of euro 32,571 thousand, due to the reversal of the expenses recorded in the statement of operations and paid on June 30, 2005 which are in part compensated by the accrual for interest.

9) provisions for risks and future charges: the recognition of these liabilities, in accordance with IFRS, is subject to the existence of specific objective conditions and the discounting of the amounts that are expected to will presumably be paid beyond 12 months. The impact of this different accounting treatment is an increase in *equity* at June 30, 2005 of euro 11,476 thousand, before a negative tax effect of euro 3,787 thousand, as a result of discounting the provisions to present value, partly compensated by the decrease in *pre-tax income* for the first half of 2005 equal to euro 1,500 thousand, before a positive tax effect of euro 495 thousand, due to the release to income following the discounting of the provisions to present value.

10) restoration costs: under IFRS, the initial cost of tangible assets also includes the expected costs for decommissioning the fixed asset and restoring the site. The corresponding liability is

recognized at fair value in the period in which it arises in a balance sheet provision in liabilities under Provisions for risks and future charges, at fair value, with a contra-entry to the Tangible assets with which it is associated; the capitalized cost is recognized as an expense in the statement of operations through the depreciation of the related Tangible assets over their useful lives. The impact of the application of this accounting treatment is the following: a decrease in *equity* at June 30, 2005 of euro 46,787 thousand, before a positive tax effect of euro 17,545 thousand including a decrease in *pre-tax income* for the first half of 2005 of euro 4,235 thousand, before a positive tax effect of euro 1,588 thousand.

11) recognition of revenues: revenues from the activation of telephone services and from recharging prepaid cards, as well as the related costs, are deferred over the expected duration of the relationship with the customer, (generally 8 years for retail customers and 3 years for wholesale customers). The adoption of this method has the following impact, for IFRS purposes: a decrease in *equity* at June 30, 2005 of euro 432,794 thousand, before a positive tax effect of euro 162,298 thousand, including an increase in *pre-tax income* for the first half of 2005 of euro 4,677 thousand, before a negative tax effect of euro 1,754 thousand.

12) dividends: under Italian GAAP, dividends from subsidiaries are recorded on the basis of the maturity principal, that is, in the year in which the earnings from which the dividends are distributed are reported by the subsidiaries. There must also be the certainty, from a substantive standpoint, of their distribution and, in any case, when the shareholders' resolution for their distribution or the appropriation of net income expressed in the draft financial statements prepared by the Directors of those subsidiaries occurs prior to the board meeting which approved the draft financial statements of the Parent. Under IFRS, dividends are recognized when the shareholders acquire the right to receive the dividends. The impact of the application of this accounting treatment under IFRS is as follows: an increase in *pre-tax income* for the first half of 2005 of euro 1,382,278 thousand following the recording of dividends on the accrual basis which had already been recorded under the maturity principle in 2004 in accordance Italian GAAP. The impact on *equity* is nil since the decrease in equity at January 1, 2005 of euro 1,382,278 thousand as a result of the reversal of the dividends from subsidiaries recorded under the maturity principle in 2004 is offset by the above increase in pre-tax income for the first half of 2005.

13) Telecom Italia S.p.A./TIM S.p.A. merger: the Telecom Italia/TIM merger transaction, approved by the extraordinary shareholders' meetings of TIM and Telecom Italia, respectively, on April 5, and 7, 2005, was signed on June 20, 2005 with effect on June 30, 2005. The merger is effective for accounting purposes (under Italian GAAP) as from January 1, 2005. On February 24, 2005, TIM S.p.A. proceeded to spin-off the corporate operations of the domestic mobile communications business in Italy to TIM Italia S.p.A., a wholly-owned subsidiary of TIM; the spin-off was effected by a TIM Italia capital increase against the conferral of the corporate operations with effect on March 1, 2005.
Under Italian GAAP, this merger transaction was accounted for on the basis of the carrying amounts; this treatment resulted in both a *cancellation deficit* of euro 35,461,632 thousand (being the difference between the carrying amount of the TIM shares in portfolio, inclusive of those purchased through the tender offer and the additional purchases, and the share of TIM's net equity acquired) and an *exchange deficit* of euro 163,696 thousand (being the difference between the capital increase to service the share exchange valued at the par value of the new share issue and the share of TIM's net equity acquired). The *cancellation deficit* was allocated as an increase to the carrying amount of the investments in TIM Italia (euro 35,048,711 thousand) and TIM International (euro 412,921 thousand), while the *exchange deficit* was allocated as a reduction of the reserves in shareholders' equity (merger surplus reserve).
Under IFRS, the Telecom Italia/TIM merger became effective for accounting purposes on June 30, 2005 and the percentage interest held prior to the tender offer was accounted for at the

carrying amount since the acquired company is already controlled by the acquiring company and thus the conditions for the application of IFRS 3 (*Business combinations*) do not exist. The acquisition of the remaining TIM shares under the tender offer, the share purchased on the market and the merger, considered as a purchase of minority stakes, not regulated either by IFRS 3 or any other IFRS, was accounted for at fair value under the parent-entity extension method. As a result, goodwill was recognized on the difference between the fair value of the shares acquired and the new share issue and the share of equity acquired. The impact of this treatment is as follows: an increase in equity at June 30, 2005 of euro 3,875,577 thousand mainly due to the fair value measurement of the shares issued on the exchange (euro 4,768,387 thousand) and the elimination of the exchange deficit (euro 163,696 thousand), partly compensated by decrease in the pre-tax income for the first half of 2005 (euro 1,024,133 thousand). The latter is principally due to the elimination of the pre-tax income for the first half of TIM S.p.A., equal to euro 417,705 thousand, and the reversal of dividends on TIM shares acquired in the tender offer, euro 715,995 thousand;

14) elimination of revaluations of investments, by law: under IFRS, the investments in subsidiaries, associates and joint ventures can be valued, in the separate financial statements, at cost or, in conformity with IAS 39, at fair value. In the statutory financial statements prior to the transition date to IFRS, Telecom Italia revalued certain investments as allowed by special laws, the residual amount of which, since Telecom Italia adopted the cost method for IFRS purposes, was eliminated against an entry to a reserve under equity. This treatment has the effect of a decrease in *equity* at June 30, 2005, equal to euro 97,185 thousand;

15) impairment of investments: the application of IAS 36 required a lower writedown of the investment in the subsidiary Telecom Italia Finance resulting in an increase in *equity* at June 30, 2005 and *pre-tax income* for the first half of 2005 of euro 41,912 thousand.

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Auditors' review report on the First Half 2006 Report prepared in accordance with Article 81 of the Consob Regulation, adopted by the Resolution No. 11971 of May 14, 1999 and subsequent modifications and integrations

(Translation from the original Italian text)

To the Shareholders of
Telecom Italia S.p.A.

1. We have reviewed the interim consolidated financial statements represented by the balance sheets, the statements of income, the statements of changes in equity and the statements of cash flows (the "Statements") and related notes included in the First Half 2006 Report of Telecom Italia S.p.A. as of and for the six months ended June 30, 2006. The First Half 2006 Report is the responsibility of the Directors of Telecom Italia S.p.A.. Our responsibility is to prepare this review report based on our review. We have, also, verified only the consistency of the information included in managements' report on operations with the financial information included in the above mentioned Statements and related notes.

2. Our review was conducted in accordance with auditing standards governing the review of interim financial statements recommended by Consob (the Italian Stock Exchange Regulatory Agency) in its Resolution No. 10867 of July 31, 1997. A review consists mainly of obtaining information with respect to the account balances included in the financial statements and the consistency of the accounting principles applied, through discussions with appropriate members of management and analytical procedures applied to the financial data presented in such Statements. The review did not include audit procedures such as tests of compliance of internal controls and substantive procedures on assets and liabilities, and the scope of our review engagement provides significantly less assurance than a full scope audit performed in accordance with generally accepted auditing standards. Accordingly, unlike the opinion issued in connection with our full scope audit of the annual consolidated financial statements, we do not express an audit opinion on the First Half 2006 Report of Telecom Italia S.p.A. as of and for the six months ended June 30, 2006.

3. With respect to the consolidated comparative data as of and for the year ended December 31, 2005 and for the six month period ended June 30, 2005 presented in the First Half 2006 Report, reference should be made to our reports issued on March 22, 2006 and on September 12, 2005, respectively.

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4. Based on our review, we are not aware of any significant modifications that should be made to the Statements and related notes identified in paragraph 1. of this report, in order for them to be in conformity with International Accounting Standard No. 34 and with the criteria for the preparation of the First Half 2006 Report required by art. 81 of Consob Regulation as adopted in its Resolution No. 11971 of May 14, 1999 and subsequent modifications and integrations.

Milan, Italy
September 12, 2006

Reconta Ernst & Young S.p.A.
Signed by Nadia Locati, Partner

APPENDIX

Transition to International Financial Reporting Standards (IFRS) by Telecom Italia S.p.A.

Until 2005, Telecom Italia S.p.A. prepared its annual statutory financial statements and first-half report in accordance with Italian accounting principles (Italian GAAP). Beginning from the year 2006, as set forth by law, Telecom Italia S.p.A. prepares its six-month financial statements and separate annual financial statements in accordance with IFRS.

Having said this and given CONSOB Communication DEM/6064313 dated July 28, 2006 (Guidelines regarding the 2006 first-half financial statements prepared in accordance with international standards), the information required by IFRS 1 (First-time Adoption of International Financial Reporting Standards) is presented herein.

Such information regards the impact that the conversion to International Financial Reporting Standards (IFRS) has on equity at January 1, 2005 and at December 31, 2005 and on net income for the year 2005 of Telecom Italia S.p.A..

The notes describe the basis of transition for the first-time application of IFRS (IFRS 1) and the other IFRS elected, including the assumptions made by the directors on the IFRS standards and interpretations in force.

As described in greater detail in the following paragraphs, the balance sheets prepared in accordance with IFRS at January 1, 2005 and at December 31, 2005 and the statement of operation prepared in accordance with IFRS for the year 2005 have been derived from data, prepared in accordance with the provisions of Italian law, to which appropriate adjustments and reclassifications have been made to reflect the changes in the presentation, recognition and measurement required by IFRS.

Since the adoption of IFRS for the preparation the 2005 consolidated financial statements required the transition to the new standards as at January 1, 2004, as a result of that conversion, Telecom Italia S.p.A. has recognized the assets and liabilities in its separate financial statements at the same amounts used in the consolidated financial statements, except for items that were adjusted on consolidation.

Consequently, reconciliations between Italian GAAP and IFRS have been prepared, together with the relative notes, for equity at January 1, 2005 (date of transition to IFRS for the separate financial statements) and at December 31, 2005 and for net income for the year 2005.

The reconciliations as well as the balance sheet and statement of operations, since they were prepared solely for purposes of the transition to the first complete separate financial statements prepared in accordance with IFRS and endorsed by the European Union (annual statutory financial statements at December 31, 2006) do not present the comparative data and the necessary explanatory notes which would be required to reliably represent the financial condition and results of operations of the Parent, Telecom Italia S.p.A. in conformity with IFRS.

The effects of the transition to IFRS are the result of changes in accounting principles and, consequently, are reflected in the opening equity at January 1, 2005. In the transition to IFRS, the estimates previously formulated in accordance with Italian GAAP have been maintained, unless the adoption of IFRS has required the calculation of estimates in accordance with different methods.

New versions or interpretations of IFRS could be issued before publication of the separate financial statements of Telecom Italia S.p.A. at December 31, 2006. Such circumstance could therefore produce effects on the balance sheets at January 1, 2005 and at December 31, 2005 and on the statement of operations for the year 2005 that have been restated in accordance with IFRS.

RULES FOR THE FIRST-TIME ADOPTION, ACCOUNTING OPTIONS ELECTED IN THE IFRS FIRST-TIME ADOPTION AND IFRS ELECTED BY TELECOM ITALIA S.P.A.

The restatement of the balance sheet at January 1, 2005 and the separate financial statements for the year ended December 31, 2005 has also required Telecom Italia S.p.A. to elect the following options among those provided by IFRS:

- financial statement presentation: the "current/non-current" classification has been adopted for the balance sheet, which is generally applied by industrial and commercial enterprises, while the classification of expenses by nature has been elected for the statement of operations. This has required the reclassification of the historical financial statements prepared in accordance with the formats provided by Legislative Decree 127/1991.
  As for the statement of cash flows, in the financial statements at December 31, 2005 prepared in accordance with Italian GAAP, this statement had already been prepared in accordance with IAS 7 which tends to show the ability of the company to generate "cash and cash equivalents". Under this method, all cash equivalents represent short-term highly-liquid financial investments readily convertible to a known amount of cash and subject to an insignificant risk of a change in value. Therefore, only financial investments with maturities of three months or less from the date of purchase are generally classified as cash equivalents. Financial investments in equities are not considered cash equivalents. Bank overdrafts are generally considered financing activities unless they are repayable on demand and form an integral part of an enterprise's cash management activities, in which case they are classified as a deduction of cash equivalents.
  Furthermore, Telecom Italia S.p.A. uses the indirect method to report cash flows from operating activities. According to this method, the net income for the year is adjusted by the effects of non-cash items, such as depreciation and amortization, changes in receivables and payables, etc.;

- optional exemptions provided by IFRS 1 upon first-time application of IFRS:

  - valuation of property, plant and equipment and intangible assets at fair value or, alternatively, at revalued cost as the deemed cost: for certain categories of property, plant and equipment, revalued cost has been adopted instead of cost;

  - share-based payments: the Company has chosen to apply the exemptions allowed in IFRS 1, paragraph 25 B, and has therefore not applied IFRS 2 to stock options plans granted before November 7, 2002, partly in view of the fact that there were no changes in the terms and conditions of those plans;

  - business combinations: for the first-time application of IFRS to any business combination, the purchase method set out in IFRS 3 has been applied prospectively beginning from January 1, 2004;

  - classification and measurement of financial instruments: IAS 32 (Financial Instruments: Disclosures and Presentation) and IAS 39 (Financial Instruments: Recognition and Measurement), have been adopted earlier, as allowed, on January 1, 2004;

- **designation date of financial instruments as instruments at fair value through profit or loss or as available for sale**: as allowed by IFRS 1, the designation of financial instruments as a financial asset "at fair value through profit or loss" or "available for sale" has been carried out at January 1, 2004 instead of at the date of initial recognition provided by IAS 39;

- **derecognition of financial assets and liabilities**: in accordance with IFRS 1, if certain non-derivative financial assets and/or liabilities pertaining to transactions that occurred before January 1, 2004 have been derecognized in accordance with previous accounting policies, those assets and/or liabilities do not have to be recognized (and therefore re-recognized in the financial statements) in accordance with IAS 39, except in cases in which the information needed to apply IAS 39 to assets and/or liabilities derecognized as a result of past transactions was available at the time of initially accounting for those transactions. Telecom Italia has taken advantage of such option and has applied the "derecognition of non-derivative financial assets/liabilities" prospectively from January 1, 2003;

- **accounting treatments elected from among the accounting options provided by IFRS**:

  - ✓ **inventories**: in accordance with IAS 2, the cost of inventories should be determined by using the FIFO method or the weighted average cost method. Telecom Italia has elected to use the weighted average cost method for each movement;

  - ✓ **valuation of tangible assets and intangible assets**: subsequent to the initial recording at cost, IAS 16 and IAS 38 provide that these assets may be valued at cost (and depreciated/amortized) or at fair value. Telecom Italia has elected to adopt the cost method;

  - ✓ **borrowing costs**: for the purposes of recording borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset, IAS 23 provides that an entity may apply the benchmark accounting treatment, which provides for the immediate expensing of borrowing costs, or the allowed alternative accounting treatment, which provides, in the presence of certain conditions, for the capitalization of borrowing costs. Telecom Italia has elected to record borrowing costs in the statement of operations;

  - ✓ **valuation of investments in subsidiaries, associates and joint ventures in the separate financial statements**: in accordance with IFRS, such investments must be valued in the separate financial statements at cost or as set forth in IAS 39 at fair value. Telecom Italia has elected to adopt the cost method.

RECONCILIATION BETWEEN ITALIAN GAAP AND IFRS OF EQUITY AT JANUARY 1, 2005 AND DECEMBER 31, 2005 AND NET INCOME FOR THE YEAR 2005

The differences arising from the application of IFRS compared to Italian GAAP as well as the options elected by Telecom Italia from among the accounting options provided by IFRS described above, thus require a restatement of the accounting data prepared in accordance with the previous Italian law on financial statements, resulting in significant effects, in some cases, on the equity and the net income, which can be summarized as follows (before tax):

(in thousands of euro)

		Equity January 1, 2005	Equity December 31, 2005	Net income year 2005
TOTAL AMOUNTS ACCORDING TO ITALIAN GAAP	(A)	16,810,562	21,968,095	3,884,821
ADJUSTMENTS TO ITEMS OF THE FINANCIAL STATEMENTS ACCORDING TO ITALIAN GAAP:				
1 Derecognition of start-up and expansion costs		(11,542)	-	11,542
2 Land		91,633	83,110	(35,524)
3 Sale and lease-back of properties		(320,832)	(360,667)	(39,835)
4 Investments in listed companies other than subsidiaries, associates and joint ventures		55,031	113,989	-
5 Derivative financial instruments		(300,429)	(374,079)	(29,185)
6 Bonds (including convertible bonds)		394,323	76,860	(18,377)
7 Employee severance indemnities		66,753	84,997	18,244
8 Expenses under Law 58/1992		(770,739)	(678,493)	92,246
9 Provisions for risks and future charges		12,976	10,510	(2,466)
10 Restoration costs		(42,552)	(78,021)	(8,469)
11 Recognition of revenues		(437,471)	(417,742)	19,729
12 Dividends		(1,382,278)	(2,142,269)	(759,991)
13 Telecom Italia S.p.A./TIM S.p.A. merger		-	3,875,577	(1,024,133)
14 Elimination of revaluations of investments, by law		(97,185)	(97,185)	-
15 Impairment of investments		-	(104,951)	(104,951)
Other		(42,589)	21,034	75,322
Tax effect on items in reconciliation		676,324	546,957	(245,390)
TOTAL ADJUSTMENTS	(B)	(2,108,577)	559,627	(2,051,238)
TOTAL AMOUNTS ACCORDING TO IFRS	(C =A+B)	14,701,985	22,527,722	1,833,583

A commentary is presented here on the principal IFRS adjustments made to the Italian GAAP amounts:

1) derecognition of start-up and expansion costs: in accordance with IFRS, start-up and expansion costs incurred in relation to transactions regarding share capital are directly deducted from the reserves in equity at the date of the transaction; other start-up and expansion costs are charged to the statement of operations, since the recognition requirements for an intangible asset have not been met. The impact of this different accounting treatment is the following:
   - *at January 1, 2005*: a decrease in equity of euro 11,542 thousand before a positive tax effect of euro 4,318 thousand;
   - *at December 31, 2005*: an increase in pre-tax income of euro 11,542 thousand due to the effect of the reversal of amortization, before the relative negative tax effect of euro 4,328 thousand.

2) land: in accordance with Italian GAAP, land pertaining to buildings is depreciated together with the same buildings, while in accordance with IFRS land must be classified separately and no longer depreciated. The impact of this different accounting treatment is as follows:

- *at January 1, 2005*: an increase in equity of euro 91,633 thousand, before the negative tax effect of euro 34,359 thousand, determined by the derecognition of accumulated depreciation on land;
- *at December 31, 2005*: an increase in equity of euro 83,110 thousand, before a negative tax effect of euro 30,876 thousand. The income for the year 2005 decreases by euro 35,524 thousand, before the positive tax effect of euro 13,541 thousand, due to lower gains in connection with the sale of buildings to the subsidiary Olivetti Multiservices, partly compensated by the reversal of the depreciation charge for the year.

3) sale and leaseback of properties: some transactions for the sale of properties carried out by Telecom Italia in prior years were recorded in accordance with the finance method provided by IAS 17 in that the present value of the contractually provided payments approximates the fair value of the properties under lease. Accordingly, in the balance sheet, the assets sold and leased back are recognized in the assets and the residual payable is recorded in liabilities; in the statement of operations, the depreciation charge and interest expense are recorded, instead of the lease payments, while the gain realized at the time of sale is deferred over the period of the contract. The application of this method has the following impact:
   - *at January 1, 2005*: a decrease in equity of euro 320,832 thousand, before a positive tax effect of euro 81,570 thousand. Such effect was due to an increase in tangible assets (buildings) of euro 1,282,638 thousand and an increase in financial payables of euro 1,603,470 thousand;
   - *at December 31, 2005*: a decrease in equity of euro 360,667 thousand, before a positive tax effect of euro 96,997 thousand, which takes into account the decrease in equity at January 1, 2005 and the decrease in income for the year 2005, equal to euro 39,835 thousand; the latter decrease is due to higher depreciation (euro 79,722 thousand) and higher financial expenses (euro 150,275 thousand), partly compensated by lower operating costs as a result of the reversal of lease payments (euro 190,162 thousand).

4) investments in listed companies other than subsidiaries, associates and joint ventures: these investments are classified as assets available for sale and measured at fair value in accordance with IAS 39 (*Financial instruments: recognition and measurement*). The application of this standard has the following impact:
   - *at January 1, 2005:* an increase in equity of euro 55,031 thousand following the measurement of the investment in Mediobanca at the market price;
   - *at December 31, 2005:* an increase in equity of euro 113,989 thousand following the measurement of the investment in Mediobanca at the market price, before the negative tax effect of euro 6,019 thousand;

5) derivative financial instruments: under Italian GAAP, derivative financial instruments are normally presented as “off-balance sheet” items, whereas under IAS 39, it is mandatory to record derivative financial instruments in the financial statements at fair value.
   The recognition of derivative financial instruments at fair value in the financial statements has the following impact:
   - *at January 1, 2005:* a decrease in equity of euro 300,429 thousand, before a positive tax effect of euro 99,142 thousand;
   - *at December 31, 2005:* a decrease in equity of euro 374,079 thousand, before a positive tax effect of euro 123,446 thousand; this decrease also reflects the negative impact of euro 29,185 thousand on pre-tax income, before a positive tax effect of euro 9,631 thousand;

6) **bonds (including convertible bonds)**: in accordance with Italian GAAP, bonds (including convertible bonds) are recorded at the residual nominal amount (principal); any issue premiums or discounts, as well as issue expenses, are deferred and amortized over the bond period.
   Under IFRS, bonds (without implicit derivatives) are stated in accordance with the amortized cost method, that is, at the initial amount (fair value) net of repayments of principal already made, adjusted by the amortization (at the effective interest rate) of any differences (such as premiums/discounts, issue expenses and repayment premiums) between the initial amount and the amount repayable at maturity. Instead, the amount of compound financial instruments (convertible bonds), under IFRS, should be allocated between the liability component and the implicit derivative financial instrument component. In particular, for convertible bonds, the amount of the liability component is the present value of future cash flows based on the market interest rate at the time of issue with reference to instruments having the same characteristics but without the option, whereas the amount of the option is determined as the difference between the net amount received and the amount of the liability component and is recorded as a specific component of equity.
   These recording methods have the following impact:
   - *at January 1, 2005*: an increase in equity of euro 394,323 thousand, before a negative tax effect of euro 130,127 thousand, almost entirely referring to "Telecom Italia 2001 – 2010" convertible bonds;
   - *at December 31, 2005:* an increase in equity of euro 76,860 thousand before a negative tax effect of euro 25,365 thousand relating to "Telecom Italia 2001 – 2010" convertible bonds for euro 71,011 thousand; this increase in equity takes into account a decrease in pre-tax income of euro 18,377 thousand before a positive tax effect of euro 6,063 thousand.

7) **employee severance indemnities**: Italian GAAP require recognition of the liability for employee severance indemnities (TFR) based on the nominal liability matured to the end of the reporting period, in accordance with statutory regulations. Under IFRS, TFR falls under the category of defined benefit plans subject to actuarial valuation (taking into account mortality, foreseeable changes in salaries/wages, etc.) to express the present value of the benefit, payable upon termination of employment, that employees have matured up to the balance sheet date. Furthermore, all actuarial gains and losses are recognized in the statement of operations. The impact of this different accounting treatment is as follows:
   - *at January 1, 2005*: an increase in equity of euro 66,753 thousand, before a negative tax effect of euro 22,021 thousand;
   - *at December 31, 2005*: an increase in equity of euro 84,997 thousand, before a negative tax effect of euro 28,041 thousand, due to the corresponding decrease in the amount of the provision for employee severance indemnities; pre-tax income for the year 2005 increases by euro 18,244 thousand, before a negative tax effect of euro 6,020 thousand, as a result of lower accruals to the provision for employee severance indemnities.

8) **expenses under Law 58/1992:** these expenses relating to Law 58/1992 (principal and interest) were recorded in income on a cash basis in the statutory financial statements under Italian GAAP except for the residual principal relating to former Iritel employees which had already been recorded in the financial statements on the basis of the estimate referring to former ASST staff which the specific Ministerial Commission formed under Law 58/1992 had made when the assets conferred by Amministrazione P.T. to Iritel were valued and which Iritel had recorded in the financial statements at December 31, 1993.

Under IFRS, such expenses are recorded on the accrual basis both with respect to the principal (relating to employees of the former companies of the Stet Group and the former Iritel) and interest. The impact of this different accounting treatment is as follows:

- *at January 1, 2005*: a decrease in equity of euro 770,739 thousand, before a positive tax effect of euro 254,322 thousand, following the recognition of the remaining liability for principal referring to the employees of the companies of the former Stet Group and for the accrual of the portion of interest due up to January 1, 2005;
- *at December 31, 2005*: a decrease in equity of euro 678,493 thousand, before a positive tax effect of euro 223,882 thousand, as a result of the above decrease in equity at January 1, 2005, partly compensated by the increase in pre-tax income for the year 2005 equal to euro 92,246 thousand. This increase is due to the reversal of the expenses recorded in the statement of operations and paid in 2005 which are in part compensated by the accrual for interest.

9) provisions for risks and future charges: the recognition of these liabilities, in accordance with IFRS, is subject to the existence of specific objective conditions and the discounting of the amounts that are expected to be paid beyond 12 months. Such impact can be summarized as follows:

- *at January 1, 2005:* an increase in equity of euro 12,976 thousand, before a negative tax effect of euro 4,282 thousand, as a result of discounting the provisions to present value;
- *at December 31, 2005:* an increase in equity of euro 10,510 thousand, before a negative tax effect of euro 3,468 thousand, due to the above increase in equity at January 1, 2005, partly compensated by the decrease in pre-tax income for 2005 equal to euro 2,466 thousand (due to the release to income following the discounting of the provisions to present value) before a positive tax effect of euro 814 thousand.

10) restoration costs: under IFRS, the initial cost of tangible assets also includes the expected costs for decommissioning the fixed asset and restoring the site. The corresponding liability is recognized at fair value in the period in which it arises in a balance sheet provision under Provisions for risks and future charges, with a contra-entry to the Tangible assets with which it is associated; the capitalized cost is recognized as an expense in the statement of operations through the depreciation of the related Tangible assets over their useful lives. The impact of the application of this accounting treatment is the following:

- *at January 1, 2005*: a decrease in equity of euro 42,552 thousand, before a positive tax effect of euro 15,957 thousand;
- *at December 31, 2005*: a decrease in equity of euro 78,021 thousand, before a positive tax effect of euro 29,143 thousand; pre-tax income for the year 2005 decreases by 8,469 thousand, before the relative positive tax effect of euro 3,128 thousand, due to higher depreciation.

11) recognition of revenues: revenues from the activation of telephone services and from recharging prepaid cards, as well as the related costs, are deferred over the expected duration of the relationship with the customer, (generally 8 years for retail customers and 3 years for wholesale customers). The adoption of this method has the following impact, for IFRS purposes:

- *at January 1, 2005*: a decrease in equity of euro 437,471 thousand, before a positive tax effect of euro 164,052 thousand;
- *at December 31, 2005*: a decrease in equity of euro 417,742 thousand, before a positive tax effect of euro 156,654 thousand; pre-tax income for the year 2005 increases by euro 19,729 thousand, before a negative tax effect of euro 7,398 thousand.

12) **dividends:** under Italian GAAP, dividends from subsidiaries are recorded on the basis of the maturity principal, that is, in the year in which the earnings from which the dividends are distributed are reported by the subsidiaries. There must also be the certainty, from a substantive standpoint, of their distribution and, in any case, when the shareholders' resolution for their distribution or the appropriation of net income expressed in the draft financial statements prepared by the Directors of those subsidiaries occurs prior to the board meeting which approved the draft financial statements of the Parent. Under IFRS, dividends are recognized when the shareholders acquire the right to receive the dividends. The impact of the application of this accounting treatment under IFRS is as follows:
   - *at January 1, 2005:* a decrease in equity of euro 1,382,278 thousand following the elimination of the dividends from subsidiaries accrued under the maturity principle in the year 2004;
   - *at December 31, 2005:* a decrease in equity of euro 2,142,269 thousand following the elimination under IFRS of the dividends from subsidiaries already accrued under the maturity principle in 2005 in accordance with Italian GAAP; pre-tax income for 2005 decreases by euro 759,991 thousand which is the balance between the elimination of the dividends recorded under the maturity principle in 2005 and the recording of dividends from subsidiaries under the accrual principle, that had already been recorded in 2004 under the maturity principle in accordance with Italian GAAP.

13) **Telecom Italia S.p.A./TIM S.p.A. merger:** the Telecom Italia/TIM merger transaction, approved by the extraordinary shareholders' meetings of TIM and Telecom Italia, respectively, on April 5, and 7, 2005, was signed on June 20, 2005 with effect on June 30, 2005. The merger is effective for accounting purposes (under Italian GAAP) as from January 1, 2005. On February 24, 2005, TIM S.p.A. proceeded to spin-off the corporate operations of the domestic mobile communications business in Italy to TIM Italia S.p.A., a wholly-owned subsidiary of TIM; the spin-off was effected by a TIM Italia capital increase against the conferral of the corporate operations with effect on March 1, 2005.
   Under Italian GAAP, this merger transaction was accounted for on the basis of the carrying amounts; this treatment resulted in both a cancellation deficit of euro 35,461,632 thousand (being the difference between the carrying amount of the TIM shares in portfolio, inclusive of those purchased through the tender offer and the additional purchases, and the share of TIM's net equity acquired) and an exchange deficit of euro 163,696 thousand (being the difference between the capital increase to service the share exchange valued at the par value of the new share issue and the share of TIM's net equity acquired). The *cancellation deficit* was allocated as an increase to the carrying amount of the investments in TIM Italia (euro 35,048,711 thousand) and TIM International (euro 412,921 thousand), while the exchange deficit was allocated as a reduction of the reserves in shareholders' equity (merger surplus reserve).
   Under IFRS, the Telecom Italia/TIM merger became effective for accounting purposes on June 30, 2005 and the percentage interest held prior to the tender offer was accounted for at the carrying amount since the acquired company is already controlled by the acquiring company and thus the conditions for the application of IFRS 3 (*Business combinations*) do not exist. The acquisition of the remaining TIM shares under the tender offer, the share purchased on the market and the merger, considered as a purchase of minority stakes, not regulated either by IFRS 3 or any other IFRS, was accounted for at fair value under the parent-entity extension method. As a result, goodwill was recognized on the difference between the fair value of the shares acquired and the new share issue and the share of equity acquired. The impact of this treatment is as follows: an increase in equity *at December 31, 2005* of euro 3,875,577 thousand mainly due to the fair value measurement of the shares issued on the exchange (euro 4,768,387 thousand) and the elimination of the exchange deficit (euro 163,696 thousand), partly compensated by the

decrease in pre-tax income (euro 1,024,133 thousand). The latter is principally due to the elimination of the pre-tax income of TIM S.p.A., equal to euro 417,705 thousand, and the reversal of dividends on TIM shares acquired in the tender offer, euro 715,995 thousand.

14) elimination of revaluations of investments, by law: under IFRS, the investments in subsidiaries, associates and joint ventures can be valued, in the separate financial statements, at cost or, in conformity with IAS 39, at fair value. In the statutory financial statements prior to the transition date to IFRS, Telecom Italia revalued certain investments as allowed by special laws, the residual amount of which, since Telecom Italia adopted the cost method for IFRS purposes, was eliminated against an entry to a reserve under equity. This treatment has the effect of a decrease in equity at January 1, 2005 and at December 31, 2005 equal to euro 97,185 thousand.

15) impairment of investments: the application of IAS 36 required a higher writedown of the investment in the subsidiary Telecom Italia Finance with a reduction in equity and pre-tax income of euro 104,951 thousand.

IFRS balance sheets at January 1, 2005 and at December 31, 2005
IFRS statement of operations for the year ended at December 31, 2005

In addition to the reconciliations of equity at January 1, 2005 and at December 31, 2005 and net income for the year 2005 accompanied by notes explaining the adjustments made to the balances prepared in accordance with Italian GAAP, the following pages present the balance sheets at January 1, 2005 and at December 31, 2005 and the statement of operations for the year 2005 wherein the following is presented for each item in separate columns:

- amounts according to Italian GAAP reclassified according to IFRS presentation;
- adjustments to conform to IFRS, with a separate indication of the effects relating to the merger of TIM in Telecom Italia;
- adjusted amounts according to IFRS.

BALANCE SHEET AT JANUARY 1, 2005

(millions of euro)	Italian GAAP reclassified	IFRS adjustments	IFRS
Non-current assets:			
Intangible assets			
- Goodwill and other intangible assets with an indefinite life	3	(3)	-
- Intangible assets with a finite life	1,625	(11)	1,614
	1,628	(14)	1,614
Tangible assets			
- Property, plant and equipment owned	11,238	12	11,250
- Assets held under finance leases	-	1,579	1,579
	11,238	1,591	12,829
Other non-current assets			
- Investments	34,235	261	34,496
- Securities and financial receivables	388	(78)	310
- Miscellaneous receivables and other non-current assets	486	455	941
	35,109	638	35,747
Deferred tax assets	2,391	673	3,064
TOTAL NON-CURRENT ASSETS (A)	50,366	2,888	53,254
Current assets:			
Inventories	113	-	113
Trade receivables, miscellaneous receivables and other current assets	6,638	128	6,766
Current tax receivables	-	-	-
Investments	-	-	-
Securities other than investments	-	-	-
Financial receivables and other current financial assets	604	(272)	332
Cash and cash equivalents	6,008	-	6,008
TOTAL CURRENT ASSETS (B)	13,363	(144)	13,219
TOTAL ASSETS (A+B)	63,729	2,744	66,473
Equity:			
- Share capital issued (net of treasury shares)	8,865	(2)	8,863
- Reserves (net of treasury shares)	4,930	(383)	4,547
- Retained earnings, including net income for the period	3,016	(1,724)	1,292
TOTAL EQUITY (C)	16,811	(2,109)	14,702
Non-current liabilities:			
Non-current financial liabilities	33,374	1,264	34,638
Employee severance indemnities and other employee-related provisions	1,043	(67)	976
Deferred tax liabilities	-	-	-
Provisions for risks and future charges	386	29	415
Miscellaneous payables and other non-current liabilities	646	1,406	2,052
TOTAL NON-CURRENT LIABILITIES (D)	35,449	2,632	38,081
Current liabilities :			
Current financial liabilities	4,732	1,749	6,481
Trade payables, miscellaneous payables and other current liabilities	6,716	472	7,188
Current tax liabilities	21	-	21
TOTAL CURRENT LIABILITIES (E)	11,469	2,221	13,690
TOTAL LIABILITIES (F=D+E)	46,918	4,853	51,771
TOTAL EQUITY AND LIABILITIES (C+F)	63,729	2,744	66,473

BALANCE SHEET AT DECEMBER 31, 2005

(millions of euro)	Italian GAAP reclassified	IFRS adjustments		IFRS
		TIM MERGER	Other adjustments	
Non-current assets:				
Intangible assets				
- Goodwill and other intangible assets with an indefinite life	1	39,184	(1)	39,184
- Intangible assets with a finite life	1,681	-	(2)	1,679
	1,682	39,184	(3)	40,863
Tangible assets				
- Property, plant and equipment owned	10,687	-	(22)	10,665
- Assets held under finance leases	-	-	1,558	1,558
	10,687	-	1,536	12,223
Other non-current assets				
- Investments	51,672	(35,308)	(254)	16,110
- Securities and financial receivables	475	-	172	647
- Miscellaneous receivables and other non-current assets	677	-	413	1,090
	52,824	(35,308)	331	17,847
Deferred tax assets	1,854		545	2,399
TOTAL NON-CURRENT ASSETS (A)	67,047	3,876	2,409	73,332
Current assets:				
Inventories	76	-	-	76
Trade receivables, miscellaneous receivables and other current assets	8,401	-	(1,702)	6,699
Current tax receivables	51	-	-	51
Securities other than investments	-	-	-	-
Financial receivables and other current financial assets	172	-	24	196
Cash and cash equivalents	6,601	-	-	6,601
TOTAL CURRENT ASSETS (B)	15,301	-	(1,678)	13,623
TOTAL ASSETS (A+B)	82,348	3,876	731	86,955
Equity:				
- Share capital issued (net of treasury shares)	10,668	-	(1)	10,667
- Reserves (net of treasury shares)	6,425	4,900	(565)	10,760
- Retained earnings, including net income for the period	4,875	(1,024)	(2,750)	1,101
TOTAL EQUITY (C)	21,968	3,876	(3,316)	22,528
Non-current liabilities:				
Non-current financial liabilities	39,148	-	1,992	41,140
Employee severance indemnities and other employee-related provisions	1,196	-	(92)	1,104
Deferred tax liabilities	-	-	-	-
Provisions for risks and future charges	338	-	55	393
Miscellaneous payables and other non-current liabilities	514	-	1,366	1,880
TOTAL NON-CURRENT LIABILITIES (D)	41,196	-	3,321	44,517
Current liabilities :				
Current financial liabilities	12,512	-	357	12,869
Trade payables, miscellaneous payables and other current liabilities	6,663	-	369	7,032
Current tax liabilities	9	-	-	9
TOTAL CURRENT LIABILITIES (E)	19,184	-	726	19,910
TOTAL LIABILITIES (F=D+E)	60,380	-	4,047	64,427
TOTAL EQUITY AND LIABILITIES (C+F)	82,348	3,876	731	86,955

STATEMENT OF INCOME FOR THE YEAR 2005

(millions of euro)	Italian GAAP reclassified	IFRS adjustments		IFRS
		TIM MERGER	Other adjustments	
Revenues	17.209	(1.281)	(15)	15.913
Other income	403	(6)	25	422
Total operating revenues and other income	**17.612**	**(1.287)**	**10**	**16.335**
Purchases of materials and external services	(7.196)	586	128	(6.482)
Personnel costs	(3.110)	88	115	(2.907)
Other operating expenses	(722)	17	(10)	(715)
Change in inventories	(5)	(26)	-	(31)
Capitalized internal construction costs	284	(7)	-	277
OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) OF NON-CURRENT ASSETS	6.863	(629)	243	6.477
Depreciation and amortization	(3.079)	211	(72)	(2.940)
Gains (losses) on disposals of non-current assets	306	(2)	(42)	262
Impairment reversals (losses) on non-current assets	(8)	-	-	(8)
OPERATING INCOME	4.082	(420)	129	3.791
Financial income	3.543	(759)	(542)	2.242
Financial expenses	(2.822)	11	(465)	(3.276)
INCOME BEFORE TAXES	4.803	(1.168)	(878)	2.757
Income taxes	(918)	144	(149)	(923)
NET INCOME FOR THE YEAR	3.885	(1.024)	(1.027)	1.834

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Independent Auditors' report on the statements of reconciliation to International Financial Reporting Standards (IFRS)

(Translation from the original Italian text)

To the Board of Directors
of Telecom Italia S.p.A.

1. We have audited the accompanying statements of reconciliation to International Financial Reporting Standards (IFRS) of Telecom Italia S.p.A. consisting of the balance sheets as of January 1, 2005 and December 31, 2005 and the statement of income for the year ended December 31, 2005, the reconciliations of equity as of January 1, 2005 and December 31, 2005 and of net income for the year ended December 31, 2005 and the related explanatory notes (hereinafter, the "IFRS Reconciliation Statements"), as presented in the Appendix "Transition to International Financial reporting Standard (IFRS) by Telecom Italia S.p.A." to the First Half 2006 Report as of and for the six months ended June 30, 2006, in accordance with the criteria and principles set out in CONSOB Communication No. 6064313 of July 28, 2006. These IFRS Reconciliation Statements are based on the separate financial statements of Telecom Italia S.p.A. as of December 31, 2005 prepared in accordance with the Italian regulations governing the criteria for their preparation, which we have previously audited and on which we issued our auditor's report dated March 22, 2006. The IFRS Reconciliation Statements present the effects of the transition to International Financial Reporting Standards (IFRS) as adopted by the European Commission, which Telecom Italia S.p.A. will apply in preparing its separate financial statements as of December 31, 2006, as required by article 4 of the Legislative Decree 38/2005. These IFRS Reconciliation Statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these IFRS Reconciliation Statements based on our audit.

2. We conducted our audit in accordance with generally accepted auditing standards in Italy. In accordance with such standards, we planned and performed the audit to obtain the information necessary to determine whether the IFRS Reconciliation Statements are materially misstated. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the IFRS Reconciliation 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.

3. In our opinion, the IFRS Reconciliation Statements identified in paragraph 1. above, taken as a whole, have been prepared in all material respects in accordance with the criteria and principles set out in CONSOB Communication No. 6064313 of July 28, 2006.

Reconta Ernst & Young S.p.A.
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4. As described in the explanatory notes, since the IFRS Reconciliation Statements have been prepared only as part of the transition of its separate financial statements to IFRS as adopted by the European Commission, they do not include comparative financial information and the required explanatory notes which would be necessary for comprehensive presentation of the financial position and results of operations of Telecom Italia S.p.A. in conformity with IFRS.

Milan, Italy
September 12, 2006

Reconta Ernst & Young S.p.A.
Signed by Nadia Locati, Partner

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 First half 2006 Report and obtain information about Telecom Italia and its products and services at the following address: http://www.telecomitalia.it
Investor Relations	+ 39 – 0285954131/0285954132 (fax) investor_relations@telecomitalia.it

TELECOM ITALIA
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