Telecom Italia S.p.A.

First Half 2007 Report

TELECOM ITALIA

Contents

Corporate Boards at June 30, 2007

Board of Directors

The board of directors was elected by the ordinary shareholders' meeting held on April 16, 2007 which established the number of directors as 19 and set the expiration for the term of office as one year, that is, up to the date of the shareholders' meeting called to approve the financial statements for the year ended December 31, 2007.
On April 17, 2007, the new board of directors of Telecom Italia elected Pasquale Pistorio as chairman and confirmed Carlo Orazio Buora as executive deputy chairman and Riccardo Ruggiero as CEO.
Accordingly, the board of directors of the Company at June 30, 2007 is composed of the following:

Chairman	Pasquale Pistorio
Executive Deputy Chairman	Carlo Orazio Buora
Chief Executive Officer	Riccardo Ruggiero
Directors	Paolo Baratta (Independent) Gilberto Benetton Diana Bracco (Independent) Stefano Cao (Independent) Renzo Capra (Independent) Claudio De Conto Domenico De Sole (Independent) Luigi Fausti (Independent) Jean Paul Fitoussi (Independent) Luciano Gobbi (1) Aldo Minucci Gianni Mion Renato Pagliaro Carlo Alessandro Puri Negri Cesare Giovanni Vecchio (Independent) Luigi Zingales (Independent)
Secretary to the Board	Francesco Chiappetta

The composition of the committees reported below was established by the board of directors' meeting held on May 8, 2007.

Remuneration Committee	Stefano Cao Renzo Capra Luigi Fausti Luigi Zingales

The committee, in the next meeting, elected the director Luigi Zingales as chairman.

Committee for Internal Control and Corporate Governance	Paolo Baratta Diana Bracco Domenico De Sole Luigi Fausti Cesare Giovanni Vecchio

The committee, in the next meeting, elected the director Paolo Baratta as chairman.

Strategies Committee	Pasquale Pistorio Carlo Orazio Buora Riccardo Ruggiero Paolo Baratta Domenico De Sole Jean Paul Fitoussi Renato Pagliaro

(1) On July 4, 2007, the director Luciano Gobbi tendered his resignation; the board of directors' meeting held on July 24, 2007 Gaetano Miccichè was appointed a director.

Board of Statutory Auditors

The shareholders' meeting held on April 16, 2007 added to the board of statutory auditors, appointing Enrico Maria Bignami (previously an alternate auditor) as acting auditor and Luigi Gaspari as alternate auditor up to the expiry of the term of office of the board of statutory auditors in office (approval of the 2008 financial statements). Consequently, the board of statutory auditors of the Company at June 30, 2007 is composed of the following members:

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

Common representatives

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

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

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

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

– Bondholders — Francesco Pensato
"Telecom Italia S.p.A. Euro 1,250,000,000 notes 5.375% due 2019"
Appointed by the April 10, 2006 decree of the Milan Court, after failure to establish the corresponding bondholders' meeting.

Independent auditors

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

Managers with strategic responsibilities

Managers with strategic responsibilities, that is, those who have the power and responsibility, directly or indirectly, for the planning, direction and control of the operations of Telecom Italia, including the directors, are the following:

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

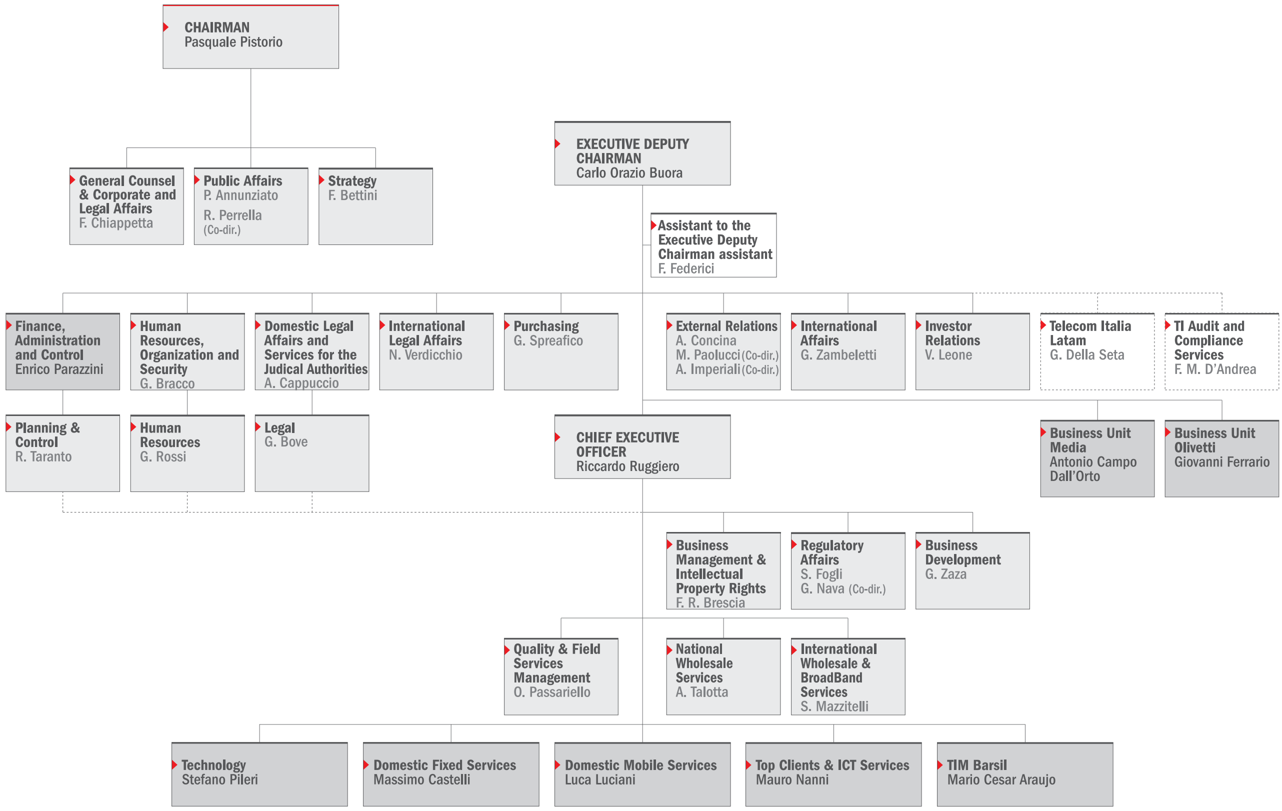
(1) To April 6, 2007
(2) From April 17, 2007
(3) From February 16, 2007 to May 24, 2007
(4) From May 25, 2007
(5) From February 16, 2007

Committees

One of the organizational tools adopted to ensure the management and the operational integration of the Group is the *Committee System of the Group*, with the aim of:
- monitoring the implementation of strategies and the development of plans and the attainment of results;
- ensuring the overall coordination of business actions and the management of the relative cross-over business issues;
- building up the necessary operating synergies between the various functions involved in the technological, business and support processes;
- fostering the integrated development of the innovation processes of the Group.

The *Committee System of the Group* is undergoing a review and transformation in light of the changes in the organizational structure.

Macro-organization chart at June 30, 2007 - Telecom Italia Group



In order to maintain its competitive position at high levels in an ever-increasingly dynamic market, the Telecom Italia Group has adopted an organizational system based upon a "divisional" model aimed at achieving a greater degree of control over the business areas while at the same time reinforcing the governance of the processes.
The new model brought about a new organizational structure of the Group beginning on January 22, 2007 which can be described as follows:

- Group Functions, in charge of directing the operations of the Telecom Italia Group;
- Business Departments, responsible for business development and activity coordination for the reference market;
- Business Units, responsible for Media and Olivetti business development.

Reporting directly to the Chairman, Pasquale Pistorio, are the Group Functions: *Public Affairs*; *General Counsel & Corporate and Legal Affairs*; and *Strategy*.

Reporting to the Executive Deputy Chairman, Carlo Orazio Buora, are:
- the CEO of Telecom Italia, Riccardo Ruggiero
- the Media Business Unit, headed by Antonio Campo Dall'Orto
- the Olivetti Business Unit, headed by Giovanni Ferrario

as well as the Group Functions: *Finance, Administration and Control*; *Human Resources, Organization and Security*; *Domestic Legal Affairs and Judiciary Authority Services*; *International Legal Affairs*; *Purchasing*; *External Relations*; *International Affairs*; *Investor Relations and the companies Telecom Italia Audit and Compliance Services and Telecom Italia Latam*.

Reporting to the chief executive officer of Telecom Italia, Riccardo Ruggiero, are the following Departments:
- *Domestic Fixed Services*, with responsibility for ensuring – at the national level – business development and management relating to fixed telecommunications for consumer and business clientele;
- *Domestic Mobile Services*, with responsibility for ensuring – at the national level – business development and management relating to mobile telecommunications for consumer and business clientele;
- *Top Clients & ICT Services*, with responsibility for ensuring business development and management relating to fixed and mobile telecommunications and the relative ICT services for Top Clients;
- *Technology*, with responsibility for ensuring the technological innovation of the Group and the development and management of the fixed and mobile telecommunications networks, systems and IT infrastructures;
- the company *TIM Brasil*

in addition to:
- *Quality & Field Services Management*, with responsibility for ensuring control over the processes of delivery and technical assistance to the clientele, in addition to the monitoring of customer satisfaction and the coordination of plans to improve the quality of service;
- *National Wholesale Services*, with responsibility for ensuring the management of the national licensee operators;
- *International Wholesale and Broadband Services*, with responsibility for ensuring the international wholesale business development of the Group, as well as the coordination of broadband activities outside Italy.

Reporting to the Chief Executive Officer are also the Staff Functions of *Business Development*; *Regulatory Affairs*; *Business Management & Intellectual Property Rights* and functionally reporting are *Planning & Control*, *Human Resources* and *Legal*.

Regulatory framework

The following is a description of the developments in the regulatory framework in Italy and Brazil since the publication of the 2006 Annual Report.

Regulatory framework in Italy

Legislative Decree 7 dated January 31, 2007, (converted into law, with modifications, by Law 40, art. 1, dated April 2, 2007) containing "Urgent measures for the protection of consumers, the promotion of competition, the development of economic activities, the creation of new companies, the exploitation and improvement of technical and professional training, and the demolition of vehicles", for the sector of electronic communications, established the abolition of top-up charges and prohibited the expiry of phone traffic on prepaid phone cards.

Wholesale fixed markets

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

On March 21, 2007, Telecom Italia republished its 2006 basic offering relating to Market 11 in compliance with Resolution 83/06/CIR, in which, among other things, AGCom (the Italian Communications Authority) reviewed the economic terms relating to the 2006 basic offering published on March 3, 2006 (in compliance with Resolution 4/06/CONS).

Again on March 21, 2007, in compliance with Resolution 83/06/CIR, Telecom Italia also republished its 2007 basic offering relating to Market 11, previously published on October 31, 2006 (in compliance with the regulations laid down in art. 5, paragraph 2, of Resolution 4/06/CONS). This offering is in the process of being approved by the AGCom.

Market 12 (Bitstream Services)

On May 29, 2007, in Resolution 249/07/CONS, the AGCom published a definitive measure on wholesale broadband access services (bitstream services). This Resolution, in addition to what was communicated to Telecom Italia in February 2006 in Resolution 34/06/CONS, contains further regulatory measures which significantly change the Italian regulatory scenario with regard to the Italian wholesale bitstream access offerings. The main new regulations contained in Resolution 249/07/CONS include:

- giving the AGCom 30 days' notice of retail offerings;
- setting the prices of the offering taking into account costs and other drivers (efficient costs, benchmarks, etc.);
- minus ratio for the "naked bitstream" equal to 20% to be applied to the consumer access price.

On June 13, 2007, in compliance with the regulations laid down in Resolution 249/07/CONS, Telecom Italia published its 2007 basic offering for bitstream services, which is now in the process of being approved by the AGCom (approval is expected to be granted at the beginning of the fourth quarter of 2007).

Mobile markets

With regard to the setting of maximum termination prices on the networks of mobile operators, the proceeding begun on July 17, 2006 by the AGCom to establish the maximum termination prices on the network of Italy's fourth-largest operator, H3G, is still under way. In the first quarter of 2007, the AGCom formulated a proposal (with a maximum termination price of 16.26 eurocents/min, with effect from July 1, 2007), which was submitted for public consultation in February 2007. On March 21, 2007, the AGCom extended the date for the conclusion of the proceeding by 90 days.

Following the Regulation proposal of July 12, 2006 by the European Commission, with the aim of reducing the roaming rates applied by public mobile networks within the EU, on June 7, 2007 the European Parliament and the Council of Ministers approved the final version. The new Regulation introduces the so-called "Euro-tariff", a maximum charge for calls made and received abroad, and involves:

- an average wholesale price cap for outgoing calls;
- a price cap for maximum retail prices for outgoing and incoming calls ("Euro-tariff").

Universal Service

With reference to the funding of the net cost for the year 2003, the AGCom issued Resolution 28/07/CIR approving the applicability of a mechanism for sharing the net cost. In particular, the net cost to be financed was set at euro 41 million, with total compensation to be paid to the Telecom Italia "fixed network" of approximately euro 29 million, already recorded in receivables, of which about euro 12 million is to be borne by the ex-TIM, and the rest by Vodafone, Wind and Telecom Italia Sparkle.
The above-mentioned procedure will be concluded when the AGCom issues a separate order for the revision of the method used to calculate the net cost, as stated in the AGCom Resolution 16/04/CIR and in the sphere of public consultation with regard to the quantification of the cost of the universal service sustained by Telecom Italia in 2003, to which Resolution 22/06/CIR refers.
The AGCom has expressed its intention to apply retroactively a new method of calculation, and to introduce it to check the net cost for 2004 (and then for the subsequent years), quantified by Telecom Italia based on the method of calculation in force at the time of presentation (March 31, 2005).

Inquiry proceedings have been initiated by the AGCom for financing the net costs for the universal service provided in the years 2004 and 2005, presented by Telecom Italia on March 31, 2005 and March 30, 2006, respectively.
To date, the AGCom has not yet informed Telecom Italia of the start of the review for those years.

Finally, in compliance with the time limits laid down in the "Electronic Communications Code", on March 29, 2007, Telecom Italia has sent to the AGCom its evaluation of the net cost of providing the Universal Service for the year 2006.

Accounting separation and costs accounting

- ***Fixed network***
  The audit of the 2004 accounting separation report, which began in October 2006, was concluded on May 22, 2007, the date on which the AGCom formally informed Telecom Italia that the Auditor issued "the final report on the accounting separation report for the year 2004" sent to the AGCom and officially published by the AGCom on August 1, 2007. Currently, the Auditor is in the process of verifying the 2003 accounting separation report.

- ***Mobile network***
  In 2006, following the AGCom's appointment of the auditor in charge of auditing the Telecom Italia (ex-TIM) and Vodafone accounting separation reports, at historical and current costs, the audit was conducted on the historical costs for the years 2002-2003-2004 and concluded on June 30, 2007.

  In the second half of 2007, the audit will commence on the current costs for the years 2002-2003-2004.

  With regard to future deadlines of the accounting separation reports for the years 2005-2007, in June 2007, Telecom Italia renewed its demand for a review and made a request for clarification with regard to the accounting separation report obligations for mobile networks laid down in Resolution 3/06/CONS. This demand repeats an earlier request sent to the AGCom in April 2006.

AGCom fee for 2007

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

In particular, for the year 2007, the fee fixed by Law 266, art. 1, paragraph 66 dated December 23, 2005 in a measure equal to 1.5 per thousand owed to the AGCom by companies operating in the communications sector identified in Resolution 110/06/CONS is calculated based on the revenues recorded in the last financial statements approved prior to the adoption of Resolution 696/06/CONS.

Integrated fixed-mobile services

On August 23, 2007 a measure was published in the "Gazzetta Ufficiale" in which the AGCom approved the offerings made by Telecom Italia and Vodafone with regard to the new integrated fixed-mobile telephone services, which will make it possible to make and receive calls on the fixed and mobile networks using a single handset.

Regulatory framework in BRAZIL

In March 2007, ANATEL approved the new regulations on number portability and established an implementation plan for the companies involved.
Portability, which may be onerous for the customer (about 8 euro), will involve fixed and mobile telephone services and non-geographical numbers and will initially be marketed in the largest towns from December 2008. It will then be extended to the whole of Brazil by March 2009.

In May 2007, TIM Celular, a company in the Tim Brasil group, obtained the license to operate local fixed telephone networks throughout Brazil. Potentially, this will also enable the Tim Brasil group to operate in the fixed telephone services market.

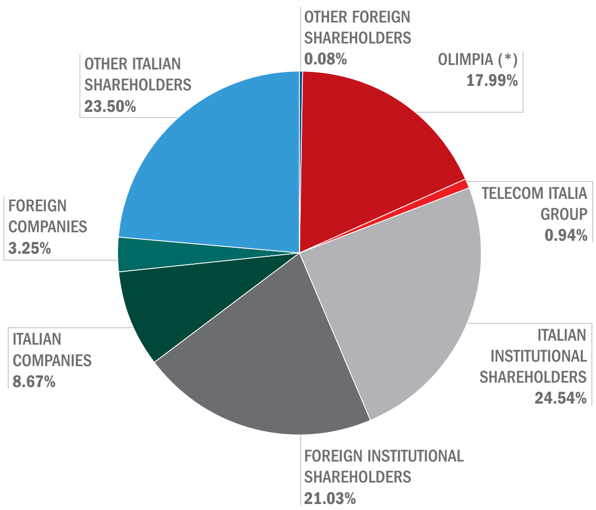
Information for investors

Telecom Italia S.p.A. share capital at june 30, 2007

Share capital (issued)	euro 10,673,777,359.85
Number of ordinary shares (par value of euro 0.55 each)	13,380,747,266
Number of savings shares (par value of euro 0.55 each)	6,026,120,661
Number of Telecom Italia ordinary treasury stock	1,272,014
Number of Telecom Italia ordinary shares held by Telecom Italia Finance	124,544,373
Percentage of treasury stock held by the Group to share capital	0.65%
Market capitalization (based on June 2007 average prices)	euro 37,993 millions

Shareholders

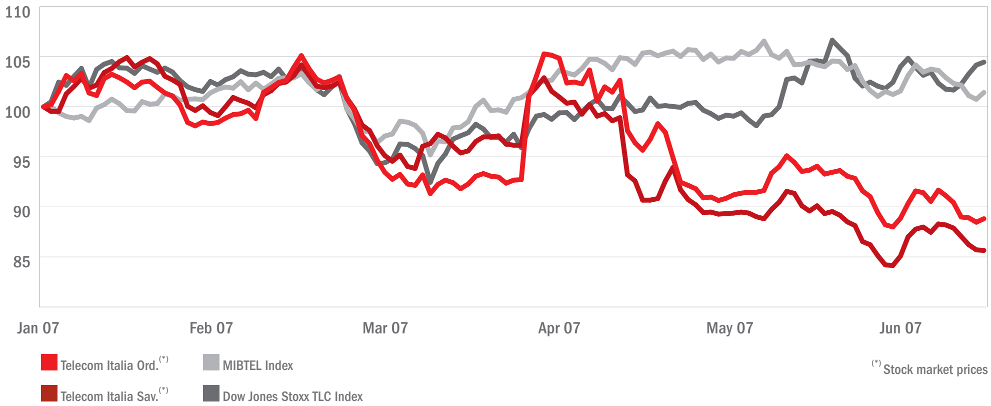
Composition of Telecom Italia S.p.A. shareholders according to the Shareholders Book at June 30, 2007, supplemented by communications received and other sources of information (ordinary shares)



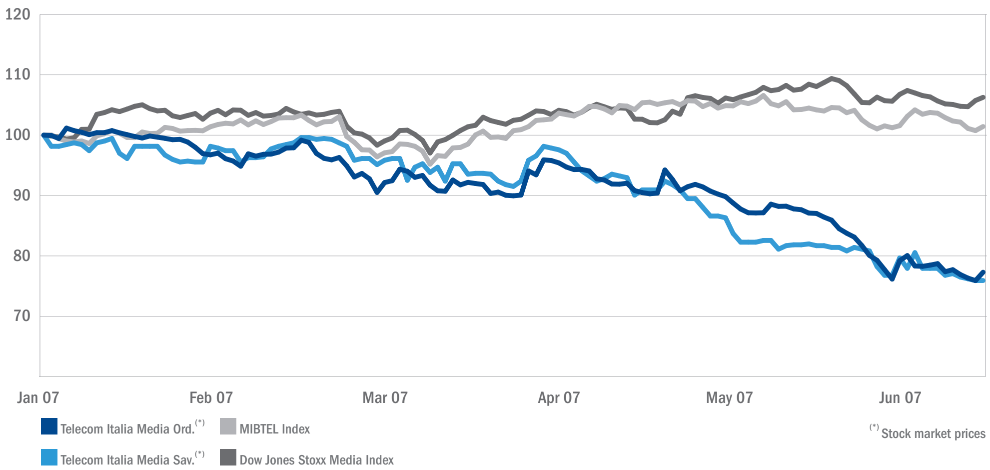
(*) On April 28, 2007, Pirelli & C. S.p.A., Sintonia S.p.A. and Sintonia S.A. announced that they had reached an agreement with leading financial institutional investors and industrial operators for the sale of 100% of the share capital of Olimpia S.p.A., a company 80%-owned by Pirelli & C. S.p.A. and 20%-owned together by Sintonia S.p.A. and Sintonia S.A..
The acquisition will be carried out by the vehicle company Telco S.p.A., in which investments are held by Assicurazioni Generali S.p.A. (28.1%), Intesa San Paolo S.p.A. (10.6%), Mediobanca S.p.A. (10.6%), Sintonia S.A. (8.4%) and Telefonica S.A. (42.3%).
Telco S.p.A. after the purchase and merger of Olimpia S.p.A. will own about 23.6% of the ordinary share capital of Telecom Italia S.p.A., 18% of which was purchased through Olimpia S.p.A. and 5.6% conferred by Generali S.p.A. and Mediobanca S.p.A..
(Sources: Pirelli & C. S.p.A., Sintonia S.p.A. and Sintonia S.A. joint press release of April 28, 2007; Assicurazioni Generali S.p.A., Mediobanca S.p.A., Intesa San Paolo S.p.A. and Sintonia S.A. joint press release of April 28, 2007).

Performance of the stocks of the major companies in the Telecom Italia Group

Relative performance Telecom Italia S.p.A. 1/1/2007-6/30/2007 vs. MIBTEL and DJ Stoxx TLC Indexes
(Source: Reuters)



Relative performance Telecom Italia Media S.p.A. 1/1/2007-6/30/2007 vs. MIBTEL and DJ Stoxx Media Indexes
(Source: Reuters, ordinary shares)



Ratings at june 30, 2007

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

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

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

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

Selected operating and financial data - Telecom Italia Group

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

At June 30, 2007, the scope of consolidation shows the following changes compared to June 30, 2006 and December 31, 2006:
- inclusions: the AOL internet business in Germany (consolidated beginning March 1, 2007 and later merged in and with HanseNet Telekommunikation GmbH);
- exclusions: Digitel Venezuela (sold in May 2006 and already classified in discontinued operations/assets held for sale), Ruf Gestion (sold in March 2006), Eustema (sold in April 2006), Telecom Italia Learning Services (sold in July 2006) and other minor companies.

In the balance sheet at June 30, 2007, Assets held for sale include the investments held in Oger Telecom Limited (sold on July 3, 2007), Solpart Participações, Brasil Telecom Participações, Mediobanca and Capitalia following the decision to proceed with the disposal.

Segment information
On January 22, 2007, in light of important technological, market and regulatory changes, Telecom Italia introduced a new organizational structure aimed at ensuring greater operational flexibility and facilitating the implementation of the strategic guidelines for the convergence of the various areas of business (fixed and mobile telecommunications, broadband internet and media contents).
Accordingly, the disclosure by business segment was changed and the accounting representation is now the following:
- Domestic
- European Broadband
- Brazil Mobile
- Media
- Olivetti
- Other activities

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

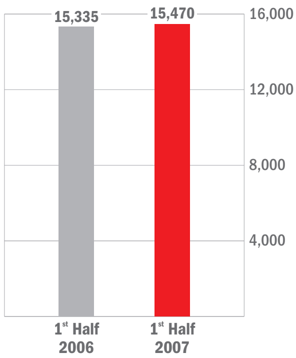
	1st Half 2007	1st Half 2006
Consolidated Operating and Financial Data (millions of euro)		
Revenues	15,470	15,335
EBITDA (*)	6,294	6,518
EBIT(*)	3,449	3,801
Income from continuing operations before taxes	2,524	2,732
Net income from continuing operations	1,506	1,427
Net income (loss) from discontinued operations/assets held for sale	(4)	46
Net income for the period	1,502	1,473
Net income attributable to the equity holders of the Parent	1,500	1,496
Capital expenditures:		
Industrial	2,474	2,216
Financial	669	1

	6/30/2007	12/31/2006
Consolidated Balance Sheet Data (millions of euro)		
Total assets	86,210	89,457
Total equity	26,101	27,098
– attributable to equity holders of the Parent	25,029	26,018
– attributable to Minority interests	1,072	1,080
Total liabilities	60,109	62,359
Total equity and liabilities	86,210	89,457
Share capital	10,605	10,605
Net financial debt	39,175	37,301
Debt ratio (Net financial debt / Net invested capital (1))	60.0%	57.9%
Headcount, number in the Group at period-end (2)		
Headcount	83,812	83,209

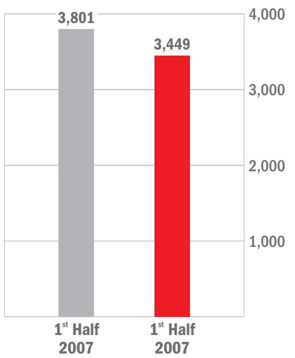
	1st Half 2007	1st Half 2006
Headcount, average number in the Group (2)		
Headcount (excluding headcount relating to discontinued operations / assets held for sale)	79,348	80,353
Headcount relating to discontinued operations/assets held for sale	–	558
Consolidated Profit Ratios		
EBITDA(*) / Revenues	40.7%	42.5%
EBIT(*) / Revenues (ROS)	22.3%	24.8%
Revenues/Headcount (average number in the Group, thousands of euro)	194.9	190.8

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

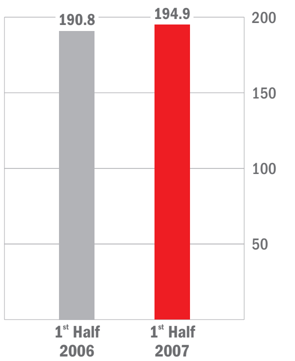
Revenues (euro/millions)



EBIT (euro/millions)



Revenues/Emplyees (euro/thousands)



Alternative performance measures

In this report on operations, in the interim consolidated financial statements of the Telecom Italia Group and in the interim accounting information of the Parent, Telecom Italia S.p.A., for the six months ended June 30, 2007, in addition to the conventional financial performance measures established by IFRS, certain non-IFRS measures are presented for purposes of a better understanding of the trend of operations and the financial condition of the Telecom Italia Group. Such measures are also presented in the report on operations in other periodical reports (annual financial statements and quarterly reports), however, they should not be construed as a substitute for the operating and financial information required by IFRS.

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

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

Income from continuing operations before taxes
+ Financial expenses
– Financial income
+/– Share of losses (profits) of associates and joint ventures accounted for using the equity method (*)

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

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

(*) Only in the consolidated financial statements.

- **Organic growth of Revenues, EBITDA and EBIT**. These measures express changes (amount and/or percentage) in Revenues, EBITDA and EBIT, excluding, where applicable, the effects of the change in the scope of consolidation, exchange differences and non-organic components constituted by non-recurring items and other non-organic income/expenses.
  Telecom Italia 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.
  The organic change in Revenues, EBITDA and EBIT is also used in presentations to analysts and investors.

- **Net financial debt**. Telecom Italia maintains that Net Financial Debt represents an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets.

Comments on operating and financial performance - Telecom Italia Group

CONSOLIDATED STATEMENTS OF INCOME

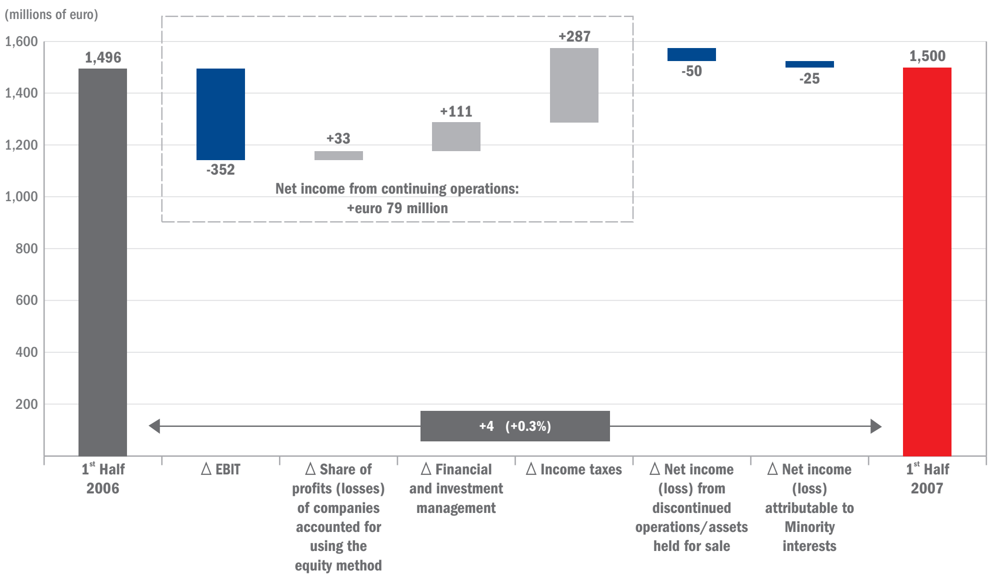
(millions of euro)	1st Half 2007 (a)	1st Half 2006 (b)	Change (a-b)	Change %
Revenues	15,470	15,335	135	0.9
Other income	165	311	(146)	(46.9)
Total operating revenues and other income	**15,635**	**15,646**	**(11)**	**(0.1)**
Purchases of materials and external services	(6,886)	(6,769)	(117)	1.7
Personnel costs	(1,925)	(1,992)	67	(3.4)
Other operating expenses	(832)	(666)	(166)	24.9
Changes in inventories	21	69	(48)	(69.6)
Capitalized internal construction costs	281	230	51	22.2
OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) OF NON-CURRENT ASSETS (EBITDA)	**6,294**	**6,518**	**(224)**	**(3.4)**
Depreciation and amortization	(2,853)	(2,843)	(10)	0.4
Gains (losses) on disposals of non-current assets (1)	8	152	(144)	(94.7)
Impairment reversals (losses) on non-current assets	–	(26)	26	–
OPERATING INCOME (EBIT)	**3,449**	**3,801**	**(352)**	**(9.3)**
Share of profits (losses) of associates and joint ventures accounted for using the equity method	58	25	33	132.0
Financial income	1,243	1,649	(406)	(24.6)
Financial expenses	(2,226)	(2,743)	517	(18.8)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	**2,524**	**2,732**	**(208)**	**(7.6)**
Income taxes	(1,018)	(1,305)	287	(22.0)
NET INCOME FROM CONTINUING OPERATIONS	**1,506**	**1,427**	**79**	**5.5**
Net income from discontinued operations/assets held for sale	(4)	46	(50)	°
NET INCOME FOR THE PERIOD	**1,502**	**1,473**	**29**	**2.0**
of which:				
Net income attributable to equity holders of the Parent	**1,500**	**1,496**	**4**	**0.3**
Net income (loss) attributable to Minority Interests	2	(23)	25	°

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

Consolidated net income attributable to the equity holders of the Parent is euro 1,500 million (euro 1,502 million before Minority interests). In the first half of 2006, consolidated net income attributable to the equity holders of the Parent was euro 1,496 million (euro 1,473 million before Minority interests).
The increase in consolidated net income attributable to the equity holders of the Parent compared to the first half of 2006 is due to the following:

- *operating income*, – euro 352 million;
- *share of profits (losses) of associates and joint ventures accounted for using the equity method, +euro 33 million*;
- lower *financial expenses*, net of financial income, euro 111 million;
- lower *income taxes*, euro 287 million;
- lower *net income from discontinued operations/assets held for sale*, euro 50 million.
- lower *net loss attributable to Minority interests*, euro 25 million.

The following chart summarizes the major items which had an impact on the consolidated net income attributable to the equity holders of the Parent in the first half of 2007:



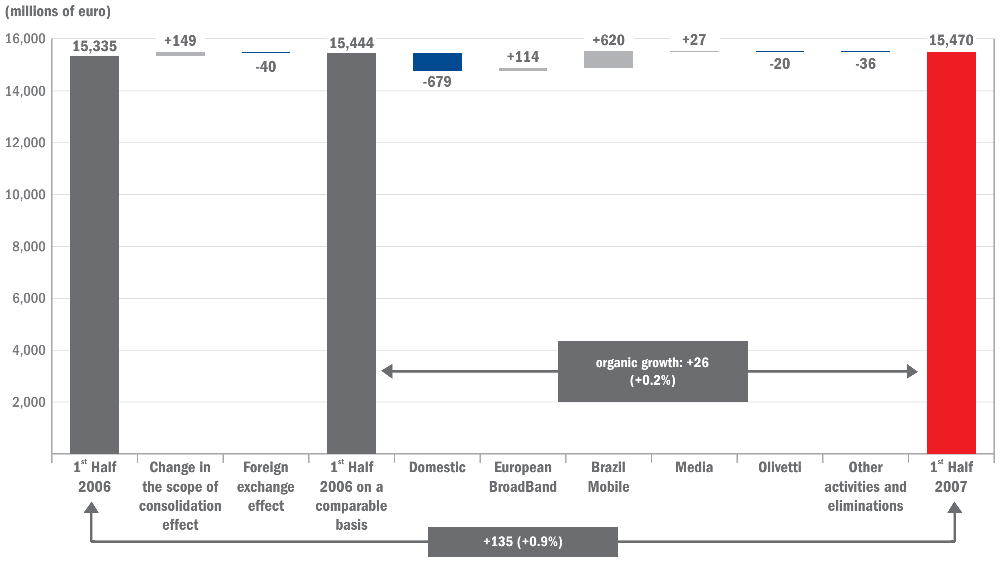
Revenues amount to euro 15,470 million in the first six months of 2007, with an increase of 0.9% compared to euro 15,335 million in the first half of the prior year. Excluding the effect of the change in the scope of consolidation (+euro 149 million, chiefly in reference to the inclusion of the AOL internet business in Germany) and the negative foreign exchange effect (euro 40 million, mainly referring to the Brazil Mobile Business Unit), the positive organic change is 0.2% (euro 26 million).

Revenues in the first half of 2007, compared to the corresponding period of the prior year, were also affected by:

- the change in termination rates which occurred in the second half of 2006, with a negative impact of euro 95 million;
- the application, starting from the month of March 2007, of the so-called Bersani Decree, with an impact of about – euro 163 million, as more fully described in the specific section "The Business Units of the Telecom Italia Group - Domestic";
- the self-regulation of international roaming prices in order to comply with the decisions of the European Commission (– euro 20 million).

Moreover, starting on January 1, 2007, pursuant to the Resolution by the AGCom (the Italian Communications Authority) 417/06/CONS, relating to calls by customers to non-geographic numbers (NNG) of Other Operators (OLO), Telecom Italia only provides invoicing services, no longer assuming the risk of insolvency on the relative receivables. Therefore, starting from that date, the revenues and related interconnection costs do not take into account the traffic generated by such calls, which in the first half of 2006 had been recognized as revenues for a total amount of euro 230 million with the recognition of the same amount of costs.

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



As for the organic change in revenues, the main trends are analyzed below by Business Unit.
The Domestic Business Unit shows a reduction in revenues of euro 679 million, which was also affected by the aforementioned contractual changes referring to non-geographic numbers. Apart from that impact:

- fixed telecommunications revenues show an increase in internet revenues, particularly in the Broadband segment, and in national wholesale revenues, which only partly compensate the decline in the Data Business segment and the Telephone market owing to the contraction of traffic volumes and the above change in termination rates;
- mobile telecommunications revenues display a positive trend in value-added service revenues, particularly interactive services, countered by the effects of the application of the new termination rates, the Bersani Decree and the self-regulation of international roaming prices.

The European Broadband Business Unit contributed to the change in revenues with a higher contribution of euro 114 million, thanks to the positive growth of the customer portfolio in France and Germany.

Growth by the Brazil Mobile Business Unit (+euro 620 million) was driven by the expansion of the customer base and the positive contribution of value-added services. In the month of July 2006, regulatory changes occurred (abolition of the “Bill and Keep” rule) which generated a positive impact on revenues in the first half of 2007 equal to euro 316 million.

The Media Business Unit shows an increase in revenues of euro 27 million, reflecting higher advertising compared to the first half of 2006 and an increase in revenues from Digital Terrestrial TV.

The Olivetti Business Unit shows a decrease in revenues (– euro 20 million) due to a reduction in the sales of traditional ink-jet products and the Gaming area.

Revenues from telecommunications services are presented gross of the amount of revenues due to third-party operators, equal to euro 2,579 million (euro 2,556 million in the first half of 2006).
Foreign revenues amount to euro 4,382 million (euro 3,644 million in the first half of 2006); 52.5% is localized in Brazil (46.9% in the first half of 2006).

Other income amounts to euro 165 million (euro 311 million in the first half of 2006) and includes:

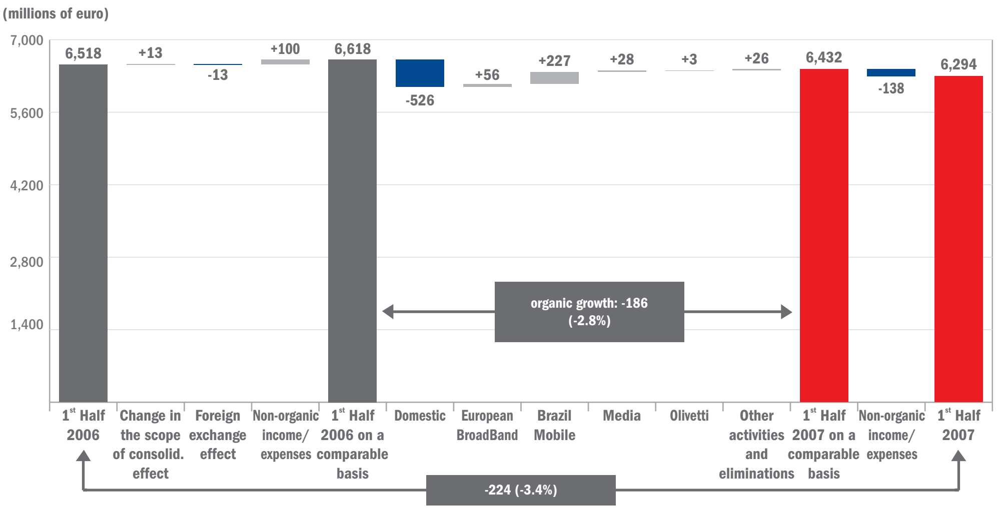
(millions of euro)	1st Half 2007 (a)	1st Half 2006 (b)	Change (a-b)
Late payment fees charged for regulated telephone services	46	44	2
Release of provisions and liability items	12	80	(68)
Recovery of costs of personnel and services rendered	17	23	(6)
Capital and operating grants	18	20	(2)
Damage and penalty compensation	34	18	16
Sundry income	38	126	(88)
Total	**165**	**311**	**(146)**

EBITDA amounts to euro 6,294 million and fell by euro 224 million (– 3.4%) compared to the first half of 2006. The organic change in EBITDA is a negative 2.8% (– euro 186 million) and is calculated as follows:

(millions of euro)	1st Half 2007 (a)	1st Half 2006 (b)	Change (a-b)	Change %
HISTORICAL EBITDA	**6,294**	**6,518**	**(224)**	**(3.4)**
Effect of change in scope of consolidation		**13**		
Effect of change in exchange rates		**(13)**		
Non-organic (income) expenses	**138**	**100**		
Non-recurring (income) expenses:	20	14		
Corporate reorganization costs	–	*9*		
Industrial reconversion expenses	–	*5*		
Provision for risk regarding Antitrust fine	*20*	–		
Other non-organic (income) expenses:	118	86		
Restructuring costs	*84*	*75*		
Provision for disputes and settlements	*33*	–		
Other (income) expenses, net	*1*	*11*		
COMPARABLE EBITDA	**6,432**	**6,618**	**(186)**	**(2.8)**

The percentage of EBITDA to revenues went from 42.5% in the first half of 2006 to 40.7% in the first half of 2007. At the organic level, the percentage of EBITDA to revenues is equal to 41.6% in the first half of 2007 (42.9% in the first half of 2006).

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



In greater detail, in addition to the negative effects, described earlier under Revenues, as a result of the application of the "Bersani Decree" (– euro 163 million) and the change in the termination rates in the second half of 2006 (– euro 28 million), EBITDA in the first half of 2007 is impacted by the following:

- **purchases of materials and external services**, euro 6,886 million, with an increase of euro 117 million (+1.7%) compared to the first half of 2006 (euro 6,769 million). The reduction in costs for the purchase of products for sale and professional and consulting expenses is offset by the increase in selling expenses, building lease expenses, circuit rentals and interconnection costs. The increase in interconnection costs during the first half of 2007 (compensated, as mentioned, by higher revenues) is basically due to the abolition of the "Bill and Keep" rule in the Brazil Mobile Business Unit which is only partly offset by the reduction in the Domestic market mostly as a result of the aforementioned changes relating to non-geographic numbers.
  The percentage of purchases to sales is 44.5% (44.1% in the first half of 2006);

- **personnel costs**, euro 1,925 million, with a decrease of euro 67 million (– 3.4%) compared to the first half of 2006 (euro 1,992 million). The reduction is due to the contraction of euro 102 million of costs relating to employees in Italy and the increase of euro 35 million relating to employees outside Italy (as a result of the inclusion of the AOL internet business in Germany).
  In greater detail, the reduction relating to employees in Italy is primarily attributable to the profit bonus (– euro 79 million) accrued in the second half of 2006 and no longer due as a result of the agreements reached with the unions in June 2007. Such agreements authorized the alignment of the profit bonus of the Parent, Telecom Italia, and other Group companies with the payment criteria established for ex-TIM Italia. Other factors which contributed to the reduction are the positive effects of the actuarial calculation of the provision for employee severance indemnities owing to the application of the new law dealing with pension benefits (– euro 31 million) and a reduction in the average number of the salaried work force (– 2,634 people) countered by the increase resulting from higher minimum contract terms starting from October 2006, as envisaged by the December 3, 2005 collective national labor contract for telecommunications.
  Moreover, on July 31, 2007, the Hypotheses of Agreement for the renewal of the second two-year 2007/2008 economic part of the collective national labor contract for telecommunications was signed between ASSOTELECOMUNICAZIONI ASSTEL and SLC-CGIL, FISTEL-CISL, UILCOM-UIL.

Headcount at June 30, 2007 is 83,812, broken down as follows:

(number)	6/30/2007 (a)	12/31/2006 (b)	Change (a-b)
Italy	67,876	68,823	(947)
Outside Italy	15,936	14,386	1,550
Total headcount (1)	**83,812**	**83,209**	**603**

(1) Includes persons with temp work contracts: 2,482 at 6/30/2007 and 2,654 at 12/31/2006.

The increase in the headcount of 603 since December 31, 2006 is due to:
- the addition of 1,101 people following the acquisition of the AOL internet business in Germany and the termination of 8 persons following the sale of the company Domus Academy;
- the hiring of 3,079 people: 254 in Italy (including 164 with term contracts) and 2,825 outside Italy (including 324 with term contracts);
- the termination of 3,397 people: 1,265 in Italy and 2,132 outside Italy;
- the reduction of 172 people with temp work contracts;

- **other operating expenses**, euro 832 million (euro 666 million in the first half of 2006), include:

(millions of euro)	1st Half 2007 (a)	1st Half 2006 (b)	Change (a-b)
Impairments and expenses connected with non-financial receivables management	345	263	82
Accruals to provisions for risks and charges	81	17	64
Telecommunications fees and charges	130	113	17
Taxes on revenues of South American companies	122	101	21
Indirect duties and taxes	72	74	(2)
Association dues	9	8	1
Other expenses	73	90	(17)
Total	**832**	**666**	**166**

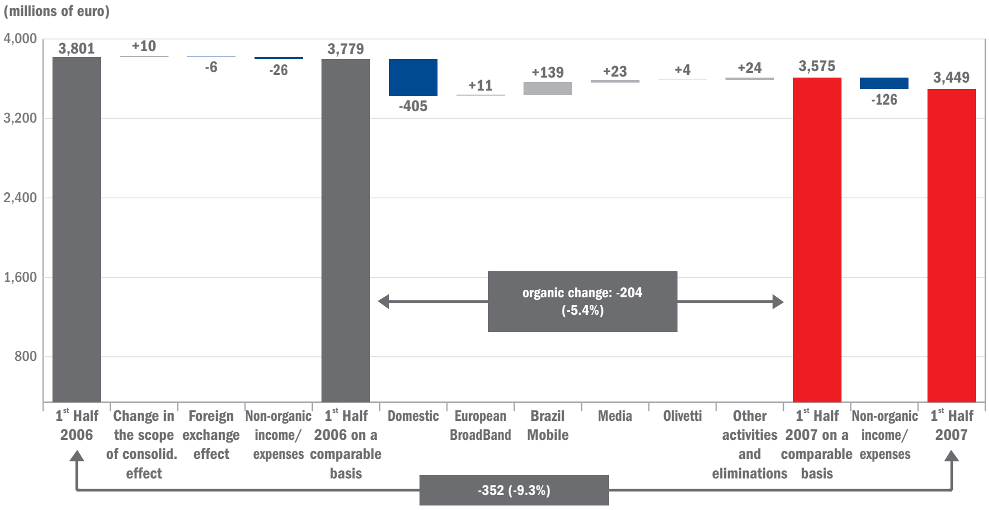
Accruals to provisions for risks and charges in the first half of 2007 include accruals for disputes and settlements with Eutelia and with other operators (euro 33 million) as well as an accrual made in respect of the fine levied on Telecom Italian by the Antitrust Authority in August 2007 (euro 20 million) for having acted in a manner aimed at excluding competitors from the wholesale market of termination services and from the related retail market of fixed-mobile telephone services for business clientele.

EBIT amounts to euro 3,449 million, with a decrease of euro 352 million compared to the first half of 2006 (– 9.3%). The organic change in EBIT is a negative euro 204 million (– 5.4%) and was calculated as follows:

(millions of euro)	1st Half 2007 (a)	1st Half 2006 (b)	Change (a-b)	%
HISTORICAL EBIT	**3,449**	**3,801**	**(352)**	**(9.3)**
Effect of change in scope of consolidation		**10**		
Effect of change in exchange rates		**(6)**		
Non-organic (income) expenses	**126**	**(26)**		
Non-organic (income) expenses already described under EBITDA	138	100		
Additional non-recurring (income) expenses:	(10)	(125)		
Gains on sale of properties	*(10)*	*(123)*		
Gain on sale of Ruf Gestion	–	*(27)*		
Writedown of the invstment in Telecom Italia Learning Services	–	*25*		
Other non-organic (income) expenses:	(2)	(1)		
Other (income) expenses, net	*(2)*	*(1)*		
COMPARABLE EBIT	**3,575**	**3,779**	**(204)**	**(5.4)**

The percentage of EBIT to revenues went from 24.8% in the first half of 2006 to 22.3% in the first half of 2007. At the organic level, the percentage of EBIT to revenues is equal to 23.1% in the first half of 2007 (24.5% in the first half of 2006).

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



In greater detail, EBIT is impacted by:

- **depreciation and amortization** of euro 2,853 million (euro 2,843 million in the first half of 2006), with an increase of euro 10 million. In particular, the amortization of intangible assets shows an increase of euro 113 million which is partly connected to higher amortization charges recorded by the Brazil Mobile Business Unit on costs capitalized on the contracts which bind customers to the company for at least 12 months otherwise a penalty is applied in the event of early cancellation (euro 67 million), in addition to higher capital expenditures for the development of systems and new services. The depreciation of tangible assets shows a decrease of euro 103 million mainly as a result of an assessment of the depreciation plans for assets of the fixed and mobile networks made at the end of 2006. This assessment, if adopted from the first half of 2006, would have led to a reduction in the depreciation charge of about euro 200 million;
- **gains (losses) on disposals of non-current assets**, euro 8 million (euro 152 million in the first half of 2006). In the first half of 2007, this caption includes the release of a portion of the gain deferred at the time of the sale of properties to Tiglio II (euro 10 million), as well as other net losses (euro 2 million). In the first half of 2006, this caption included gains of euro 123 million, net of transaction costs, relating to the sale of properties to the closed-end real estate investment funds Raissa and Spazio Industriale, euro 27 million of gains on the sale of the entire investment in Ruf Gestion and euro 2 million of other net gains.
- **impairment losses on non-current assets**, with a nil balance in the first half of 2007. In the first half of 2006, such impairment losses amounted to euro 26 million and included the writedown of euro 25 million on the entire investment in Telecom Italia Learning Services, sold on July 17, 2006.

The **share of profits (losses) of associates and joint ventures accounted for using the equity method** is a profit of euro 58 million (a profit of euro 25 million in the first half of 2006). The line refers to:

(millions of euro)	1st Half 2007 (a)	1st Half 2006 (b)	Change (a-b)
ETECSA	26	26	–
Sofora Telecomunicaciones S.A.	10	–	10
Solpart Participações S.A.	–	1	(1)
Tiglio I and Tiglio II	19	(1)	20
Other investments	3	(1)	4
Total	**58**	**25**	**33**

The equity method of valuation of the investments in Tiglio I and Tiglio II includes the profit of the companies as a result of the gain realized on the sale of the building located in Milan - Piazza Affari and the sale of the shares relating to the Tecla fund.

Financial income and expenses show a net expense balance of euro 983 million (a net expense balance of euro 1,094 million in the first half of 2006). Details are as follows:

(millions of euro)	1st Half 2007 (a)	1st Half 2006 (b)	Change (a-b)
Financial management balance	(987)	(1,226)	239
Investment management	4	115	(111)
Avea I.H.A.S provisions released to income	–	17	(17)
Total	**(983)**	**(1,094)**	**111**

The improvement of euro 239 million in the financial management balance is due to the following:

– the valuation of the call options on 50% of the share capital of Sofora Telecomunicaciones at market value (positive adjustment of euro 93 million in the first half of 2007 and a negative adjustment of euro 25 million in the first half of 2006);

– the positive net effect (euro 36 million) of the closing of cash flow hedge derivatives following the repayment of euro 1,000 million of underlying debt relating to the term loan of euro 3,000 million due 2010;

– the reduction of average net debt exposure which compensated the negative effect generated by the rise in interest rates on the floating-rate portion of debt, as well as the absence of negative components on the exchange rates relating, during the course of 2006, to the escrow account in USD put into place for contractual commitments with Opportunity and closed in May 2006.

Investment management during the first half of 2006 included the gain of euro 110 million relating to the sale of all the shares held in Neuf Télécom.

Income taxes amount to euro 1,018 million, with a reduction of euro 287 million compared to the first half of 2006. The reduction is not only due to a decrease in the taxable income but also to the recovery of withholding taxes on interest earned prior to January 1, 2004 on behalf of subsidiaries residing in the European Union. This was rendered possible by the issue of Decree Law 10 dated February 15, 2007 (euro 133 million is the gross amount on which taxes were calculated for euro 44 million, with a net positive impact of euro 89 million).

Net income (loss) from discontinued operations/assets held for sale is a loss of euro 4 million as a result of accruals and expenses in connection with the transactions for the sale in 2006 of Digitel Venezuela and Gruppo Buffetti. In the first half of 2006, the net income (loss) from discontinued operations/assets held for sale (net income of euro 46 million) included the result of Digitel Venezuela and the gain on the sale.

CONSOLIDATED BALANCE SHEETS

(millions of euro)	6/30/2007 (a)	12/31/2006 (b)	Change (a-b)
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Goodwill	44,422	43,739	683
Intangible assets with a finite life	6,848	6,740	108
	51,270	50,479	791
Tangible assets			
Property, plant and equipment owned	15,606	15,690	(84)
Assets held under finance leases	1,478	1,525	(47)
	17,084	17,215	(131)
Other non-current assets			
Investments in associates and joint ventures accounted for using the equity method	519	488	31
Other investments	59	776	(717)
Securities, financial receivables and other non-current financial assets	699	691	8
Miscellaneous receivables and other non-current assets	962	871	91
Deferred tax assets	261	912	(651)
	2,500	3,738	(1,238)
TOTAL NON-CURRENT ASSETS (A)	**70,854**	**71,432**	**(578)**
CURRENT ASSETS			
Inventories	318	291	27
Trade and miscellaneous receivables and other current assets	9,559	8,748	811
Current income tax receivables	212	287	(75)
Securities	265	812	(547)
Financial receivables and other current financial assets	399	433	(34)
Cash and cash equivalents	3,664	7,219	(3,555)
Current assets sub-total	**14,417**	**17,790**	**(3,373)**
Discontinued operations/assets held for sale			
of a financial nature	–	–	–
of a non-financial nature	939	235	704
	939	235	704
TOTAL CURRENT ASSETS (B)	**15,356**	**18,025**	**(2,669)**
TOTAL ASSETS (A+B)	**86,210**	**89,457**	**(3,247)**
EQUITY AND LIABILITIES			
EQUITY			
Equity attributable to equity holders of the Parent	25,029	26,018	(989)
Equity attributable to Minority Interests	1,072	1,080	(8)
TOTAL EQUITY (C)	**26,101**	**27,098**	**(997)**
NON-CURRENT LIABILITIES			
Non-current financial liabilities	38,216	40,803	(2,587)
Employee severance indemnities and other employee-related provisions	1,249	1,262	(13)
Deferred tax liabilities	526	194	332
Provisions for risks and charges	863	775	88
Miscellaneous payables and other non-current liabilities	1,743	1,857	(114)
TOTAL NON-CURRENT LIABILITIES (D)	**42,597**	**44,891**	**(2,294)**
CURRENT LIABILITIES			
Current financial liabilities	5,986	5,653	333
Trade and miscellaneous payables and other current liabilities	11,394	11,596	(202)
Current income tax payables	132	219	(87)
Current liabilities sub-total	**17,512**	**17,468**	**44**
Liabilities relating to discontinued operations/assets held for sale			
of a financial nature	–	–	–
of a non-financial nature	–	–	–
	–	–	–
TOTAL CURRENT LIABILITIES (E)	**17,512**	**17,468**	**44**
TOTAL LIABILITIES (F=D+E)	**60,109**	**62,359**	**(2,250)**
TOTAL EQUITY AND LIABILITIES (C+F)	**86,210**	**89,457**	**(3,247)**

Assets, equal to euro 86,210 million at June 30, 2007, include non-current assets for euro 70,854 million, current assets for euro 14,417 million and discontinued operations/assets held for sale for euro 939 million. The following investments are included in discontinued operations/assets held for sale following the decision to proceed with their sale:

- Oger Telecom (10.36% of share capital, carried at euro 375 million). On July 3, 2007, the sale of the entire investment to Saudi Oger was finalized;
- Solpart Participações - the controlling holding company of Brasil Telecom Participações (38.0% of share capital, carried at euro 213 million), and Brasil Telecom Participações (1.13% of share capital, carried at euro 22 million). On July 18, 2007, an agreement was reached for the disposal of Solpart Participações S.A.;
- Mediobanca (1.835% of share capital, carried at euro 253 million) and Capitalia (0.399% of share capital, carried at euro 76 million). During July, August and September 2007 another 7,488,669 Capitalia shares were sold, reducing the investment to 0.110% of share capital.

At December 31, 2006, discontinued operations/assets held for sale only included the investments in Solpart Participações and Brasil Telecom Participações.

Equity amounts to euro 26,101 million (euro 27,098 million at the end of 2006), of which euro 25,029 million is attributable to the equity holders of the Parent (euro 26,018 million at December 31, 2006) and euro 1,072 million attributable to Minority interests (euro 1,080 million at December 31, 2006).

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

(millions of euro)	1/1-6/30 2007	Year 2006
At the beginning of the period	**27,098**	**26,985**
Contribution by shareholders, bond conversions and stock options	–	24
Net income attributable to the equity holders of the Parent and the Minority interests	1,502	3,003
Dividends declared by:	(2,839)	(3,002)
– Telecom Italia S.p.A.	*(2,766)*	*(2,766)*
– Other Group companies	*(73)*	*(236)*
Translation differences, changes in the scope of consolidation and other changes	340	88
At the end of the period	**26,101**	**27,098**

Specifically, "translation differences, changes in the scope of consolidation and other changes", in the first half of 2007, include the positive effect of translation differences for euro 305 million, the positive impact of "Other gains (losses) recognized directly in equity" for euro 45 million and other negative changes for euro 10 million.

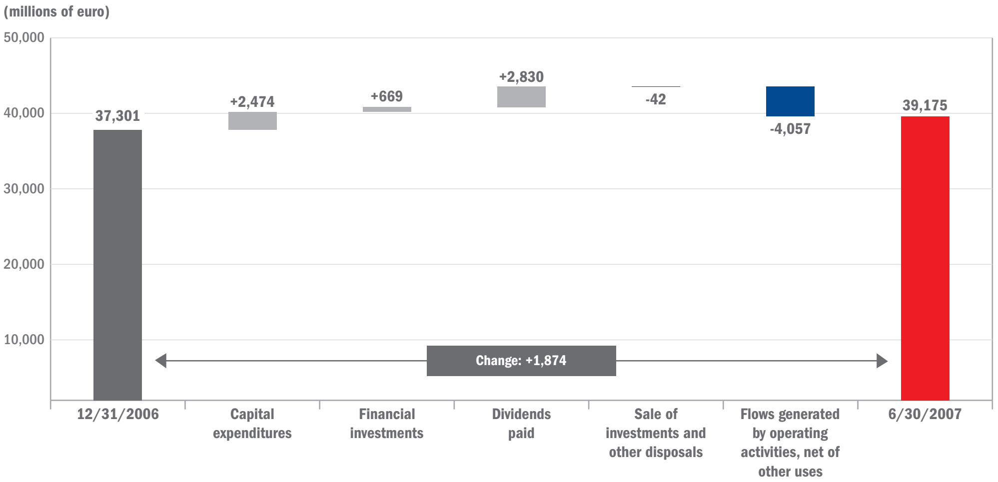
Net financial debt amounts to euro 39,175 million at June 30, 2007, with an increase of euro 1,874 million compared to euro 37,301 million at the end of 2006. The change is due to the acquisition of the assets relating to the internet access business in Germany from the Time Warner/AOL group (euro 669 million) and the payment of dividends (euro 2,830 million) countered by positive cash flows from operations.

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

(millions of euro)		6/30/2007 (a)	12/31/2006 (b)	Change (a - b)
Non-current financial liabilities (*):				
Financial payables		34,688	37,391	(2,703)
Finance lease liabilities		1,834	1,847	(13)
Non-current liabilities for hedging derivatives		1,693	1,451	242
Other financial liabilities		1	114	(113)
	(1)	38,216	40,803	(2,587)
Less:				
Non-current financial receivables for lessors' net investments		*(261)*	*(229)*	*(32)*
Non-current assets for hedging derivatives		*(298)*	*(243)*	*(55)*
		(559)	(472)	(87)
TOTAL NON-CURRENT FINANCIAL LIABILITIES (*)	**(A)**	**37,657**	**40,331**	**(2,674)**
Current financial liabilities (*):				
Financial payables		5,353	5,143	210
Finance lease liabilities		254	269	(15)
Current liabilities for hedging and non-hedging derivatives		259	231	28
Other financial liabilities		120	10	110
	(2)	5,986	5,653	333
Less:				
Current financial receivables for lessors' net investments		*(137)*	*(148)*	*11*
Current assets for hedging derivatives		*(172)*	*(207)*	*35*
		(309)	(355)	46
TOTAL CURRENT FINANCIAL LIABILITIES (*)	**(B)**	**5,677**	**5,298**	**379**
Financial liabilities relating to discontinued operations/assets held for sale	**(C) (3)**	**–**	**–**	**–**
TOTAL GROSS FINANCIAL DEBT (*)	**(D=A+B+C)**	**43,334**	**45,629**	**(2,295)**
Current financial assets (*):				
Securities		(265)	(812)	547
Financial receivables and other current financial assets		(399)	(433)	34
Cash and cash equivalents		(3,664)	(7,219)	3,555
	(4)	(4,328)	(8,464)	4,136
Less:				
Current financial receivables for lessors' net investments		*137*	*148*	*(11)*
Current assets for hedging derivatives		*172*	*207*	*(35)*
		309	355	(46)
	(E)	**(4,019)**	**(8,109)**	**4,090**
Financial assets relating to discontinued operations/assets held for sale	**(F) (5)**	**–**	**–**	**–**
TOTAL CURRENT FINANCIAL ASSETS (*)	**(G=E+F)**	**(4,019)**	**(8,109)**	**4,090**
NET FINANCIAL DEBT AS OF CONSOB COMMUNICATION N. DEM/6064293/2006	**(H=D+G)**	**39,315**	**37,520**	**1,795**
Non-current financial assets (*):				
Securities other than investments		(10)	(12)	2
Financial receivables and other non-current financial assets		(689)	(679)	(10)
	(6)	(699)	(691)	(8)
Less:				
Non-current financial receivables for lessors' net investments		*261*	*229*	*32*
Non-current assets for hedging derivatives		*298*	*243*	*55*
		559	472	87
TOTAL NON-CURRENT FINANCIAL ASSETS (*)	**(I)**	**(140)**	**(219)**	**79**
NET FINANCIAL DEBT	**(L=H+I)**	**39,175**	**37,301**	**1,874**
COMPOSITION OF THE NET FINANCIAL DEBT:				
Total gross financial debt:				
Non-current financial liabilities	(1)	38,216	40,803	(2,587)
Current financial liabilities	(2) + (3)	5,986	5,653	333
		44,202	**46,456**	**(2,254)**
Total gross financial assets:				
Non-current financial assets	(6)	(699)	(691)	(8)
Current financial assets	(4) + (5)	(4,328)	(8,464)	4,136
		(5,027)	**(9,155)**	**4,128**
		39,175	**37,301**	**1,874**

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

The following chart summarizes the major transactions which had an impact on the change in net financial debt during the first half of 2007:



In particular:

- **industrial capital expenditures** in the first half of 2007 total euro 2,474 million and increased by euro 258 million compared to the corresponding period of the prior year. Details are as follows:

	1st Half 2007 (a)		1st Half 2006 (b)		Change (a - b)
(millions of euro)		*% of total*		*% of total*	
Domestic	1,895	76.6	1,793	80.9	102
European Broadband	252	10.2	228	10.3	24
Brazil Mobile	271	10.9	193	8.7	78
Media, Olivetti and Other activities	56	2.3	68	3.1	(12)
Adjustments and eliminations	*–*	*–*	*(66)*	*(3.0)*	*66*
Total	**2,474**	**100.0**	**2,216**	**100.0**	**258**

About 77% of capital expenditures is intended for the domestic business, particularly for the development of new services, the extension of the coverage of the new technologies and the revamping of platforms and systems to support the business.

- **financial investments** amount to euro 669 million in the first half of 2007 and refer to the acquisition of the AOL internet business in Germany.

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The positive effect on net financial debt of the sale of receivables to factoring companies during the first half of 2007 is equal to euro 833 million (euro 1,499 million at December 31, 2006).

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

Bonds

Bonds at June 30, 2007 are carried for an amount of euro 31,327 million (euro 33,906 million at December 31, 2006). Instead, in terms of the nominal repayment amount, bonds total euro 31,167 million, with a decrease of euro 1,952 million compared to December 31, 2006 (euro 33,119 million), with the following breakdown: Telecom Italia S.p.A. euro 10,948 million, Telecom Italia Finance S.A. euro 10,889 million and Telecom Italia Capital S.A. euro 9,330 million.

Convertible bonds at June 30, 2007 are carried for an amount of euro 500 million (euro 489 million at December 31, 2006) and refer entirely to convertible bonds issued by Telecom Italia S.p.A.. Instead, in terms of the nominal repayment amount, convertible bonds total euro 574 million.

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

1) New issues
On June 7, 2007, Telecom Italia S.p.A. issued the following bonds under the euro 15 billion Euro Medium Term Note Programme:

– bonds for euro 850 million with a quarterly coupon indexed to the 3-month Euribor plus a spread of 0.20%, maturing June 7, 2010, issued at 99.915%.
– bonds for euro 400 million with a quarterly coupon indexed to the 3-month Euribor plus a spread of 0.79%, maturing June 7, 2016, issued at 100%.

Moreover, on July 19, 2007, Telecom Italia S.p.A. issued new bonds under the Euro Medium Term Note Programme of euro 15 billion for euro 500 million at a floating rate indexed to the 3-month Euribor plus a spread of 0.63%, maturing July 19, 2013, issued at face value.

2) Repayments and conversions
The following bonds reached maturity and were duly repaid:

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

Revolving Credit Facility

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

The composition and the draw down of the syndicated committed credit line available at June 30, 2007 and represented by the Revolving Credit Facility of euro 8 billion expiring August 2012 is presented as follows:

	Revolving Credit Facility expiring 2007		**Revolving Credit Facility expiring 2012**		**TOTAL**	
(billions of euro)	Agreed	Drawn down	Agreed	Drawn down	Agreed	Drawn down
Situation at 12/31/2006	**2.0**	**–**	**6.0**	**1.5**	**8.0**	**1.5**
Increase in the 2012 RCF facility and cancellation of the 2007 RCF commitment	(2.0)	–	2.0	–	–	–
Situation at 6/30/2007	**–**	**–**	**8.0**	**1.5**	**8.0**	**1.5**

In August 2007, the terms of the euro 8 billion Revolving Credit Facility expiring August 2012 were revised as follows:

1) extension of the expiration date: extended by 2 years so that the new maturity date is August 2014;
2) acquisition of control clause: the new clause guarantees that Telecom Italia will retain the credit line even after the expected change in its shareholders of reference.

The revisions were introduced without changing the advantageous economic conditions of the credit line (Euribor +0.225%) and made it possible to extend the average term of the euro 8 billion committed bank credit line while guaranteeing maximum flexibility in terms of the company's access to the capital market.

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The following table shows the maturities of non-current financial liabilities according to both the carrying amount (comprising fair value adjustments and amortized cost including accrued expenses) and the expected nominal repayment amount, as contractually defined. The maturities up to June 2008 include:

- euro 1,000 million relating to the bank facility expiring 2010 (for a total of euro 3,000 million) which was partly repaid in advance in the month of July 2007;
- the financial liability, equal to euro 111 million, recorded in 2006 and relating to the gain temporarily deferred on the sale of AVEA I.H.A.S., against the commitments undertaken by the Telecom Italia Group to make or have a bank make a subordinated loan to AVEA I.H.A.S. for an amount of USD 150 million. In July 2007, upon the disposal of the interest held by the Telecom Italia Group in Oger Telecom, the buyer, Saudi Oger, undertook, through the issue of an indemnity letter, to assume this commitment. Therefore, the liability will be eliminated and the gain temporarily deferred will be released, without any kind of financial disbursement.

The average maturity of non-current financial liabilities is equal to 7.95 years.

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

	maturing 6/30/						
(millions of euro)	**2008**	**2009**	**2010**	**2011**	**2012**	**Beyond 2012**	**Total**
Bonds	2,985	2,838	4,506	3,512	3,429	14,557	31,827
Loans and other financial liabilities	2,255	291	2,368	313	230	4,338	9,795
Finance lease liabilities	254	259	168	142	121	1,144	2,088
Total	**5,494**	**3,388**	**7,042**	**3,967**	**3,780**	**20,039**	**43,710**
Current financial liabilities	492						492
Total	**5,986**	**3,388**	**7,042**	**3,967**	**3,780**	**20,039**	**44,202**

(1) Carrying amounts take into account fair value adjustments and amortized cost.

(2) Financial commitments include accrued expenses and deferred income, which increase the amount of non-current financial liabilities by euro 1 million, non-current financial liabilities due within 12 months by euro 1,022 million and current financial liabilities by euro 67 million.

Maturities of financial liabilities - nominal repayment amount (3):

	maturing 6/30/						
(millions of euro)	**2008**	**2009**	**2010**	**2011**	**2012**	**Beyond 2012**	**Total**
Bonds	2,409	2,850	4,560	3,564	3,435	14,923	31,741
Loans and other financial liabilities	1,844	280	2,367	253	227	3,879	8,850
Finance lease liabilities	235	259	168	142	121	1,144	2,069
Total	**4,488**	**3,389**	**7,095**	**3,959**	**3,783**	**19,946**	**42,660**
Current financial liabilities	432						432
Total	**4,920**	**3,389**	**7,095**	**3,959**	**3,783**	**19,946**	**43,092**

(3) Does not include euro 111 million relating to the gain temporarily deferred on the sale of AVEA I.H.A.S.

Current financial assets amount to euro 4,328 million (euro 4,144 million at nominal amounts) and permit, together with the total unused committed credit lines of euro 6.6 billion, an ample coverage of the estimated maturities.

Current financial assets decreased by euro 4,136 million compared to the end of 2006. This reduction is mainly due to the repayment of financial liabilities that became due and were not entirely covered by the new bond issues and the fact that the financial resources generated by the positive dynamics of operations were absorbed by the payment of dividends and financial investments.

Current financial assets include:

– *cash and cash equivalents* which amount to euro 3,664 million at June 30, 2007 (euro 7,219 million at December 31, 2006). The different technical forms used for the investment of available resources at June 30, 2007 can be analyzed as follows:
  - maturities: 91% of deposits have a maximum maturity date of one month;
  - counterpart risk: deposits are made with leading banks and financial institutions with high creditworthiness with at least an A rating;
  - country risk: the geographical location of deposits is principally in major European markets;

– *financial receivables and other current financial assets* which amount to euro 399 million at June 30, 2007 (euro 433 million at December 31, 2006). This line includes the current portion of loans to employees for euro 15 million, the current portion of financial receivables for lessors' net investments for euro 137 million, accrued income relating to derivatives hedging items classified as current assets/liabilities of a financial nature for euro 172 million, non-hedging derivatives for euro 56 million and other receivables for 19 million;

– *securities*, maturing beyond three months, equal to 265 million (euro 812 million at December 31, 2006) which refer to bonds issued by counterparts with at least an A rating with different maturities, but all with an active trading market and therefore readily convertible into cash. The decrease is due to the sale of the investment in a Belgium-registered monetary SICAV at December 31, 2006.

Reconciliation between the equity and net income of the Parent and the consolidated figures

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

	Net income for the period		Equity at	
(millions of euro)	**1st Half 2007**	**1st Half 2006**	**6/30/ 2007**	**12/31/ 2006**
Equity and Net Income of Telecom Italia S.p.A.	**1,388**	**3,136**	**23,252**	**24,524**
Equity and net income for the period of consolidated companies net of the share attributable of Minority interests	288	332	19,378	18,113
Carrying amounts of consolidated investments	–	–	(31,675)	(29,911)
Consolidation adjustments:				
– elimination of goodwill recognized in Parent financial statements	–	–	(40,013)	(40,013)
– recognition of positive differences arising from purchase of investments	–	–	44,344	43,662
– effect of elimination of carrying amount of shares of Parent held by Telecom Italia Finance	–	–	(468)	(468)
– valuation of investments using the equity method	48	44	135	95
– infragroup dividends	(303)	(2,076)	–	–
– losses of consolidated companies included in the results of parent companies and impairment losses	30	141	10,431	10,390
– gains on sales of investments	25	(46)	(116)	(142)
– elimination of internal profits included in tangible and intangible assets	17	19	(42)	(59)
– elimination of infragroup transactions on investments	–	–	(240)	(236)
– change in the percentage ownership, during the period, of consolidated companies	–	(52)	(4)	9
– other adjustments	7	(2)	47	54
Equity and Net Income attributable to the equity holders of the Parent	**1,500**	**1,496**	**25,029**	**26,018**
Equity and Net Result attributable to the Minority interests	2	(23)	1,072	1,080
Equity and Net Income in the consolidated financial statements	**1,502**	**1,473**	**26,101**	**27,098**

Related party disclosures

Related party transactions, including infragroup transactions, are neither unusual nor exceptional but fall under the normal business operations of the companies of the Group. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm's length. The information on related party transactions required by Consob Communication DEM/6064293 dated July 28, 2006 is presented in the statements and in the Notes under "Related Party Transactions" in the June 30, 2007 interim consolidated financial statements of the Telecom Italia Group and in the June 30, 2007 interim separate financial statements of Telecom Italia S.p.A..

Events subsequent to June 30, 2007

With regard to events subsequent to June 30, 2007, reference should be made to the specific Note in the interim consolidated financial statements at June 30, 2007.

Business outlook: for the current year in progress

With regard to the current year operating performance, the actual figures for the first half of 2007 confirm the trend described in the 2006 annual report.
Therefore, the Group confirms the targets announced to the market in March 2007.

The Business Units of the Telecom Italia Group

On January 22, 2007, in light of important technological, market and regulatory changes, Telecom Italia introduced a new organizational structure aimed at ensuring greater operational flexibility and facilitating the implementation of the strategic guidelines for the convergence of the various areas of business (fixed and mobile telecommunications and broadband internet and media content).

Accordingly, the disclosure by business segment was changed and the accounting representation is now the following:
– Domestic
– European Broadband
– Brazil Mobile
– Media
– Olivetti
– Other activities

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

In order to facilitate the comparability of the data, the business information of prior periods has been restated.

(millions of euro)		Domestic	European Broadband	Brazil Mobile	Media	Olivetti	Other activities	*Adjustments and eliminations*	Total consolidated
Revenues	**1st Half 2007**	**12,182**	**695**	**2,322**	**125**	**192**	**109**	**(155)**	**15,470**
	1st Half 2006	12,877	427	1,722	98	212	124	(125)	15,335
EBITDA	**1st Half 2007**	**5,619**	**88**	**585**	**(21)**	**(17)**	**41**	**(1)**	**6,294**
	1st Half 2006	6,210	14	354	(52)	(26)	21	(3)	6,518
EBIT	**1st Half 2007**	**3,456**	**(52)**	**69**	**(52)**	**(24)**	**25**	**27**	**3,449**
	1st Half 2006	4,037	(78)	(78)	(79)	(35)	28	6	3,801
Capital expenditures	**1st Half 2007**	**1,895**	**252**	**271**	**46**	**5**	**5**	**–**	**2,474**
	1st Half 2006	1,793	228	193	59	5	4	(66)	2,216
Headcount at (number)	**6/30/2007**	**65,880**	**4,455**	**9,661**	**1,007**	**1,355**	**1,454**	**–**	**83,812**
	12/31/2006	66,835	3,066	9,531	919	1,428	1,430	–	83,209

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

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

The adjustments and eliminations of EBIT and Net income (loss) from discontinued operations/assets held for sale include the gain, net of the relative transaction costs, on the sale of Digitel Venezuela.

Operating highlights of the Business Units of the Telecom Italia Group.

	6/30/2007	12/31/2006	6/30/2006
DOMESTIC FIXED			
Fixed network connections in Italy (thousands)	22,836	23,698	24,477
Physical accesses (Consumer + Business) (thousands)	19,811	20,540	21,217
Voice pricing plans (thousands)	6,619	6,468	6,469
Broadband accesses in Italy (thousands)	7,277	6,770	6,266
Alice (ex-Virgilio) page views (millions)	7,549	13,283	6,663
Alice (ex-Virgilio) average monthly single visitors (millions)	21.4	19.1	19.3
Network infrastructure in Italy:			
– access network in copper (millions of km - pair)	106.8	105.7	105.2
– access network and transport using optical fiber (millions of km of fiber)	3.8	3.7	3.7
Network infrastructure abroad:			
– European backbone (km of fiber)	55,000	51,000	51,000
– Mediterranean (km of submarine cable)	7,000	7,000	7,000
– South America (km of fiber)	30,000	30,000	30,000
DOMESTIC MOBILE			
Mobile telephone lines in Italy (number at period-end, thousands)	34,312	32,450	30,408
EUROPEAN BROADBAND			
Broadband accesses in Europe (number at period-end, thousands)	3,199	1,890	1,596
BRAZIL MOBILE			
Mobile telephone lines in Brazil (number at period-end, thousands)	27,478	25,410	22,338
MEDIA			
La7 audience share Free to Air (analog mode) (period average, in %)	3.0	3.0	3.0
La7 audience share Free to Air (analog mode) (last month of the period, in %)	3.1	3.1	2.9

Domestic

The Business Unit

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

The structure of the Business Unit

The Domestic Business Unit is organized as follows:

DOMESTIC		
FIXED	**MOBILE**	**SUPPORT ACTIVITIES**
Telecom Italia S.p.A. - Fixed telecommunication services	**Telecom Italia S.p.A.** - Mobile telecommunication services	**Telecom Italia S.p.A.** - Group function
Loquendo S.p.A.		Olivetti Multiservices S.p.A.
Matrix S.p.A.		Progetto Italia S.p.A.
Path.Net S.p.A.		Tecnoservizi Mobili S.r.l.
Telecontact Center S.p.A.		Telecom Italia Audit and Compliance Services Scarl
Telsy Elettronica e Telecomunicazioni S.p.A.		Telenergia S.r.l.
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.SM S.r.l. TIS France S.A.S		

Major corporate events/scope of consolidation

On February 27, 2007, the process for the reorganization of the Mediterranean Nautilus and Latin American Nautilus groups was concluded with the merger of the two Luxembourg group holding companies.

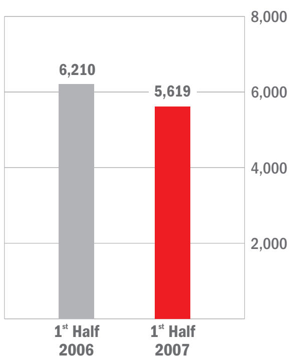
Main operating and financial data

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

(millions of euro)	1st Half 2007	1st Half 2006 (1)	Change amount	Change %
Revenues	12,182	12,877	(695)	(5.4)
EBITDA	5,619	6,210	(591)	(9.5)
% of Revenues	*46.1*	*48.2*		
EBIT	3,456	4,037	(581)	(14.4)
% of Revenues	*28.4*	*31.4*		
Capital expenditures	1,895	1,793	102	5.7
Headcount at period-end (number)	65,880	66,835	(955)	(1.4)

(1) The headcount is as of the date of December 31, 2006

EBITDA (euro/millions)



Revenues totaling euro 12,182 million, record a contraction of 5.4% (– euro 695 million) compared to the first half of 2006. In organic terms, on a comparable consolidation basis and excluding the foreign exchange effect, the reduction is equal to euro 5.3% (– euro 679 million). Without taking into account the impact from the changes relating to Non-geographic Numbers (NNG), described later in the report, the reduction is equal to 3.6%.
Revenues were affected by the cut in the fixed-mobile termination rates (euro 95 million), the application of the Bersani Decree with effect from March 2007 (estimated at approximately euro 163 million) and self-regulation with regard to the price of International Roaming traffic (in keeping with the proposals of the European Commission): in total, compared to the first half of the prior year, these changes (included the NNG effect) amount to euro 508 million.
In particular, with regard to calls made by customers towards non-geographic numbers (NNG) of Other Operators (OLOs), with effect from January 1, 2007, in line with Resolution 417/06/CONS of the Italian Communications Authority, Telecom Italia will only provide billing services and no longer assume the risk of insolvency on the relative receivables. Therefore, with effect from the same date, revenues and related interconnection costs do not take into account traffic generated by such calls which, in the first half of 2006 had led to the recognition of revenues and costs totaling euro 230 million.

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

	1st Half	1st Half	Change	
(millions of euro)	2007	2006	amount	%
Revenues	12,182	12,877	(695)	(5.4%)
of which				
Fixed telecommunications	*7,983*	*8,599*	*(616)*	*(7.2%)*
Mobile telecommunications	*4,916*	*4,982*	*(66)*	*(1.3%)*
Elminations and central functions contribution	*(717)*	*(704)*	*(13)*	*(1.8%)*

Fixed Telecommunications

Revenues from Fixed Telecommunications amount to euro 7,983 million and show a reduction of euro 616 million (– 7.2%) compared to the first six months of 2006. At the organic level, excluding the foreign exchange effect and the change in the scope of consolidation and the impact from the above-mentioned amendments to the AGCom's Resolution 417/06/CONS relating to NNGs, the change in revenues is a negative 4.4%.

The performance of the major business areas is reported below.

Retail telephone
Revenues from the Retail Telephone area are equal to euro 4,285 million and show a reduction of euro 520 million (– 10.8%) compared to the first half of 2006.
The decrease is due to the contraction in volumes and prices (reduction in termination rates) on fixed-mobile traffic, the migration of market volumes from fixed to mobile traffic and competitive price pressure, especially in the Top Clients segment. Excluding the effect of the above-mentioned changes relating to NNG, the reduction is around 8.1% compared to the first half of 2006.

Internet
Revenues generated by the Internet area, equal to euro 716 million, decreased by euro 46 million (– 6.0%) compared to the first half of 2006. Net of the effect deriving from the above-mentioned contractual changes relating to Non-geographic Numbers, the change is a positive euro 44 million (+6.5%) compared to the first half of 2006, thanks to the continuous strong growth of broadband revenues which record a growth of 10.0% compared to the corresponding period of 2006 (+euro 61 million).
At June 30, 2007, the overall portfolio of broadband accesses on the domestic market reached 7.3 million, of which 6.1 million refers to Retail. Growth is again recorded for Flat rate plans which now account for about 58% of the Alice Consumer client portfolio and also for the VoIP customer portfolio, with 924,000 customers representing 15.2% of total Retail Broadband accesses.

Data Business
Overall, revenues from the Data Business area, equal to euro 841 million, show a contraction of euro 49 million (– 5.5%) compared to the first half of 2006 and the reduction was entirely recorded in the first quarter of 2007. This decline, due to ever-fiercer competition on the Corporate client market and the revision of contract prices with the Public Administration, is particularly evident in leased line services and traditional Data Transmission services. Conversely, there was a positive trend in ICT services, which showed an increase of euro 40 million (+14.5%) compared to the first half of 2006.

Wholesale
Revenues from Wholesale services, equal to euro 1,950 million, show an overall increase of euro 27 million (+1.4%) compared to the first half of 2006.
Revenues from national wholesale services amount to euro 1,164 million and record a gain of euro 157 million (+15.6%) compared to the first half of 2006. International wholesale services reported revenues of euro 786 million with a contraction of euro 130 million (– 14.2%) compared to the corresponding period of the prior year.

Mobile Telecommunications

Revenues in the first half of 2007 amount to euro 4,916 million and decreased by 1.3% (– 0.4% in revenues from services alone). This performance was affected by the negative impact of the Bersani Decree, the change in fixed-mobile termination rates and self-regulation with regard to the price of International Roaming traffic (to comply with the decisions of the European Commission). Excluding these regulatory changes, total revenues of Domestic Mobile would have increased by 3.8% and revenues from services by 5.1%.

The first half of 2007 featured a strong growth in revenues from Value-Added Services (VAS), equal to euro 916 million, which grew by euro 123 million (+15.5%) compared to the first half of 2006 (of which euro 78 million during the second quarter), thanks to the continuous innovation of the offering portfolio with regard to interactive services. The percentage of VAS to total revenues is now 19.9% (17.2% in the first half of 2006). "Telephone" revenues, equal to euro 3,462 million, show a decrease in outgoing traffic (– 2.2%) and also incoming traffic (– 7.8%); the latter was affected by the above negative impact of the new termination price list.

Revenues from the sale of terminals total euro 321 million, a decrease of euro 47 million (– 12.8%) compared to the first half of 2006.

At June 30, 2007, the number of Telecom Italia mobile lines is 34.3 million (of which 5.1 million are UMTS, accounting for 15.0% of total customers) with a growth of 1.9 million compared to December 2006, and a market share of 40.3%.

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EBITDA of the Domestic Business Unit, equal to euro 5,619 million, records a decrease of euro 591 million (– 9.5%) compared to the first half of 2006, with the percentage of EBITDA to revenues at 46.1% (48.2% in the first half of 2006). EBITDA, compared to 2006, was highly influenced by the above-mentioned regulatory effects and the impact caused by the Bersani Decree (for a total of euro 191 million), in addition to a different mix of revenues and greater competitive pressure in Italy, with an impact on prices and sales costs.

The organic change in EBITDA compared to the first half of 2006 is a negative 8.4% (– euro 526 million), with the percentage of EBITDA to revenues at 47.2% (48.8% in the first half of 2006). Details are as follows:

(millions of euro)	1st Half 2007	1st Half 2006	Change amount	%
HISTORICAL EBITDA	**5,619**	**6,210**	**(591)**	**(9.5)**
Effect of change in scope of consolidation	–	(8)		
Effect of change in exchange rates	–	(2)		
Non-organic (income) expenses:	134	79		
Corporate restructuring costs	*–*	*5*		
Accrual for Antitrust fine	*20*	*–*		
Disputes and settlements with other operators	*33*	*–*		
Restructuring costs	*81*	*70*		
Other (income) expenses, net	*–*	*4*		
COMPARABLE EBITDA	**5,753**	**6,279**	**(526)**	**(8.4)**

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

- purchases of materials and external services total euro 4,901 million decreased by euro 250 million (– 4.9%) compared to the first half of 2006, mainly due to the reduction in the portion to be paid to other operators following the previously mentioned contractual changes relating to NNG. This effect was partially offset by the increase in sales costs and lease payments;
- personnel costs amount to euro 1,641 million, a reduction of euro 83 million compared to the first half of 2006 (– 4.8%). This decrease is primarily related to the reduction in the number of the work force, the elimination of the liability for the profit bonus (euro 79 million) accrued at the end of 2006 and no longer due as a result of agreements reached with the unions in June 2007 which support the alignment of the profit bonus of the Parent, Telecom Italia, with the payment criteria established for ex-TIM Italia, and the positive effects of the actuarial calculation of the provision for employee severance indemnities owing to the application of the new law dealing with pension benefits (– euro 27 million);
- other operating expenses amount to euro 416 million (+euro 91 million compared to the first half of 2006, + 28.0%). The change is principally the result of accruals for disputes and settlements with Eutelia and other operators (euro 33 million), higher expenses connected with credit management and also the accrual for the fine levied on Telecom Italia by the Antitrust Authority in August 2007 (euro 20 million) for having acted in a manner aimed at excluding competitors from the wholesale market of termination services and from the related retail market of fixed-mobile telephone services for business clientele.

EBIT of the Domestic Business Unit, totaling euro 3,456 million, decreased by 14.4% (– euro 581 million) compared to the first half of 2006. The percentage of EBIT to revenues is 28.4% (31.4% in the first half of 2006). In organic terms, the reduction in EBIT is a negative 10.2% (– euro 405 million) compared to the first half of 2006, with the percentage of EBIT to revenues at 29.4% (31.0% in the first half of 2006). Details are as follows:

(millions of euro)	1st Half 2007	1st Half 2006	Change amount	%
HISTORICAL EBIT	**3,456**	**4,037**	**(581)**	**(14.4)**
Effect of change in scope of consolidation	–	(8)		
Effect of change in exchange rates	–	–		
Non-organic (income) expenses:	124	(44)		
Non-organic (income) expenses already described under EBITDA	134	79		
Additional non-organic (income) expenses	(10)	(123)		
Gains on sale of non-current assets	*(10)*	*(123)*		
COMPARABLE EBIT	**3,580**	**3,985**	**(405)**	**(10.2)**

EBIT performance was affected by the decrease in gains (losses) realized on non-current assets of euro 115 million (mainly due to the fact that in the first half of 2006 gains had been recognized on the sale of properties for euro 123 million); this change was more than compensated by the reduction in depreciation and amortization charges of euro 125 million (primarily as a result of the assessment of the estimated useful lives of the fixed and mobile network assets conducted by Telecom Italia at the end of 2006). This assessment, if applied from the first half of 2006, would have lead to a reduction in the depreciation and amortization charge of approximately euro 200 million.

Capital expenditures total euro 1,895 million (+euro 102 million over the same period of 2006). The percentage of capital expenditures to revenues is equal to 15.6% (13.9% in the first half of 2006). Higher investments indicate the constant attention paid by the Group to the continual modernization of the network, technologies and services.

Headcount is 65,880 and includes 1,636 people with term contracts (1,599 at December 31, 2006). The reduction of 955 people since December 31, 2006 is primarily due to the termination of employment in conjunction with employee termination benefit incentives and mobility agreements under Law 223/1991.

Key factors

Fixed Telecommunication

The Domestic Fixed Services Department focused on encouraging its customers to migrate towards innovative broadband access solutions, which provide access to a new generation of IP services and applications. The aim is to expand the penetration of ADSL into the Retail Broadband market through its range of "Alice" products to consumers, SOHOs and SMEs.
At June 2007, this strategy enabled Telecom Italia to have a Broadband Retail + Wholesale portfolio of 7.3 million accesses (compared to about 6.8 million accesses at December 2006), of which about 6.1 million were Retail Broadband. In the first half of 2007, Telecom Italia's commercial strategy was again directed to encourage customers with ADSL pay-per-use rate plans to migrate towards Flat Rate plans, which account for 58% of the ADSL offerings at June 2007, and to Dual Play offerings (VoIP + ADSL), which now represent more than 15% of the Retail Broadband offerings of Telecom Italia.
Furthermore, the Domestic Fixed Services Department is continuing to develop new innovative services aimed at increasing the reasons for choosing ADSL. In the Consumer market, development of the IPTV service is continuing and geographical coverage has now reached 47% of fixed lines at June 2007. Work is also going forward on boosting the offering of web content and services. In the Telecom Italia Business market, Telecom Italia is becoming ever more specialized in offering ICT solutions to its customers, as a tool to promote customer retention and raise revenues.
In the traditional Telephone business, the strategy used for the retention of customers is that of increasing the penetration of flat rate voice packages (at June 30, 2007, there were more than 6.6 million, more than one third of the number of accesses), continuing in the activity aimed at recapturing customers that switched to rival operators (586,000 returns in the first half of 2006).

Mobile Telecommunications

In the first half of 2007, the Domestic Mobile Services Department concentrated on maintaining its overall market share of the number of lines, increasing the acquisition of subscriber customers with contracts, spreading the offering of Flat packages and augmenting the penetration of UMTS terminals within its customer base, with the aim of increasing the use of Value-Added Services (VAS). This strategy made it possible to limit the contraction in revenues, despite the above-mentioned regulatory measures and pressure from the competition, thanks to a significant increase in the use of mobile telephone services. As a result of the Bersani Decree, a strategy was adopted to create an offering with the greatest possible transparency with regard to rates and to introduce more specific segmentation, approaching specific segments of the clientele with dedicated offers (for example, Elite, Giovani…). In the Business segment, new rate plans were offered to stimulate on-net traffic and new flat packages which include voice, messaging and hi-speed data services.

Commercial agreements

The following took place:
- on March 30, 2007, Telecom Italia and COOP signed an agreement under which COOP will market telephone services with the "COOPVoce" trademark, thanks to the technological infrastructures and services provided by Telecom Italia;
- on June 8, 2007, Telecom Italia and the Generali Group signed an agreement for the design and creation of the new telecommunications network of the insurance company in four European countries, and the supply of electronic communication services in those same countries and also Italy.

Initially, the international part of the agreement will involve the supply and operation of electronic communication services to the Generali Group in Austria, France, Germany and Spain, and, later on, in Belgium and Portugal, through the creation of a new network infrastructure which will also take advantage of Telecom Italia Sparkle's existing network infrastructures. In particular, the data transmission services will make it possible to guarantee the security of the transactions made through the connections of the various offices. Furthermore, according to the agreement, in each individual country, Telecom Italia will supply hi-tech support services which will have the capacity to meet all local technical requirements and ensure that the service operates correctly;

- on July 3, 2007 Telecom Italia was awarded the contract – over a three-year period and worth more than euro 45 million – for the development of an integrated telephone and data network for all the offices of the Monte dei Paschi di Siena group. This contract will enable the MPS group to achieve a significant reduction in costs and was awarded not only with the aim of gaining economic advantage, but because of the innovative nature and versatility of the Telecom Italia offering;
- on July 18, 2007 the governing body of the Vatican City State and Telecom Italia announced the creation of the institutional portal www.vaticanstate.va. The portal illustrates the services, activities and organization of Vatican City;
- on July 27, 2007 Telecom Italia and Tiscali signed an agreement which allows Tiscali to become a virtual mobile operator. For the first time in Italy, the operator of an "alternative" fixed network will also be able to offer mobile and integrated services throughout the national territory to the residential clientele.

Main operating data

Operating highlights at June 30, 2007 compared to December 31, 2006 and June 30, 2006 are reported below.

	6/30/2007	12/31/2006	6/30/2006
Fixed telecommunications			
Fixed network connections in Italy (thousands)	22,836	23,698	24,477
Physical accesses *(Consumer + Business)* (thousands)	19,811	20,540	21,217
Voice pricing plans (thousands)	6,619	6,468	6,469
Broadband accesses in Italia (thousands)	7,277	6,770	6,266
Alice (ex-Virgilio) page views (millions)	7,549	13,283	6,633
Alice (ex-Virgilio) average monthly single visitors (millions)	21.4	19.1	19.3
Network infrastructure in Italy:			
– access network in copper (millions of km - pair)	106.8	105.7	105.2
– access network and transport in optical fiber (millions of km of fiber)	3.8	3.7	3.7
Network infrastructure abroad:			
– European backbone (km of fibers)	55,000	51,000	51,000
– Mediterranean (km of submarine cable)	7,000	7,000	7,000
– South America (km of fiber)	30,000	30,000	30,000
Total traffic:			
Minutes of traffic on the fixed network (billions)	79.4	173.8	90.3
– domestic traffic	71.6	160.1	83.8
– international traffic	7.8	13.7	6.5
Mobile Telecommunications			
Number of lines at the end of the period (thousands)	34,312	32,450	30,408
Prepaid lines (thousands) (1)	29,319	28,080	26,662
Growth of the clientele (%)	12.8	13.6	16.4
Churn rate (2)	7.3	18.9	8.4
Total outgoing traffic per month (millions of minutes)	2,555	2,443	2,414
Total outgoing and incoming traffic per month (millions of minutes)	3,839	3,730	3,694
Average monthly revenues per line (3)	23.0	25.6	26.0

(1) Excluding "not human" SIM.
(2) The data refers to total lines. The churn rate for a certain period represents the number of mobile customers who discontinued service during the period (either voluntarily or because of default) expressed as a percentage of the average number calculated on the basis of the total annual number of customers during the period.
(3) Includes revenues from prepaid cards and revenues from non-domestic traffic; it does not include revenues from product sales.

At June 30, 2007, the Domestic Business Unit has approximately 22.8 million fixed connections. The decline compared to December 31, 2006 is nevertheless offset by the growth in Broadband which, at June 2007, reached a portfolio of 7.3 million accesses, of which about 6.1 million were retail broadband accesses, confirming the continuous expansion trend of ADSL technology.

At June 30, 2007, Telecom Italia has about 34.3 million mobile GSM and UMTS lines (of which 5.1 million are UMTS lines) with an increase of 5.7% compared to December 31, 2006. This figure includes 29.3 million prepaid lines, which represent 85.5% of all lines.

At June 30, 2007, Telecom Italia's market share settled at 40.3%, in line with the figure at December 31, 2006 (40.4%). In particular, during the first six months of 2007, Telecom Italia reached a market share of 39% in terms of the net increase of GSM and UMTS lines, corresponding to about 1.9 million lines.

Fixed network

At the end of June 2007 the domestic fixed network in statistics was as follows:

Exchange areas	about 10,400
Switching areas	628 SGU (Urban Group Stages)
Gateway areas	33
Copper access network	106.8 million kilometers-pair
Fiber optic (total :access+carrier network)	3,85 million kilometers-line
Fiber optic access network only	450,000 kilometers-line
Long Distance VC4 (link on national network)	3,786
Long Distance Lambda (link 2.5 Gb national optical network)	282
Long Distance Lambda (link 10 Gb national optical network)	61
Network for direct digital circuits (PARD)	215,000 access points with speed over 2 Mbit/s
Network for direct analog circuits (PARD)	84,000 access points
Frame Relay Accesses	85,000 gates at 2Mbit/s
PoP main data networks	32

National network

During the first half of 2007, the main activities centered on:

- development of the ADSL access network, with the creation of 575 new exchanges (of which are 521 Mini DSLAM for the Digital Divide), bringing the total number of exchanges to 6,087 (of which 1,218 are Mini DSLAM for the Digital Divide);
- bringing total ADSL coverage of Italy's telephone population to 90.3%;
- development of the Metro Regional network for IPTV services which, at the end of June 2007, was active in 240 Italian towns and 21 metropolitan areas and, with 836 exchanges, covers about 45% of Italy's telephone population.

With regard to ADSL 2 plus access, at the end of June 2007, total coverage of Italy's telephone population stands at 56.1%, 592 towns, of which 9 were provided with access in the first half of 2007.

International network

In the first half of 2007, development work continued with the aim of sustaining the growth of international Internet traffic by creating extensions to the main traffic routers of the European backbone, trans-Atlantic links and the network in the U.S.A..
Work was also conducted to support the development of the European Broadband companies HanseNet and Telecom Italia S.A.S..

The number of POP interconnections has been increased in Frankfurt and Paris, as well as capacity towards local Internet Exchange Points and peering with the main operators, in line with expected growth. In particular, a new IP POP was created in Hamburg to expand the interconnection infrastructure with HanseNet.

The transmission capacity available in the east ring of the Pan European Backbone has also been increased with the aim of supporting the growing demand for bandwidth and services from Eastern Europe. Following this expansion, the ring mentioned was also given meshed transmission protection, thus augmenting the global reliability of the network and the end-to-end services supplied to customers.

With the aim of boosting connectivity towards countries in the Mediterranean and the Middle and Far East, the submarine cables linking Trapani and Kelibia, in Tunisia, and the SEA-ME-WE 3 cable were upgraded. The latter system, in particular, links more than 30 countries in 4 continents: Europe, Africa, Asia and Oceania, and, together with the SEA-ME-WE 4 system, which became operational in 2005, is the main traffic router linking Asia and Europe. This allows Telecom Italia Sparkle to meet the demand for greater capacity and services from areas of the world with the fastest-growing economies.

Action to complete the services portfolio for mobile operators includes the introduction of functions for transport of signaling over IP (SIGTRAN access for Global Signaling) and the SMS anti-fraud platform ("Antifraud Cleaning Platform"), which provides mobile customers with functions for filtering fraudulent texts (spamming, spoofing, etc.), in keeping with the standards of the GSM Association.

Mobile network

At June 30, 2007 Telecom Italia's GSM/EDGE network consisted of about 13,871 radio base stations and 726,208 radio channels. The network has reached a fairly steady level in terms of coverage, but is being constantly adapted to the needs of traffic, quality standards and to bring the services it provides up to date.

During the first half of 2007, the roll-out to expand coverage of Telecom Italia's UMTS network continued. At June 30, 2007, it comprised approximately 8,534 radio base stations and 937,232 radio channels.

Work also continued on the network plan to distribute HSDPA (High Speed Downlink Packet Access) Phase 1 technology. The plan aims to augment the speed of data transmission packages offered by the UMTS network (maximum downlink speed 3.6 Mbps). At the end of June 2007, 4,123 sites had been updated with HSDPA Phase 1 technology. During the first few months of 2007, work also began to develop HSDPA Phase 2 technology (maximum downlink speed 7.2 Mbps).

The process of modernizing GSM exchanges continues, with the introduction of systems which have an identical architecture to those used on the UMTS network. With time, and taking the necessary steps in terms of size and operations, this innovation will make it possible to implement an integrated GSM-UMTS network, in which the switching exchange will be shared by the GSM and UMTS access systems. This, in turn, will make it possible to optimize the management of the service in a so-called "seamless" scenario.

With the aim of supporting an increase in the number of customers, in the first half of 2007, further HLR (Home Location Registers) were activated.

Effects of the Bersani Decree on domestic service rates

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

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

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

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

European Broadband

The business unit

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

The structure of the Business Unit

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

Major corporate events/scope of consolidation

On February 28, 2007, Telecom Italia Deutschland Holding finalized the purchase of the AOL access business in Germany (broadband and narrowband) from the Time Warner Group.
The consideration paid amounts to euro 669 million and includes euro 665 million for the cost of the investment, euro 6 million of transaction costs and euro 2 million of cash acquired.
On June 22, 2007, the companies purchased by the Time Warner Group were merged in and with HanseNet Telekommunikation GmbH.

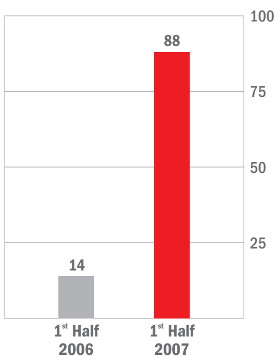
Main operating and financial data

The following table shows the key results for the first half of 2007, compared to the first half of 2006.

(millions of euro)	1st Half 2007	1st Half 2006 (1)	Change amount	Change %
Revenues	695	427	268	62.8
EBITDA	88	14	74	°
% of Revenues	*12.7*	*3.3*		
EBIT	(52)	(78)	26	33.3
% of Revenues	*(7.5)*	*(18.3)*		
Capital expenditures	252	228	24	10.5
Headcount at period-end (number)	4,455	3,066	1,389	45.3

(1) The headcount is as of the date of December 31, 2006

EBITDA (euro/millions)



Revenues in the first half of 2007 amount to euro 695 million, with an increase of 62.8% compared to the first half of 2006 (+euro 268 million). Organic growth for the period, that is, on a comparable consolidation basis, is euro 114 million, +19.6%. This result is supported by the increase, for both internal lines and as a result of the acquisition of AOL Internet activities, of the Broadband customer portfolio, which, at June 30, 2007, reached about 3.2 million accesses (of which 1.1 million from the acquisition of AOL Germany). Similarly, at the end of the first half of 2007, the Narrowband portfolio reached 1.1 million accesses compared to 0.3 million in the corresponding period of the prior year.

In greater detail, revenues from business conducted in Germany, equal to euro 476 million, doubled compared to the first half of 2006 (+euro 238 million); similarly, organic growth is 21.4%. The Broadband customer portfolio in Germany at June 30, 2007 reached almost 2.2 million users, an increase of about 1.4 million compared to June 2006 or almost 0.4 million excluding external lines.

With regard to the French area, in the first half of 2007, revenues amount to euro 183 million, an increase of 23.6% compared to the corresponding period of the prior year (+euro 35 million). In the Broadband area, there was an increase in both access revenues (+euro 20 million) and "Voice over IP" revenues (+euro 11 million). Compared to the first half of 2006, the Broadband customer portfolio increased by 29.2% (+191,000 new customers).
The Netherlands contributed euro 36 million to total revenues, with a reduction compared to the first half of 2006 of euro 5 million due to the loss of lines in Wholesale ADSL (about – 45,000 lines). This was only partly compensated by the increase in the number of customers in the Retail, Voice and Fiber (Wholesale and Retail) area (about +20,000 lines).

EBITDA is euro 88 million and recorded an increase of euro 74 million compared to the first half of 2006. The percentage of EBITDA to revenues is 12.7% against 3.3% in the first half of 2006. At the organic level, EBITDA grew over the first half of 2006 by euro 56 million (+164.7%). Details are as follows:

(millions of euro)	1st Half 2007	1st Half 2006	Change amount	Change %
HISTORICAL EBITDA	**88**	**14**	**74**	**528.6**
Effect of change in scope of consolidation	–	20		
Non-organic (income) expenses:	2	–		
Restructuring costs	*2*	–		
COMPARABLE EBITDA	**90**	**34**	**56**	**164.7**

With regard to changes in costs, the following is noted:
- purchases of materials and external services total euro 525 million, with an increase of 50.0% compared to 2006 (+euro 175 million), on a par with the growth of business;
- personnel costs amount to euro 92 million and increased by euro 32 million compared to 2006 (+53.3%), partly due to the increase in the headcount as a result of the acquisition of the AOL Germany access business.

EBIT is a negative euro 52 million, an improvement of euro 26 million (+33.3%) compared to the first half of 2006.
At the organic level, EBIT grew by 18.0% compared to the first half of 2006. Details are as follows:

(millions of euro)	1st Half 2007	1st Half 2006	Change amount	Change %
HISTORICAL EBIT	**(52)**	**(78)**	**26**	**33.3**
Effect of change in scope of consolidation	–	17		
Non-organic (income) expenses already described under EBITDA	2	–		
COMPARABLE EBIT	**(50)**	**(61)**	**11**	**18.0**

The improvement in EBIT was achieved despite a considerable increase in depreciation and amortization charges (+euro 47 million) due to both significant investments in network infrastructures and hardware and information systems and to commercial development where subscriber acquisition costs on contracts binding the customer to the company for at least 12 months, otherwise a penalty is applied in the event of early cancellation, are capitalized and amortized.

Capital expenditures amount to euro 252 million, an increase over the same period of 2006 (+euro 24 million). This increase is mainly due to technical projects (network and IT) and higher Customer Activations.

Headcount at June 30, 2007 is 4,455, an increase of 1,389 compared to December 31, 2006 including 764 people with temp work contracts (626 at December 31, 2006).
The increase is principally due to the AOL Germany acquisition (1,101 people), with the remaining number attributable to the growth of the operating departments (call centers and networks) of HanseNet, Telecom Italia S.A.S. and the BBNed Group.

Events subsequent to june 30, 2007

On July 18, 2007, the purchase of 100% of the company InterNLnet B.V. by BBNed was finalized. The price, set at an amount of euro 3.8 million (Enterprise Value) plus the net cash position at the closing date, was euro 5.5 million. The aim of this transaction is to favor the repositioning of BBNed at the level of retail activities by acquiring greater expertise in the segment of optic fiber services.

Key factors and general information on services

France

France is one of Europe's largest broadband markets and has high growth potential, with 5 million new lines anticipated over the period 2006-2009.

During the first half of 2007, the French market was again highly competitive with a bundled offering with rich content at some of the lowest prices on the European market: about euro 30 per month for dual and triple play rate plans (Video, Voice and Data).

The technological evolution of the offering continued with the launch of the first "trial" offers for Ultra-broadband fiber services by France Telecom and Neuf Cegetel and the announcement of the next development in this field by the Iliad group.

In this context, the Telecom Italia Group's French subsidiary focused its strategy on improving the quality of its services with the aim of achieving excellence both in terms of operations and profitability. This objective will be achieved by:

- developing the product range, with particular reference to triple play content. The main achievements during the first half of 2007 refer to:
  - the introduction, in partnership with Canal+, included the introduction of a bundled triple play rate plan offering enhanced content and which is innovative from the technological point of view;
  - the extension of available IPTV channels, the Video on Demand offering and the extension of the service nationwide;
  - the renovation of the Alice portal by launching personalized services and partnership with TF1 for the introduction of new content and the advertising management of the portal;
  - the launch of the "Naked ADSL" offering in areas not covered by Unbundling;
  - the enhancement of the voice offering by launching new flat rate plans and new international destinations;
- increasing the extent of the network, accelerating its expansion for the offering of LLU services. During the first half of 2007, the company extended coverage of the Unbundling service to 673 "Ready for Service" sites;
- focusing commercial activities on the LLU offering, partly by a repositioning of prices;
- launching of a new development plan to improve the efficiency of the network and its processes and systems to ensure excellent standards of quality;
- launching the "Alice pour Vous" campaign which contractually formalizes the commitment to excellence in the quality of service offered, with mechanisms to monetarily reimburse the customer in case the commitment undertaken is not met;
- developing Group synergies for the wholesale offering and towards the Corporate Multinational clientele.

Germany

The German market is Europe's largest in terms of the number of broadband lines and continues to have high growth potential (+15% in terms of new lines over the period 2006-2009). Technological evolution is also producing new development features as a result of the moves made by the incumbent Deutsche Telekom with regard to the VDSL offering. In the first half of 2007, the main players initiated more aggressive pricing policies, which in any case remain among the highest in Europe.

The market is now concentrated in the hands of four or five players. Hansenet is the second-largest ISP and the third-largest broadband operator in Germany. In order to consolidate the positive results achieved and reinforce its position on the market, its strategy is based on the following factors:

- **maximizing synergies with AOL**: since the end of March 2007, the new organizational structure has become operational, integrating the resources and the expertise of HanseNet with the companies acquired from the Time Warner Group. In particular, the commercial channels have been integrated in the Alice multichannel strategy and the upselling of Alice rate plans has started with the existing AOL customer base (broadband and narrowband). A commercial partnership has also been established with the Time Warner Group which has rendered a new portal available which is dedicated to the joint Alice - AOL brand;

- **innovating the offering**: HanseNet was the first operator to launch the ADSL2+ rate plans and IPTV services. In this context, the main lines of development in the first half of the year were geared to:
  - the IPTV offering, the content of which was enhanced thanks to an agreement with Warner Bros, covering the main cities in Germany: Hamburg, Frankfurt, Berlin, Munster and Bottrop;
  - the launch of a mobile offering as an MVNO - Mobile Virtual Network Operator - through the introduction of the Alice Mobile Option and a new bundle offering (Alice Complete).

On the front of pricing, promotions were offered in order to maintain Alice's competitive positioning.

Other areas developed are:
– Group synergies for the wholesale offering and for the support of the MNC - Multi-National Customer clientele;
– expansion of LLU coverage through the proprietary network which, at June 30, 2007, had 619 sites; 949 sites are open to the wholesale offering through the Group's partners Telefonica and QSC. Similarly, a new nationwide offering was launched based on wholesale DT;
– keeping an ever-watchful eye on the quality of service with particular reference to VoIP services.

The Netherlands

The Dutch market has undergone an important process of consolidation within the sphere of the wholesale offering, due to the fact that KPN has acquired numerous ISPs; there is also a significant offering of cable services (about 38% of the Retail Broadband market). The incumbent KPN's announcement of a plan to develop the VDSL offering fits into this context. It led to moves by the Dutch regulator (OPTA) to reach agreements with operators about how the technological change of the offering and the consequent period of transition should be managed. This negotiation process led to the signing of a Memorandum of Understanding between BBNed and KPN at the beginning of the month of July.
The response of the Dutch subsidiary in this context is moving in the direction of rationalizing its offering on the market and developing new technological platforms.
Efforts are concentrated in this sense also on action to reposition the company vis à vis the competition and the goal-oriented development of the retail optical services offering.
Consequently, immediately after the closing of the first half, the acquisition was finalized for the InterNLnet operator which is active in retail residential, ADSL and fiber offerings.

***

It should be mentioned that the Alice ADSL offering was launched on August 16 also in the Netherlands through the company BBNed. The Alice offering guarantees ADSL to Dutch customers at speeds of up to 20 Mega.

Brazil Mobile

The structure of the Business Unit

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

BRAZIL MOBILE

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

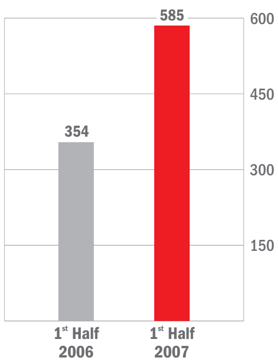
Main operating and financial data

The following table shows the key results for the first half of 2007, compared to the first half of 2006.

	(millions of euro)		(million of BRL)		
	1st Half 2007 (a)	**1st Half 2006** (b) (1)	**1st Half 2007** (c)	**1st Half 2006** (d) (1)	**Change %** (c-d)/d
Revenues	2,322	1,722	6,313	4,644	35.9
EBITDA	585	354	1,591	954	66.8
% of Revenues	*25.2*	*20.5*	*25.2*	*20.5*	
EBIT	69	(78)	189	(210)	
% of Revenues	*3.0*	*(4.5)*	*3.0*	*(4.5)*	
Capital expenditures	271	193	737	520	41.7
Headcount at period-end (number)	9,661	9,531	9,661	9,531	1.4

(1) The headcount is as of the date of December 31, 2006

EBITDA (euro/millions)



Consolidated revenues of the Tim Brasil group in the first half of 2007 total BRL 6,313 million and grew by 35.9% compared to the first half of 2006 (+40.8% for revenues from services alone). The increase is due to the strong growth of voice services and value-added services sustained by the sharp expansion of the customer base (+23.0% compared to the same period of 2006) and the success of the commercial offerings.

In July 2006, Anatel (the Brazilian regulatory agency) eliminated the "Bill and Keep" regulation under which the Mobile Operators, until that date, had not received or paid interconnection charges on the minutes of local mobile-mobile traffic when the balance between the incoming and outgoing minutes exchanged with the Operator fell within a 45-55 range. The growth of consolidated revenues in the first half of 2007 on a comparable regulatory basis would have been 18.1% for total revenues and 20.2% for revenues from services.

Consolidated *EBITDA* in the first half of 2007 totaling BRL 1,591 million increased by BRL 637 million compared to the first half of 2006 (+66.8%). As a percentage of revenues, EBITDA is 25.2% and shows an improvement of 4.7% compared to the corresponding period of 2006.

The organic growth of EBITDA compared to the same period of 2006 is equal to BRL 613 million (+62.7%), with EBITDA as a percentage of revenues at 25.2% (21.1% in the first half of 2006).

(millions of BRL)	1st Half 2007	1st Half 2006	Change amount	%
HISTORICAL EBITDA	**1,591**	**954**	**637**	**66.8**
Non-organic (income) expenses:	–	24		
Corporate restructuring costs	–	*11*		
Other (income) expenses, net	–	*13*		
COMPARABLE EBITDA	**1,591**	**978**	**613**	**62.7**

Consolidated *EBIT* in the first half of 2007 is a positive BRL 189 million (a negative BRL 210 million in the first half of 2006). The improvement in the result compared to the first half of 2006 was achieved despite higher depreciation and amortization charges, from BRL 1,164 million in the first half of 2006 to BRL 1,399 million in the first half of 2007, mainly in relation to capital expenditures for network infrastructures, computer and information systems and subscriber acquisition costs. Total amortization charges relating to subscriber acquisition costs capitalized on contracts binding the customer to the company for at least 12 months, otherwise a penalty is applied in the event of early cancellation, amount to BRL 181 million.

At the organic level, EBIT in the first half of 2007 is equal to BRL 189 million and is BRL 376 million higher than the corresponding period of the prior year. The organic growth is analyzed as follows:

(millions of BRL)	1st Half 2007	1st Half 2006	Change amount	%
HISTORICAL EBIT	**189**	**(210)**	**399**	
Non-organic (income) expenses:	–	23		
Non-organic (income) expenses already described under EBITDA	–	24		
Additional non-organic (income) expenses	–	(1)		
Other (income) expenses, net	–	*(1)*		
COMPARABLE EBIT	**189**	**(187)**	**376**	

Capital expenditures for the period amount to BRL 737 million (BRL 520 million in the first half of 2006), an increase of BRL 217 million partly as a result of expenditures to augment the customer base, for which an amount of BRL 158 million was capitalized in 2007.

Headcount at June 30, 2007 is 9,661, up slightly compared to December 31, 2006 (9,531).

Key factors

In the first half of 2007, the Brazilian market continued to grow at a strong pace.
By June 2007 there were 106.7 million lines (56.4% penetration of the population), compared to 99.9 million at the end of 2006 (53.2% of penetration), with a growth of 6.8%. The Tim Brasil group further consolidated its position as the second-largest operator on the market with 27.5 million lines and growth of 8.1% compared to the end of 2006, reaching a 25.8% market share of the lines, compared to 25.4% at the end of 2006. Approximately 94% of the Tim Brasil customer base uses GSM technology. At June 2007, the gap between the group and the largest operator narrowed even more (2.6 percentage points compared to 3.7 percentage points at the end of 2006.
It should also be emphasized that, in the first half of 2007, Tim Brasil again led the market with regard to revenues and the profit ratio (Ebitda to Revenues) grew by 4.7 percentage points compared to the first half of 2006 and is one of the highest in the country.

These results were achieved thanks to the leadership of the Tim Brasil group on the GSM market, the success of its commercial offerings and the quality and extension of national network coverage.

In the first half of 2007, the strategy of the Tim Brasil Group focused on:

- continuing to improve the level of customer service offered through Customer Care and the development of loyalty and retention policies;
- investing in the brand image to strengthen the group's leadership position;
- developing the segments with a high potential for consumption, with rate plans that encourage customers to use voice and data services;
- developing the portfolio of Advanced Services and data transmission (GPRS and EDGE) services, especially for the Business clientele;
- preparing convergent rate plans in the sphere of voice/data/Internet services with bundled packages and at competitive prices. These were launched in July 2007 with the new products "TIM Mais Completo" and "TIM Web".

Finally, in the first half of 2007, the Tim Brasil group acquired a license to operate fixed switched telephone services (STFC) nationwide, which are scheduled to be marketed in the second half of the current year.

Media

The Business Unit

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

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

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

The structure of the Business Unit

The Business Unit is organized as follows:

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

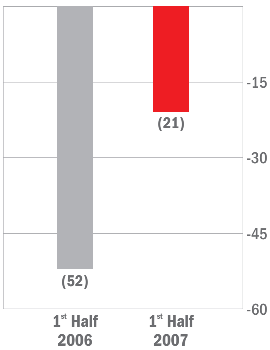
Main operating and financial data

The following table shows the key results for the first half of 2007, compared to the first half of 2006.

(millions of euro)	1st Half 2007	1st Half 2006 (1)	Change amount	Change %
Revenues	125	98	27	27.6
EBITDA	(21)	(52)	31	59.6
% of Revenues	*(16.8)*	*(53.1)*		
EBIT	(52)	(79)	27	34.2
% of Revenues	*(41.6)*	*(80.6)*		
Capital expenditures	46	59	(13)	(22.0)
Headcount at period-end (number)	1,007	919	88	9.6

(1) The headcount is as of the date of December 31, 2006

EBITDA (euro/millions)



Revenues in the first half of 2007 total euro 125 million, with an increase of 27.6%, compared to euro 98 million in the corresponding period of 2006. The positive trend in revenues can be attributed to the increase in the gross national advertising business (+14.3%) contrary to the trend of the market which reported a contraction of 2.7% in the first five months of 2007 (source Nielsen), the affirmation of the editorial content of the broadcasting of the two channels and increased revenues from the Digital Terrestrial TV platform for the broadcasting of Serie A soccer games. In particular:

- in the first half of 2007, revenues from analog Free to Air transmission total euro 86 million, an increase of 13.8%. The revenues of the two broadcasters La7 and MTV from analog transmission grew, respectively, by 17.3% and 8.8% and advertising on La7 rose by 17.1% (+15.8% in the first quarter, +18.3% in the second quarter);
- revenues from the Multimedia sector amount to euro 13 million, an increase of 33.3% compared to the corresponding period of the prior year, and benefit from the considerable contribution from advertising, especially on internet platforms;
- revenues from Digital Terrestrial TV activities stand at euro 22 million, compared to euro 9 million in the corresponding period of 2006. The increase in revenues benefited from development of the commercial "La7 Cartapiù" offering and was achieved partly as a result of the positive contribution deriving from the agreements reached with Mediaset and Telecom Italia on the broadcasting of the audio-visual content of Serie A soccer games on the DTT and DVBH platforms;
- revenues from the News Business Area amount to euro 4 million, an increase of 4.4% compared to the corresponding period of 2006.

EBITDA in the first half of 2007 is a negative euro 21 million compared to a negative EBIT in the corresponding period of 2006 of euro 52 million, with an improvement of euro 31 million (+59.6%).
Organic growth compared to the first half of 2006 is equal to euro 28 million (+58.3%).

In particular, operating profitability during the first half of 2007 shows an improvement in analog Free to Air broadcasting of euro 10 million, driven by the growth of national advertising (+12.9%). The improvement is also a reflection of La7's actions to concentrate its resources on adding more programs to its schedule with a higher audience/advertising return which made it possible to improve the EBITDA by euro 6 million during the period and on MTV's actions to develop new multi-channel/multi-platform strategies. The activities of Digital Terrestrial TV, which improved by euro 19 million compared to the first half of 2006, also reflect the above-mentioned increase in revenues (+euro 13 million), more efficient management of the platform and the effect of rationalizing costs on the digital Free to Air channels (La7 Sport and QOOB).

EBIT in the first half of 2007 is a negative euro 52 million (– euro 79 million in the corresponding period of 2006), improving by euro 27 million (+34.2%). This improvement in operating income was reduced in part by higher depreciation and amortization charges during the period (+euro 4 million) as a consequent of both capital expenditures during the first half of 2007 for digital network infrastructures and higher utilization of television rights in the programs of the first part of the year.
The organic change compared to the first half of 2006 is euro 23 million (+31.1%).

Capital expenditures total euro 46 million (euro 59 million in the first half of 2006) and mainly refer to investments in the Television area in connection with Digital Terrestrial Television (euro 21 million) and the acquisition of television rights (euro 19 million).

Headcount at June 30, 2007 is 1,007 (919 at December 31, 2006) and includes 81 people with temp work contracts (47 at December 31, 2006). The increase is principally attributable to the Television sector to meet beginning-of-the-year commitments for the new TV productions.

Events subsequent to june 30, 2007

In order to finalize the plan for the merger of HMC S.p.A. and HMC Pubblicità S.r.l. (in liquidation) in and with Telecom Italia Media, on July 13, 2007, the merger deed was signed, effective July 17, 2007.
The merger did not require any changes in the bylaws of Telecom Italia Media. Additionally, the share capital of Telecom Italia Media was not increased to service the merger since Telecom Italia Media held directly or indirectly 100% of the two merged companies.

Key factors

Within the framework of its strategies to develop innovative services, the Telecom Italia Group has decided to maximize on its expertise in the development of traditional and multimedia content, by concentrating it in Telecom Italia Media. In this context, on March 8, 2007 the boards of directors of Telecom Italia S.p.A. and Telecom Italia Media S.p.A. approved an agreement to entrust Telecom Italia Media with the exclusive responsibility of designing and producing the television content offering on the IPTV and DBVH technological platforms (as well as for the portal “Rosso Alice”, but only for “television” content), with an exclusive mandate to acquire the rights for doing so in the name of and on behalf of Telecom Italia.
As a result of this agreement, Telecom Italia Media has become the “Competence Center” on television content for the Telecom Italia Group. It is thus taking advantage of its expertise and know-how and further confirming its status as a key multimedia operator within the Italian television scenario.

Olivetti

The Business Unit

The Olivetti Business Unit operates in the sector of ink-jet products for the office, digital printing systems and the development and production of products associated with silicon technology (ink-jet printheads and MEMS) and also specialized applications for the banking field and commerce and systems for managing forecast games 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)

Major corporate events/scope of consolidation

In February 2007, the company Olivetti Tecnost Nederland B.V. was put into a wind-up.

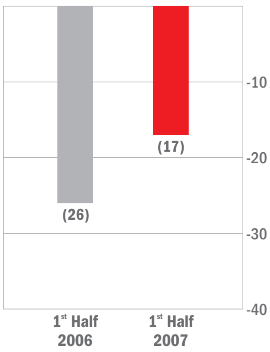
Main operating and financial data

The following table shows the key results for the first half of 2007, compared to the first half of 2006.

(millions of euro)	1st Half 2007	1st Half 2006 (1)	Change amount	%
Revenues	192	212	(20)	(9.4)
EBITDA	(17)	(26)	9	34.6
% of Revenues	*(8.9)*	*(12.3)*		
EBIT	(24)	(35)	11	31.4
% of Revenues	*(12.5)*	*(16.5)*		
Capital expenditures	5	5	–	–
Headcount at period-end (number)	1,355	1,428	(73)	(5.1)

(1) The headcount is as of the date of December 31, 2006

EBITDA (euro/millions)



Revenues in the first half of 2007 amount to euro 192 million and record a reduction of euro 20 million (– 9.4%) compared to the first half of 2006. This variation remains unchanged also on a comparable consolidation basis, excluding the foreign exchange effect and the consideration received on the sale of the research activities.

From the standpoint of business lines, the decrease in revenues refers, mainly, to traditional ink-jet products for euro 15 million due to the effect of lower hardware and accessories sales and to gaming for euro 6 million owing to the fact that in the first half of 2006 revenues had been recorded on an important order.

EBITDA in the first half of 2007 is a negative euro 17 million, an improvement of euro 9 million compared to the same period of 2006, mainly associated with the effects of the reconversion and rationalization actions put into place last year. Since the margins of certain product lines are still negative, additional actions to reorganize activities are currently being evaluated.

The organic change is a positive euro 3 million (+15%). Details are as follows:

(millions of euro)	1st Half 2007	1st Half 2006	Change amount	%
HISTORICAL EBITDA	**(17)**	**(26)**	**9**	**34.6**
Effect of change in scope of consolidation	–	1		
Effect of change in exchange rates	–	(2)		
Non-organic (income) expenses:	–	7		
Restructuring costs	*–*	*2*		
Industrial reconversion costs	*–*	*5*		
COMPARABLE EBITDA	**(17)**	**(20)**	**3**	**15.0**

EBIT in the first half of 2007 is a negative euro 24 million, an improvement of euro 11 million compared to the corresponding period of 2006. The organic change is a positive euro 4 million (+13.8%). Details are as follows:

(millions of euro)	1st Half 2007	1st Half 2006	Change amount	%
HISTORICAL EBIT	**(24)**	**(35)**	**11**	**31.4**
Effect of change in scope of consolidation	–	1		
Effect of change in exchange rates	–	(2)		
Non-organic (income) expenses:	(1)	7		
Non-organic (income) expenses already described under EBITDA	–	7		
Additional non-organic (income) expenses	(1)	–		
Other (income) expenses, net	*(1)*	*–*		
COMPARABLE EBIT	**(25)**	**(29)**	**4**	**13.8**

Capital expenditures in the first half of 2007 amount to euro 5 million, unchanged compared to the corresponding period of the prior year.

Headcount at June 30, 2007 is 1,355, of whom 1,209 are in Italy and 146 outside Italy; the figure includes 1 person with a temp work contract. The reduction of 73 people, compared to December 31, 2006, is mainly attributable to the termination of employment.

Key factors

During the first half of 2007, Olivetti presented a series of multi-functional printers based on ink-jet technology destined for the small offices and professional offices (SOHO) market. Two "4 in 1" LINEA Office and LINEA Office wifi models were presented that operate as a printer, copier, scanner and fax. The LINEA Office wifi model has built in Ethernet connectivity and WiFi connectivity.

Other activities

"Other Activities" of the Telecom Italia Group are formed by the financial companies, the foreign operations not included in other Business Units (Entel Bolivia) and other minor companies not associated with the core business.

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

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

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

With regard to fixed telephony, there were no significant commercial offerings during the first half of 2007. At June 30, 2007, there were 75,144 lines, with a slight increase compared to December 31, 2006.

During the first half of 2007, Internet and Data activities were supported by special promotions on both rates and terms for activating new Broadband ADSL lines. At June 30, 2007, Broadband customers numbered 12,254, an increase of about 46% compared to December 31, 2006 (about 8,400).

Mobile customers increased during the first half by about 160,000 mainly owing to promotions (January, May and June 2007) which allow the user to double the traffic capacity for the same amount recharged.
At June 30, 2007, there were 1,603,178 mobile customers, an increase of about 11% compared to December 31, 2006 (1,443,000).

* * *

It should be noted that on March 29, 2007, the Bolivian government, in pursuing its policy of nationalizing numerous privately-owned businesses, including Entel Bolivia (acquired in 1995 by the Telecom Italia Group through the Dutch company ETI, and owned entirely by Telecom Italia International), recently issued a legislative measure to set up a ministerial commission to start, conduct and conclude negotiations, within 30 days of the publication of the measure, with the aim of "bringing back" Entel Bolivia into the hands of the Bolivian government.
The above-mentioned measure accuses Entel Bolivia and ETI with having committed a series of grave administrative and fiscal irregularities. Telecom Italia participated in the meetings with the commission with the sole aim of hearing the government's position with regard to the "repossession" of Entel Bolivia but has rejected all the accusations of having committed the irregularities with which it has been charged.
Subsequently, on April 23, 2007, the Bolivian government adopted two more measures with which it abrogated all the laws on the basis of which the previous government had acknowledged that Entel Bolivia had fulfilled the obligations it had assumed when the company was privatized, declaring that all initiatives put into place in executing the abrogated laws (particularly the capital reduction by Entel Bolivia approved at the end of 2005) would be punishable by law, and also annulled a series of further administrative measures, especially one passed in 1995, which had launched the Entel Bolivia privatization process.
On April 30, 2007, in reaction to the position assumed by the commission and the measures adopted by the Bolivian government, and with the aim of protecting its interests in the country, ETI notified the Bolivian government of the request for an obligatory attempt at conciliation (lasting six months) under the terms of the bilateral treaty for protecting investments between Bolivia and the Netherlands. This action is preliminary to the possibility of asking the International Center for Settlement of Investment Disputes (ICSID), an organ of the World Bank, to start international arbitration to resolve the dispute.

In the attempt to resolve the dispute in an amicable manner, as established in the Treaty, ETI has proposed that the Bolivian government appoint two independent international auditors that will certify the level of the investments made by Entel in Bolivia beginning in 1995, the date the company was privatized. The amount of these investments constitutes one the main issues disputed by the government against ETI and Entel. To date, ETI has not received any formal notification of the acceptance of the proposal from the government.

Other international investments accounted for using the equity method

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

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

At June 30, 2007, land lines in service (also including installed public telephones) are about 4,138,000, with an increase of about 1% compared to December 31, 2006 (4,095,000).
At June 30, 2007, there are about 590,000 broadband accesses, with an increase of 31.7% compared to December 31, 2006 (448,000).

In the mobile business, the customer base of the Group is now approximately 11,286,000 users (12.5% of which is in Paraguay), an increase of about 17.7% compared to December 31, 2006 (9,589,000). The number of postpaid customers increased by 10.4% compared to December 31, 2006 and represents 29.7% of the total customer base (compared to 31.6% at the end of 2006). The customers using GSM services reached 91.2% of the total customer base.

ETECSA
Held by: Telecom Italia International 27%

The company operates a monopoly in the sectors of fixed and mobile communications, internet and data transmission in Cuba. The number of fixed lines installed (also including installed public telephones) is about 1,005,500 at June 30, 2007, an increase of 3.3% compared to December 31, 2006. Of the lines installed, 50,000 are invoiced in U.S. dollars and the others, associated with the social development of Cuban telecommunications, in Cuban pesos. The number of internet and data customers grew slightly to about 21,000 at June 30, 2007 (compared to 20,000 at December 31, 2006).

In the mobile telephony business, at June 30, 2007, the customer base totals 172,200, an increase of about 12.8% compared to December 31, 2006 (152,700). The increase is mainly concentrated on the prepaid clientele, which represents 90% of the total.
During the first half of 2007, the migration of customers from TDMA towards GSM technology continued and is now used by more than 86% of the total customer base (compared to 81% at the end of 2006).

* * *

With regard to relations between Banco Nacional de Comercio Exterior ("BancoMext") and ETECSA, there were no changes during the first half of 2007 from the situation described in detail in the 2006 Annual Report.

Sustainability Section

Introduction

Telecom Italia has included the Sustainability Section in its half-year Report, thus confirming the intention of the Group to present its financial performance in conjunction with its non-financial one. In line with the company's defined approach, the half-year Sustainability Section is articulated by stakeholders, but, compared with the Section included in the Annual Report, it is characterized by its conciseness and is focused on the most significant initiatives carried out with respect to the various stakeholders.

Highlights of first-half 2007:

- Telecom Italia has been included in the FTSE4Good Environmental Leaders Europe 40 Index, comprising European companies with leading environmental practices, listed in the FTSE4Good Index Series, the share indexes for sustainable investment created in 2001 by Financial Times and the London Stock Exchange. Selected companies must have adopted effective environmental policies and management systems in order to manage risks and minimise the environmental impact of business operations. They are also required to report publicly on their key environmental performance data;

- Telecom Italia continued to support the "Alliance" among the European Commission, companies and other stakeholders launched on March 22, 2006 with the objective of promoting the development of Corporate Social Responsibility across Europe. As a result of the Alliance, several "laboratories" have been set up, that means round tables coordinated by Partner Organizations, among which Sodalitas and CSR Europe, aiming at developing and proposing solutions in line with the Alliance goals. Among the laboratories in which Telecom Italia actively participates there are those dealing with Equal Opportunities, Stakeholder Involvement and communicating on non-financial performance;

- A dedicated road show was held for the third consecutive year to present the Group's Sustainability model to investors specifically focused on Socially Responsible Investment (SRI) and operating in the main European financial markets - United Kingdom, The Netherlands and, for the first time, France. These investors are financial operators selecting portfolio securities on the basis of social, environmental and ethical criteria without neglecting the more traditional economical and financial selection criteria. The road show format involved a series of one-to-one meetings. Presentations by the Chief Financial Officer and the Head of Group Sustainability department were followed by a Q&A session in which our Investor Relations representatives also participated. Investors expressed their appreciation for the Group's Sustainability model and for the results achieved, also providing several useful suggestions for future improvements.

Customers

Highlights regarding the most important initiatives related to Sustainability are reported below.

Survey on Sustainability

At the end of 2006 several questions related to Sustainability were included in the customer satisfaction and loyalty survey for fixed network customers. The nationwide survey sample included around 15,000 Italian families and 13,000 businesses, articulated among SoHo (Small Office Home Office), SME (Small and Medium Enterprises) and Enterprise.

The most significant results of the survey are summarized below as percentages of the sample surveyed:
- around 15% believe that Telecom Italia is very/quite involved in ethical, social and environmental matters and less than 10% are aware of Telecom Italia's initiatives to improve the company's sustainability;
- topics deserving more attention by Telecom Italia are, in order of importance: environmental protection, employee rights safeguard, solidarity and services for disadvantaged people;
- around 60% stated that they would be willing to pay more to buy TLC products/services from companies specially committed to environmental protection as well as to ethical and social activities;
- according to 80% of the survey respondents Telecom Italia should provide more information about its commitment to social and environmental ethics in its advertising campaigns;
- 90% is the approximate percentage of those who feel that it is very/quite important for Telecom Italia to select its suppliers also on the basis of ethical/social criteria (safeguard of employee rights, health and safety, child labour, etc.) and of their respect for the environment.

These results confirm the customers' appreciation for companies committed to Sustainability such as Telecom Italia, up to the point of being ready to reward these companies by paying higher prices for their products and services. The survey results provide useful indications on which areas of Telecom Italia's commitment to social, ethical and environmental issues are most valued by customers who would appreciate improved external communications from the company on Sustainability issues in general.

"Evolution" Project

Launched in 2005, this project is designed to improve some processes within Telecom Italia that significantly impact Customer Satisfaction.

The areas involved are the following:
- communication with customers;
- customer caring;
- means, conditions and timeframe for implementing the business service;
- a unique, customer-focused, vision.

The "Customer Satisfaction" synthetic indicator is now included in the Group's management incentive system as one of the parameters used to determine variable pay. More specific objectives, among which the reliability of technicians in keeping appointments when intervention is required at the customer premises and the satisfaction level of these interventions, have been assigned to managers of the Group's Quality & Field Services Management department. These indicators, together with activation time stated by customers, show a significant improvement in the Telephony segment, analogously to the overall satisfaction in the ADSL business for the activation of the "Alice", "Alice Voice" or "Alice Home TV" lines with technician intervention.

The data relative to the first 5 months of 2007 are reported in the table below:

	January 07	February 07	March 07	April 07	May 07
% of keeping first scheduled appointment (Telephony)	65.1	62.6	65.4	70.6	71.4
% customers satisfied by technician's intervention (Telephony)	89.9	90.5	91.5	93.4	91.9
Activation time in days stated by customers (Telephony)	30.4	32.0	29.1	28.7	30.2
% overall satisfaction (ADSL activation with technician intervention)	60.3	65.1	74.0		

The activities associated to the "Evolution" Project will also be extended to the ADSL Business services.

Innovative Projects

Highlights from some of the most innovative projects are reported below:

"Smart Helmet" Project - Firemen

This project involves the creation of innovative services for remote control of firemen engaged in interventions.
The project entails adding a series of wireless sensors to firemen's gear in order to detect gas, temperature, oxygen bottles level, etc. Thanks to a device integrated into the helmet (Smart Helmet) of each fireman these sensors communicate in real-time with the support vehicle and with the Telecom Italia service centre in order to reduce risks associated with this line of work.

"Infomobility" Project

Information Technology is nowadays pervasive in the mobility sector, ranging from computerised car systems to street signal management, to traffic reports, entertainment and information. Starting from an analysis of the current situation and of its most likely evolution, Telecom Italia has developed the "Infomobility" Project, currently in the test phase. The project offers interesting solutions to manage local public transportation and merchandise transport: operational support for drivers, monitoring and localisation of vehicles, management of traffic light timing, tele-surveillance and solutions for service centres.

Relationship with consumers' associations

The company started its collaboration with consumers' Associations in 1983, when it was still named "SIP". Such collaboration involves meetings aimed at safeguarding customers' rights relative to the Group's products and services and to present the main organisational development projects that could impact customers.
The collaboration with these Associations also involves informative meetings on the launch of new services and the related contractual conditions.
Direct results of the Company collaboration with Associations are the Conciliation procedures. Based on the 'parity' model, these procedures have led to the resolution of more than 40,000 client disputes since their adoption in 1991. The on-line conciliation procedure adopted by the mobile telephone segment has developed steadily over the years and has even been used externally as a model for other companies.
The Group is a founding member of the Consumers' Forum which gathers Consumers' Associations, companies and research institutes. The Forum deals with issues related to consumerism and training on Conciliation. Moreover, the Forum has launched initiatives to promote the development of a "collaborative consumerism" and to provide feedback to the appropriate Group departments.
The Group's commitment to consumers' rights is also shown by its support to customers with disabilities in their demand for access to services.

Suppliers

General information

The Purchasing process is carried out by competitively comparing the technical/economic proposals submitted by suppliers, carefully selected according to the policies and procedures in force for the entire Group and established to ensure ethical negotiations.

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

All the Group's suppliers are required to commit, both personally and on behalf of any authorised sub-contractor, collaborator and employee, to comply with the ethical-behavioural principles included in the Group's Code of Ethics.

Once included in the Group's Supplier Register, companies receiving purchase orders after the competition/negotiations process, then undergo control procedures during the supply phase. These controls range from the Vendor Rating monitoring (systematic assessment of supply) to Incoming Quality Control (mandatory with regard to acceptance/use of the purchased item).

Controls

The most significant controls on suppliers performed in the first half of 2007 are reported below.

- Supplier qualification: 410 controls related to 200 suppliers, of which 47 with negative outcome and 83 with "fixed-term qualification";
- Sub-contractor qualification: 73 controls were carried out involving 50 sub-contractors; 15 of these had a negative outcome;
- Vendor Rating monitoring: 82 reports issued, relative to approximately 500 suppliers and to 58 purchase categories;
- Technical-organisational audits at supplier's premises to perform Incoming Quality Controls on products and services: 112 product batches were controlled of which 32 were rejected due to nonconformities;
- Technical-organisational audits of qualification procedures at supplier's premises for a total of 151 verifications relative to 91 suppliers of which 22 had a negative outcome and 14 a "fixed-term qualification";
- Technical-organisational audits at the premises of high-risk sub-contractors (plant engineering-operational activities), to perform qualification and authorisation procedures in view of their use by suppliers: 56 audits were conducted involving 48 suppliers of which 1 with negative outcome and 9 with "fixed-term qualification".

Around 2,000 controls were conducted on the technical work carried out by suppliers and sub-contractors.

Criteria have also been defined concerning the Telecom Italia Group's high risk supplier staff for the activities related to networking, Radio Base Station installations, plant and building, in view of the systematic monitoring of the number and severity of on-the-job accidents.
The model was derived from the UNI 7249 regulation, 1995 edition, "Statistics on occupational accidents" allowing the detection of the following indicators:

– Severity Index: the number of conventional days lost per year per thousand hours worked;
– Frequency Rate: the number of accidents per million hours worked;
– Unproductiveness Rate: the number of hours lost due to accidents per thousand hours worked.

The comparison of data recorded with the average value calculated for all suppliers, concerning the departments subject to monitoring, allows the detection of any critical situation.

Product Life Cycle Evaluation

In the first half of 2007 a plan was defined to extend the "Guidelines for the Evaluation of Product Life Cycles", issued at the end of 2006, to at least 50 suppliers by the end of the year. The objective of these guidelines is to verify that the goods acquired/managed/sold by the Group meet the relevant environmental regulations and are planned, developed, utilised and disposed of in a way that facilitates life cycle management from an environmental and economic perspective.
The document also intends to assess the supplier management from the environmental viewpoint.
In the case of supplier offers subject to comparison and resulting equal from the economic/technical standpoint, preference will be given to the product/supplier with the best eco-compatibility evaluation.

The following product families, defined according to purchase volume, impact on company reputation, inherent danger/criticality and economic/legal risk are subject to the above mentioned guidelines:
- commercial products (telephone terminals, switchboards, fax and modems);
- office products (computers and peripherals, photocopiers, paper, and other consumables such as toner, batteries, etc.);
- network equipment/materials (cables, poles, masts, cabinets, accumulators, exchanges).

2007 Commitments

Progress on commitments made in 2006 for the year 2007 is reported below.
1. The supplier verification procedures that have been carried out over the past two years at the Group's foreign subsidiaries, Tim Brasil and Telecom Italia France SA, are being extended to the main suppliers of Hansenet Telekommunikation GmbH (Germany).
2. The ISO 9001 certification project for the Purchasing Department of Telecom Italia Group is under way. The project is expected to be completed in 2008.
3. The extension of the Ethics and Sustainability verification processes on Suppliers is currently in progress. The monitoring of supplier commitments undertaken during 2006 audits is also planned. In 2006 this activity involved 43 companies.

Competitors

Organisations and associations

Collaboration with competitors at national level

The year 2007 sees again Telecom Italia Media chairing DGTVì, the Association for the development of Terrestrial Digital in Italy, whose other members include Rai, Mediaset, The Radio and Television Federation (RFT), Aeranti-Corallo and D-free.
The participation in DGTVì enables broadcasters of the TI Media Group to confront other radio and television market players and to actively participate in the evolution towards Terrestrial Digital.
During the first half of 2007 the Association promoted the following activities:

– issue of a DGTVì certification sticker for decoders and televisions complying with technical specifications drafted by the Association itself;
– continuation of two market research projects designed to measure the diffusion level of decoders, both at national level and in the "all digital" areas, with the objective of monitoring the diffusion of digital decoders in Sardinia and the Valle d'Aosta.

DGTVì is also an active member of the Italian National Digital Committee, an organisation involving all players in the digitalisation process (institutions, TV broadcasters, cable and satellite operators, editors, consumers). This organisation shapes its policies and carries out its analyses by means of a Technical Committee articulated into nine thematic sub-groups.
As of April 2007, sales of decoders surpassed the threshold of 5,000,000 units.

Telecom Italia is a member of the Radio and Television Federation as Chairing Committee member. In addition to national and satellite broadcasters, RFT brings together 150 local TV and radio broadcasters.

Telecom Italia has formalised its founder membership in the High Definition Forum whose objective is to promote and spread HD in Italy. Within the Forum, Telecom Italia coordinates three working groups dedicated to distribution/supply, production and use. Membership in this Forum makes it easier to keep abreast of market trends in the realm of HD and the promotion of initiatives related to regulations and standardisation.

Since 2002, Telecom Italia Media has been a partner of Auditel with a 3.33% share, and has a representative in the Board of Directors and another in the Technical Committee.
In terms of audience ratings, Auditel is the only recognised subject in Italy that is also recognised by advertisers who price advertisements for each of the channels on the basis of Auditel data.

Collaboration with competitors at international level

At international level the Telecom Italia Group collaborates with several organisations and/or Associations:

– BRT (The Brussels Round Table): this organisation brings together the most important European TLC and manufacturing companies and was established to maintain a constant dialogue with European Institutions on significant themes concerning the ICT sector at European Community level;
– ETNO (European Telecommunications Network Operators' Association): it is the most important association in the field of telecommunications across the continent and aims to develop a competitive and efficient European telecommunication market by coordination of operators and dialogue with Institutions;
– GSME (GSM Europe): it is an association gathering the European mobile operators. Among its objectives is the development of the European telephone and mobile services market with particular attention to the regulatory aspects;
– EIF (European Internet Foundation): it brings together European Parliament members, TLC manufacturers and operators, software providers, ISPs and content providers and supports public policy related to the fast development of the Internet, broadband and information technologies;
– ERT (European Round Table of Industrialists): this forum brings together about 45 European industrial leaders to promote the competitiveness and growth of the European economy;

- ESF (European Service Forum): this Association includes the European operators in the services sector and aims at promoting the interests of industry, of the European services, and liberalising the service sector worldwide within the WTO framework;
- EABC (European American Business Council): it is an Association whose goal is to support and facilitate transatlantic dialogue on industry themes of interest to the EU and the USA;
- BRUEGEL (Brussels European and Global Economic Laboratory): it is a European study centre dedicated to the critical analysis of the international economy, to the main industrial sectors and to the role of the EU in the global context;
- ETP (European Telecommunications Platform): it is an organisation uniting TLC operators and manufacturers, aiming to promote and discuss common telecommunications-related topics;
- ITU (International Telecommunications Union): it is an agency belonging to the United Nations whose objective is to favour the joint elaboration, between Governments and the private sector, of an international set of technical standards, of operating procedures for wireless services and of programmes to better the TLC infrastructures of developing nations;
- BIAC (Business and Industry Advisory Committee): it is a committee representing the industrial Association of OCSE countries.

Activities regarding competition

During the first half of 2007 the activity for the definition of the “Antitrust Compliance Program”, work that began in early 2006 with the issue of the relevant guidelines, continued. The program consists of a series of information and training initiatives that are being carried out at different levels. The Program aims at spreading the correct cultural approach to Antitrust regulations within the Group, as well as an awareness that competition is not a threat, but on the contrary, an essential asset for business activities.
The interview phase, that involved interviewing the heads of the divisions/sectors most exposed to antitrust risks, has been concluded and the final report is being prepared.

Institutions

Relations

The legislative activities of National, Central (Parliament, Government) and local Institutions (Regions, Local Entities and independent Authorities in the tlc sector) are constantly monitored by Telecom Italia Group.
The approval procedures of legislation that is of specific interest to the Group are monitored. Moreover, Telecom Italia provides constant technical support to the competent institutions (Parliamentary Commissions, Ministry of Communications and other Ministries, local Authorities) in drafting the sector-related legislation.

Likewise, with support from the parent company, the Group's subsidiaries and/or associated companies operating abroad interact directly with the competent sector 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 also provide the competent institutions with constant support in the drafting of significant legislation.

In order to monitor the activities having a significant impact on the Group, Telecom Italia interacts with the European Commission and its Regulatory Committees, the Council of Europe, the European Parliament and ERG (European Regulators Group).

National legislation

The legislative provisions of interest to the Group, both approved or under examination during the first six months of 2007, are reported below:

Approved Legislative Provisions

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

- A Bill delegating the Government to review regulations concerning ownership and marketing of transmission rights for football events both on television and other electronic communication networks, was approved by the Council of Ministers on June 20, 2007 and is currently awaiting publication in the Official Journal of the Italian Republic.
  Telecom Italia, during the legislative approval proceedings, has sustained the Group position (both as television broadcaster and telephone provider supplying digital content by means of cable or mobile networks), with the objective of minimising the impact of some critical parts of the text related to the definition of contracts and the sub-licensing of acquired rights within the technological platform.

Regulatory Provisions

- On March 22, 2007, the AGCOM resolution 109/07/CONS modifying and integrating resolution 435/01/CONS (DTT Regulation) was published in the Official Journal of the Italian Republic. The resolution establishes the regulations for the transfer of 40% of broadcasting capacity and defines the rules for the preparation of price lists and the individuation of content suppliers that can access this reserve. The new regulations impose a number of obligations on the part of Telecom Italia Media, that has been designated by Authorities as both subject to the 40% transfer and as one of the subjects with the potential requisites to access that same reserve – since it has not achieved a minimum coverage of 80% of the territory – on the networks of the other two operators that must fulfil such obligation (RAI and Mediaset). In compliance with this resolution, on May 4, 2007, Telecom Italia Media submitted to AGCOM for review the price list related to the transfer of 40% of its broadcasting capacity to content suppliers having the right to access this reserve. The Authority shall evaluate the economic aspects of the offer, to ascertain whether or not it complies with the principles set out in the resolution, and may require amendments following discussions with TI Media. Once approved the price list, TI Media shall publish the same on its website.

On May 17, TI Media lodged an appeal with TAR against Resolution 109/07/CONS on the grounds that application of this resolution to the TI Media Group is an inappropriate legal extension, concerning a non dominant operator, of an obligation to safeguard the pluralism introduced for Rai and Mediaset, and one that can also compromise the development of competition in the terrestrial digital networks market.

Legislative Provisions under examination

- On June 13, 2007, the Chamber of Deputies approved the Bill initiated by the government and concerning "Citizen-Consumer Measures for facilitating productive and commercial activities as well as intervening in sectors of national relevance" (the so-called "Bersani law" on liberalisations). The text is currently under examination by the Senate. This provision includes several issues quite relevant to the Group, among which the government amendment resolution on the functional separation of Telecom Italia's access network on the basis of which AGCOM has been conferred the power to oblige Telecom Italia to carry out such functional separation, following authorisation by the EU Commission, however without doing away with the provision on voluntary commitment that was introduced by Law 248, dated August 4, 2006.

- During the month of October last year, the Council of Ministers approved and submitted the so-called "Gentiloni Bill" to the Chamber of Deputies for examination. This Bill sets out regulations for the television sector in the conversion to digital technology. This Bill is a legislative initiative by the Government that seeks to implement the EU recommendations in national legislation as a result of the infringement procedure against Italy that was initiated last July, to dispute some aspects of the "Gasparri law" and of the radio-television Consolidating Act with respect to European regulations. The main provisions of this Bill concern: the setting of November 30, 2012 as the switch off date for the conversion from analogue to digital; the establishment of a ceiling equal to 45% of the television industry advertising revenues to define a monopoly position in the sector; anticipation of the digital conversion for one network for operators owning 3 networks (within 15 months since the law's approval).

- The Bill on wire-tapping that was approved by the Council of Ministers in the month of August last year and submitted to Parliament for examination was approved by the Chamber of Deputies in April 2007 and submitted to the Senate where examination began in June. This Bill sets out reforms related to the duration of the wire-tapping, the publication of investigative reports and on the related disciplinary sanctions.

- The Bill regulating the "class action" mechanism was approved in the month of July 2006 by the Council of Ministers and is currently under examination by the Chamber of Deputies. This Bill seeks to introduce into national legislation provisions related to the collective compensation of damages to safeguard consumers according to the United States model upon which it is based.

European legislation

The Group activity focused on the following issues:

- Monitoring of European Commission activities related to revisions within the Community framework: revisions of directives and recommendations about significant markets;
- Adoption process of the TV Directive that was adopted at the end of May by the EU Parliament and Council. This Directive distinguished between linear (traditional TV) and non linear services (on demand audio-visual content) extending some televisions provisions to on demand services and easing some quantitative regulations on advertising;
- Adoption process of EU recommendations on collecting societies;
- Adoption process of EU directive on domestic services market (Service Directive);
- Adoption process of the Directive on electronic payments;
- Adoption process and approval procedures of the EU Directive on penalties for intellectual property rights infringement;
- Proposal for the regulation on international roaming and adoption process for this regulation by the European Parliament and the EU Council. The rule was adopted by the Parliament and Council and it calls for setting a retail and wholesale cap on international roaming services;
- Analysis of the activities being carried out by European bodies charged with implementing regulation framework (sector committees - Cocom and the European Regulators Group - ERG);
- Monitoring of the possible revision process for the e-commerce Directive.

The Environment

The main updates for the first half of 2007 are reported below.

"The Environment" Project

This project has been extended for the three-year period 2007-2009 to ensure an appropriate monitoring of environmental issues within the Group. For each approved project, a Project Manager has been appointed and charged with the project implementation and both an Operating Committee and a Steering Committee have been set up to monitor and control project progress, to approve new projects and their related funding.
Among the new proposals approved by the Steering Committee and launched during the first half of the year there are the implementation of new Environmental Management Systems, the management of waste from electrical and electronic equipment and interventions on conditioning plants operating with stratospheric ozone-depleting gases.
"The Environment" Project activities favour the achievement of the environmental objectives for 2007 in the following areas: optimisation of energy consumption, reduction of paper use and the progressive replacement of new paper with recycled paper, reduction of car fleet and heating system emissions, optimisation of the management of the electromagnetic field intensity of Base Transceiver Stations, SAR (Specific Absorption Rate) qualification for mobile handsets and promotion of differentiated waste collection.

Waste Management

Activities related to differentiated waste collection are continuing at office sites with the goal of extending these procedures to all national offices with more than 100 employees by the end of the year.
A new policy has been issued to ensure the correct disposal of unused IT equipment.
With regard to waste from electrical and electronic equipment (WEEE) regulated by Legislative Decree 151/05, Telecom Italia is both viewed as an equipment producer and distributor and thus required to manage equipment "end-of-life". While awaiting the decree application rules and procedures necessary to make operative the process, Telecom Italia has set up a working group to analyse the possibility of joining specialised consortia that deal with equipment end-of-life and has defined processes for gathering and selecting WEEE for each direct sales channel. It has also included appropriate provisions related to WEEE and RoHS (Restriction of Hazardous Substances) in its standard purchasing contracts.

Culture, Training and Information

With regard to training, several informational/training initiatives have been launched to raise awareness about environmental issues. Among these, a workshop designed for Human Resources, "The Contribution of Human Resources to the Environment" and a dedicated space on the Group Intranet and on the daily videonews related to the World Environment day (June 5th), including a 10-item list indicating individual behaviours minimising the impact on environment.
Two Intranet sites managed by the Prevention, Protection and Environment Service department (Safeguarding the Environment and "The Environment" Project) were improved, making them more user-friendly for employees.

Energy

Telecom Italia is committed to both energetic efficiency as well as the use of alternative energy sources.

Several measures to contain energy consumption have been launched, among which:
- optimisation of lighting management;
- automatic shutdown of PC's;
- installation of a new free cooling plants;
- increase of operating temperatures in unsupervised technical environments;
- optimisation and shut-downs of data and electronic switching networks.

Technical requirements have been included in tender procedures for Next Generation Network broadband equipment in accordance with the "Code of Conduct" (CoC) on energy consumption for broadband communication equipment promoted by the European Union through the Joint Research Centre (JRC). Developed also thanks to coordination from Telecom Italia, the CoC delineates methods for power management and technical solutions for containing energy consumption both for customers and providers without compromising technological development and the quality of services.
Other EU-related activities include Telecom Italia's participation in the works to define a CoC on energy efficiency in Data Centers.

Telecom Italia also participates in the Eco-Innovation Laboratory founded by Sodalitas as part of the Alliance for Corporate Social Responsibility promoted by the European Commission.
The Group measures its energetic efficiency through an eco-efficiency indicator: it is the ratio between the service offered to customers, simplified to the quantity of bits transmitted, and the related environmental impact (proportional to energy consumption). The improvement trend is due to the above-listed optimisation initiatives and above all, to the increase in transmitted bits derived from the increase in broadband lines and larger use of existing ones.

Concerning alternative energy sources/technologies, the main activities relate to photovoltaics, cogeneration and fuel cells. Work continues to implement 4 photovoltaic plants (each having between 20 and 30 KWp nominal power). Also, in collaboration with Pirelli Lab and ENEA, 4 experimental 1kWp plants are being installed at the Naples Barra telecommunications centre, using innovative technologies based on solar concentration and polymeric membranes.

A new cogeneration plant at the Data Collection Centre in Pomezia (Rome) is being implemented and should be in operation by year-end.
Experimentation continues related to hydrogen-based fuel cell systems instead of the standard lead cells.

The Community

Reported below are some of the most important Community-focused initiatives. These activities are broken down according to the London Benchmarking Group (LBG) model, the worldwide standard of reference for measuring corporate contributions to the Community.

Level 1 - Charity

SMS and solidarity calls

This kind of initiative allows clients to donate to non-profit associations by sending an SMS or by making a phone call.
All funds raised have been allocated without deductions by tax authorities (thanks to the awareness campaign launched by telecommunications companies and by non profit organisations, this kind of fund raising is exempt from VAT) and by the company for the costs incurred.
Over 20 fund raising projects were launched during the first half of the year, among which:

- WWF, for its “Oasis Day” project;
- Italian Association for Cancer Research to support fund raising for its “An Azalea for Research” project;
- The “Heart Soccer Match, humanity without borders” , to raise funds through a charity soccer match.

“Salam” Heart Surgery centre

On May 3rd in Khartoum, Sudan, the Salam Regional Heart Surgery Centre was inaugurated. Progetto Italia helped fund this centre built by Emergency. The Centre aims at promoting the universal right to free and qualified health care and friendly, peaceful relations in North East Africa.
The centre was established to provide free surgery to heart patients in Sudan and its nine bordering countries (Egypt, Libya, Chad, Central African Republic, the Democratic Republic of Congo, Kenya, Uganda, Ethiopia and Eritrea).

Level 2 - Investments in the Community

The Solidarity Ponies

Telecom Italia continues to support the elderly who remain in the city during the summer holiday period. Thanks to “The Solidarity Ponies” project, now in its ninth edition, elderly remaining in the city alone may receive assistance at home to deal with day-to-day household duties or errands, heat emergencies or simply to enjoy some company.
Developed in collaboration with the local Social Policies Departments and Volunteer Associations in Rome, Turin, Milan, Naples, Bologna and Palermo, the initiative gives the elderly the possibility to call a toll-free number to activate one of the more than one thousand “ponies”, volunteers equipped with a TIM mobile phone and SIM card with free recharges, who provide the requested assistance.

MTV and Environmental and Social Commitment

The MTV Group’s broadcaster has been creating for years programmes to make people aware of social and environmental issues, above all in the less developed areas of the world. In recognition of this commitment, the Managing Director of MTV and La7, Antonio Campo Dall’Orto, was awarded the title of “Advocate” of the United Nations for its Millennium Campaign that has set out eight fundamental objectives that humanity should strive to reach by the year 2015.

The following are some of the initiatives that were carried out in the first six months of the year:

- **No Excuse Special Italy-Africa 2007**: a special on the free concert produced and broadcast by MTV Italy that brought together Italian and African artists to call attention to the emergency on the African continent.
- **Project “Live Earth”**: MTV acquired the rights to broadcast this worldwide simultaneous concert to draw attention to earth’s global warming and pollution issues.

- **No Excuse Special-Water in Brazil**: a report on the shortage of water in the semi-arid regions of Brazil to make the public aware of the problems tied to the lack of water.
- **Captains and sustainable mobility**: an eco-reality experiment to discover the eco-friendly options available for getting around the city, that is, ways to reduce consumption and pollution in a city such as Milan.

"Adult and Youth literacy"

This project was launched 13 years ago by one of the largest and most important NGO's in Brazil, "Pastoral da Criança". Since 2001, TIM has participated in this educational programme with participants coming from the north east and south of Brazil, regions having the highest rate of social exclusion in the country. To date, there have been 880 beneficiaries of this initiative.

According to research conducted by the "Pastoral da Criança" NGO, the project has demonstrated a strong correlation between education and quality of life: the higher the mother's educational level, the lower the infant mortality rate.

The teaching methodology relies on linking meaningful keywords and actions relative to health, education and nutrition topics. In the first half of 2007, 97 classes were established and trained.

Level 3 - Initiatives in the Community

TIM Talks

Telecom Italia and the Italian Union for Blind People made available in exclusive for Italy "TIM Talks", a free innovative software programme facilitating access to communication via mobile phones also to blind people.

"TIM Talks" is a revolutionary application allowing blind and sight-impaired people, as well as the elderly, to use all cell phone functions thanks to vocal software that reads the display or that responds to user indications.

Sight-impaired people can write and read SMS and emails, compose and download multimedia messages (MMS), call and modify numbers in the address book, change phone settings, manage the appointment calendar and read and write texts.

Internet Saloon

Telecom Italia continues its support of the Internet Saloon initiative started in 2000 thanks to a collaboration with AIM (Association for Metropolitan Interests) in Milan that seeks to teach the elderly how to use the Internet. The AIM headquarters have been equipped with classrooms, personal computers, software and Internet network connections in order to hold free classes for people over 60 who can attend either introductory or advanced-level classes. Several free workstations are also available for practice sessions. To date, more than 15,500 people have attended these courses with success.

Business basics

Electronic Health Solutions

The following paragraph describes some ICT solutions for managing medical treatment and diagnostics at Healthcare facilities.

MYdocs ehealth: it is a solution ensuring customers an optimal system to manage their current and historical clinical files with instructions to create a digital archive.

MYPharma management: it is an offer providing a two-fold solution:
- centralised management of single dose medicines: a Pharmaceutical Risk management solution designed to improve drug prescription safety, preparation and administration and to optimise supplies and consumption;
- management of pharmaceutical protocols at hospital wards: a prescription and administration software and automated pharmaceutical storage closets allow clinical and logistical drug management.

MyImage archiving: it allows remote archiving of digital diagnostic images in the standard DICOM format.

MYPatient Hospital record: it is an application platform that allows the integration of information issued from hospital information systems, the recording of clinical and medical documentation, also making such information available throughout the Internet aiming at the integrated monitoring of the hospitalised patient.

MYAsset tracking: it is a RFID (Radio Frequency IDentification) solution that allows tracking and location of patients with special needs, management of sanitary equipment and of blood sacks for transfusions.

Security

In the first half of 2007 the following activities were undertaken:

- Business Impact Analysis: an analysis of the processes of the structures in Telecom Italia S.p.A.'s Value Chain was completed in order to identify the critical factors relative to the provision of a minimal level of services in the event of emergency or crisis conditions;
- the Security department collaborated with the Risk Management Committee to identify and manage new risks for the Group (climate changes, terrorism, pandemics, etc.) and to coordinate preventive measures designed to guarantee business operational continuity;
- Civil Protection: support has been provided to resolve emergencies and crises with particular regard to TLC aspects, restoring services and providing new ones whenever necessary;
- Activities related to the drafting of policies in order to protect and safeguard the company's information patrimony continued. Following the self-assessment activities with regard to the implementation of the minimum security requirements according to Legislative Decree 196/2003, verification activities were launched within the company's businesses and with external suppliers;
- Employee Awareness activities: four days were dedicated to awareness training for Emergency Managers operating in Territorial Crisis Teams.

Research and Development

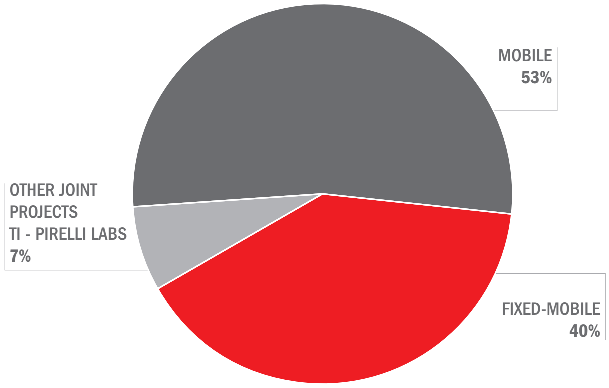
TILab

"TILab - Innovation, Engineering & Testing", a department of the Operations Technology division, 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 a centre of excellence for the telecommunications industry.

Activities related to technological innovation are focused on basic research, evaluation of emerging technologies and "in-house" development within the various business and operating units; as such, TILab activities range from the revision of basic technologies designed to increase the efficiency of networks and systems, to more complex activities that involve the radical redesign of platforms, services and architectures.

The technological innovation of the Telecom Italia Group also stems from strategic partnerships with leading manufacturers of TLC equipment and systems and with research labs belonging to the most qualified academic institutes in Italy and abroad (the Polytechnic institutes of Turin and Milan, the Universities of Pisa, Genoa, Florence, Rome, Naples, Bologna, Reggio Emilia, Brescia and Verona, University of Berkeley and MIT). A University master's programme, "Network and Services Innovation in the ICT Sector", was launched in collaboration with the Polytechnic Institute of Turin with the objective of creating specialised technological skills through the close alignment of classroom and laboratory activities.

As in the past, opportunities to generate competitive advantage and to create value for the Telecom Italia Group have been pursued through the strategic management of research, Intellectual Property Rights (IPR) and business in order to develop the corporate patent portfolio; in this context, 15 new patent applications were filed in the first half of 2007 (18 in the first half of 2006), of which 3 were the direct result of joint research projects with Pirelli Labs. A breakdown by activity sector is reported below:



Among ongoing activities, the evolution of mobile communications and the diffusion of broadband in the medium-term are worth-mentioning, as well as several initiatives on services development impacting operations also in the short-term. The following summarises the main results achieved by the Telecom Italia Lab in collaboration with other departments of the Group during the first half of 2007.

With regard to mobile access, the call for bids related to the selection of suppliers for UMTS radio access was completed on the basis of a technical-economic ranking based on both technical performance and pursuit of "Total Cost Ownership". Thanks to this approach, costs were significantly reduced and Huawei became the third supplier of mobile network equipment after Ericsson and Nokia-Siemens. Moreover, at selected sites, the "Radio Over Fiber/ROF" technology was introduced thanks to which a better quality radio signal was obtained with benefits both in terms of traffic management and territory coverage.
The process of integrating new, state-of-the art functionalities allowed by the packet radio technology (phase 2 HSDPA and HSUPA) has begun: in the near future, this evolution will allow broadband packet services to be offered in Milan and Rome with top bit rates of 7.2 Mbps in downlink and 1.4 Mbps in uplink.

Concerning the evolution of Network Architectures towards the Next Generation Network-2/NGN2 and in order to implement the planned deployment in the city of Milan by the end of 2007, a call for bids was conducted for the provision of systems able to support bit-rates of up to 100 Mbit/s (ultra-BroadBand technology). As part of such call for bids, suppliers were selected for the systems and infrastructure to realise an FTTB (Fibre to-the-Building) architecture with a main network based on fibre optics using G-PON (Passive Optical Network) technology and a copper end using VDSL2 technology.
This will enable high performance connectivity leading to a strong development in broadband services both for residential clients and the small business segment. Following this phase, laboratories were set up starting the qualification testing for the acquired technologies.

With regard to the development of content-based services:
- Technical consulting was provided in order to define the contract with Microsoft related to a new generation TV platform designed to offer content over the fixed network; during the second quarter, laboratory testing began to validate this platform;
- Concerning mobile TV services, the first innovative applications were demonstrated on "Rich Media" type commercial terminals giving the operator sophisticated control over the user interface and providing particularly engaging interactive applications;
- A new Set Top Box has been released. It offers a new access service to Digital Terrestrial TV by managing high-performance video codes.

Concerning the development of convergent services, a "dual mode" client prototype application was realised for the Nokia S60/Symbian WiFi telephones. This automatically manages both channels at the same time (TIM GSM/UMTS and Alice Voice) according to various routing rules.

In the area of mobile services, the "SMS Sentinel" service was released. This service greatly reduces SMS-generated frauds sent by mobile users and large accounts to other service providers.

Two significant innovative experiments were also carried out during the first half of 2007:
- Creation and launch of the First Life Communicator service allowing Telecom Italia Group to access the Second Life virtual community by expanding telephone services to encompass e-mail and instant messaging; this service also involves the availability of "islands", four of which are devoted to entertainment (an area to watch and publish videos, a race track, a sports stadium and an area dedicated to the Alice line of products & services) and another already active one featuring a skyscraper dedicated to ICT solutions and to the technological partners of Telecom Italia;
- Creation of a real-time monitoring platform to gauge the energetic efficiency of the Telecom Italia plants; in particular, thanks to the appropriate distribution of technologies such as "wireless sensor networks", it has been possible to evaluate the efficiency of the energy saving solutions implemented through monitoring and defining the energy consumption of each system, providing planning support for energy saving operations, and identifying system and consumption malfunctions.

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, accounting for 18% of its total workforce.
In particular, the ink-jet technology, exclusively owned at European level by Olivetti, and by five other companies worldwide, was created and developed in the Arnad (Aosta) plant, where over 200 employees are engaged in the entire production cycle of thermal ink-jet technology: from silicon processing to print cartridge assembly. During the first half of 2007, the Olivetti research centres developed new models of multifunctional printers and continued their research and development on new generations of ink-jet print heads.

Human resources

Headcount and changes in Telecom Italia Group

	Changes in the period					
Headcount at 12.31.2006 (*)	Recruited	Terminated	Decrease of temporary staff	Changes in report scope	Total change	**Headcount at 12.31.2007 (*)**
83,209	3,079	–3,397	–172	+1,093	+603	**83,812**

(*) includes staff on temporary contract, equal to 2,654 employees in 2006 and 2,482 at June 2007.

Headcount at June 30, 2007 is 83,812 employees.

The increase of 603 employees as compared to December 31, 2006 is due to:

- the acquisition of AOL (+1,101 employees), the sale of Domus Academy (– 8 employees);
- the entry of 3,079 employees and the termination of 3,397 employees plus a decrease of 172 employees on temporary contract.

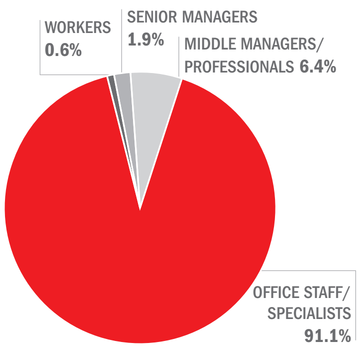
Headcount and changes in Telecom Italia S.p.A.

Headcount at 12.31.2006			Changes in the period					Headcount al at 06.30.2007		
Staff	Temporary Staff	Total	Recruited	Terminated	Transfers among Group's Companies	Changes in Temporary Staff	Total Change	Staff	Temporary Staff	Total
61,040	1,360	**62,400**	65	–1,002	14	37	–886	60,117	1,397	**61,514**

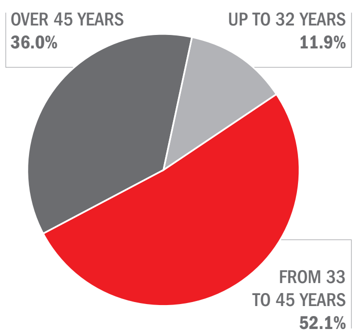
Telecom Italia SpA headcount at June 30, 2007 is 61,514.

As compared to December 31, 2006, there is an overall decrease of 886 employees due to 1,002 terminations, 65 recruitments, the transfer of 14 employees from other companies within the Group and an increase of 37 employees with temporary contracts.

Telecom Italia Group - Italy: employee breakdown by professional category



Telecom Italia Group - Italy: employee breakdown by age group



Development

During the first six months of 2007 the Individual Leadership Center process was completed. This initiative involved, on the whole, about 200 of the Group's senior managers and aimed at an analysis of individual leadership profiles in order to define targeted development and training plans.
The 2007 Management Review process was also launched in the Group's foreign subsidiaries and in Olivetti and this review will be carried out throughout the rest of the company during the second half of the year. This assessment campaign will involve about 1,200 senior managers and 600 middle managers with the objective of acquiring their assessment profiles and to plan the relevant targeted development actions in line with the Group's "Succession Management" model.

Recruiting

The Group continued to promote employer awareness by participating in important events at Italian universities. These events provide information directly to graduating university students about the Group's organisation, management and culture.
Training stages continue within the Group where they are now a standard practice with about 200 stages taking place each six months.

Training

Training activities implemented for the Italian staff of Telecom Italia Group during the first six months of 2007 have amounted to about 780,000 hours (classroom and on-line sessions and training on the job) and to about euro 13.5 million of outlay costs (excluding labour and transfer/logistics expenses). 54% of the Group's staff took part in at least one of these training initiatives during this period.
These activities relate to two main themes: overall Group projects and training as a tool to safeguard business competences.

Overall Group Projects

In order to reinforce a shared management and practice culture, a training plan for the Group's top managers has been developed with 4 main topics: Governance, Scenarios, Managing the Unexpected and Leadership.
For high-potential managers, the "Bridge the Gap" initiative has been launched. This aims to provide high-level training opportunities (participation in seminars at International Business Schools, Learning Tours, etc.).
Furthermore, the "Creating Value through Customer Satisfaction" initiative was launched and it is targeted at all managers in the Group.

Training as a safeguard of business competences

Activities for the Technology department involve important training investment programmes closely tied to the Technology Plan.
In Top Clients & ICT Services and in National Wholesale Services, a series of initiatives was launched regarding the upgrade of ICT competences for sales, implementation and Post-Sales staff.
Within the Customer Operations Call Centers (Domestic Fixed Services), training programmes were launched for coordinator staff. For front-end employees, the focus has been on relationship capabilities and effective communication as well as an update on more advanced technology services.
The training programmes for Domestic Mobile Services focused on the themes of team integration and self-empowerment.
Concerning Quality and Field Services Management, training activities were focused on the growth/consolidation of technical know-how, especially that related to innovative technologies (IP TV, Voice Over IP, advanced Cisco certifications), and on the development of management competences for managers and intermediate coordinators.
In line with 2006, training programmes for management in TI Media were aligned around the theme "People Enhancement."

With regard to technical and specialised competences, initiatives were carried out to train the technical staff of Telecom Italia Media Broadcasting on the use of Radio links, while the technical staff of LA7 and MTV took part in courses on software and equipment related to the management of the TV process.
In Olivetti, "Economics and Value" was the topic of a training course that involved company managers.
Training activities specifically tailored for Project Managers were implemented with the goal of sharing methods and models to reduce time-to-market and managing the organisational/logistics complexities resulting from the delocalisation of production activities in the Far East.

With regard to training activities of Telecom Italia Group's foreign staff abroad, the monitoring refers to staff operating in Brazil, Europe and Bolivia, that comprise the majority of staff abroad, where more than 435,000 training hours were logged with an overall cost of about euro 1.7 million.

Internal communication

During the first six months of 2007 a major reorganisation of the internal communications department took place in order to favour a better integration with the company's operating activities and organisational structure.
The new guidelines call for the use of four "levers": 1) Feedback Activities & Projects; 2) Corporate Information and Media; 3) Integration Activities & Projects; 4) Employee Involvement Activities.

Feedback Activities & Projects

Feedback activities can be grouped into two main types: surveys pertaining to staff attitudes that are targeted at all employees (i.e. the "Group photograph" survey, that will take place in the second half of the year) and other surveys on specific themes that are relevant to statistically representative groups within the company; in partnership with the Marketing department the "The Lighthouse", an innovative feedback project was launched whose objective is to encourage employees to contribute their ideas and proposals on important topics of interest to the company and on experiments with new products and services.

Corporate Information and Media

- Group magazine: Number 1/2007 of the Group's magazine (noi.magazine) was issued. It contained a report on Sustainability, an increasingly important theme in the new Internal Communication Plan.
- Online activities: the two existing Intranet sites, Corporate and Operations intranets, were combined into a single Group intranet (noi.portal). From January to June 2007 the Intranet portal received a daily average of 22,000 single visitors.
- Web TV: the Group's corporate TV service (noi.tv) continued its experimental launch of broadcasting information (news, interviews and other special transmissions).
- Newsletters: in conjunction with the presentation of the 2006 performance results to the financial community (a video event that was broadcast on the Intranet), a special issue of the Group's newsletter (noi.flash) was sent out to all employees in Italy.

Integration Projects & Activities

These activities are designed both to reinforce the employee sense of belonging and loyalty to the Telecom Italia Group and to better integrate the different departments within business units. The Group integration is pursued through corporate media, feedback tools and the activities carried out by the Training and Development departments within the Human Resources division. Numerous events were held to support the business including the Top Clients & ICT Services 2007 Kick-off that involved around 900 managers and professionals, the first edition of Business Appointments involving 300 managers from Domestic Mobile Services and the Telecontact Center Convention in which 700 of the company's employees participated.
In order to foster a culture of integration and innovation, the IntegrArt and EmotionArt projects were held for staff, professionals and middle management across business lines and territories. These projects involved projecting films followed by an expert-led debate encouraging discussion and exchange.
Finally, integration projects designed to improve the quality of services were carried out through team building and other events sponsored by the Training Department.

Employee Involvement Activities

In addition to initiatives carried out in conjunction with the Welfare department (in particular, the "Children's Day"), numerous employees were able to participate in cultural events sponsored by "Progetto Italia" and in sporting events sponsored by the Group. Among the most important initiatives held during the first six months of the year was "Everybody for sailing", organised through a partnership of Progetto Italia and the "The Spirit of Stella" Onlus. Ten employees with motor disabilities were able to attend the final two days of the "Louis Vuitton Cup" in Valencia.

Welfare development and equal opportunities

In the Welfare department the "Woman Project" (a project launched in 2003 to promote the diffusion of equal opportunities in the Group and the professional growth of women) was re-launched and extended to the entire Telecom Italia Group.
In particular, work is underway to open two new corporate childcare centres in Ancona and Rome. These two new structures will join the 6 existing centres.
The summer holiday stays for children, encompassing sports-based programmes, English language study programmes in Italy and traditional holiday stays at tourist locations, have been expanded to include two new study opportunities: one dedicated to English language and the other to "dance and theatre."
The "Loans for mothers" initiative (euro 2,500 for each child from 0 to 3 years) was extended to male employees.
Furthermore, also this year the "Children's Day" was held, in the month of May.
Around 28,000 children (employees' children up to age 12) visited the parents' workplace thanks to the "open doors" initiative held at all corporate locations. At 21 locations, entertainment activities with snacks and small giveaways were also held, involving more than 6,000 children.

Health and safety

With regard to activities carried out to ensure the health and safety of employees and promote the safeguard of the Environment, the following initiatives were undertaken or continued:

- Research on well-being in call centres: based on the results from the on-line questionnaire developed by the Scientific Committee and distributed to about 3,000 call centre operators, a study has begun on the initiatives proposed to improve well-being.
- Risk Assessment Documentation updates: Risk Assessment Documentation has been updated for Telecom Italia Audit, Telecontact Center, PAth.Net and Sparkle. Related activities have also been carried out.
- Study on exposure to biological agents: environmental analyses were completed to ascertain the presence of the biological agent *Legionella* in corporate underground plants with TLC equipment and the most at-risk technicians underwent blood testing.
- Study on exposure to natural radioactivity: the three-year campaign to detect levels of natural radioactivity continued at corporate locations nationally.
- Training: the Prevention, Protection and Environment Service provided more than 13,000 hours of training relative to workforce health and safety and environmental protection. As part of the "Safe Driving" initiative, 5 training courses were held involving about 200 workers/technicians.
- CEM (electromagnetic fields) sensors installation: installation of CEM sensors has been completed at company sites close to high electromagnetic fields sources in order to continuously monitor emission levels.
- Energy Stations: the low frequency electromagnetic measuring survey on a sample selection of Medium Voltage/Low Voltage transformation cabins at various corporate sites has been completed.

Industrial Relations

Consistently with the Industrial Relations Protocol and in accordance with the May 2, 2005 agreement, the Company met with Trade Unions on March 26, 2007 to formulate an agreement to set-up a new nationwide structure coordinating the Telecom Italia Spa RSUs (the company-level unitary union representative bodies). Following the merger incorporating TIM Italia S.p.A. into Telecom Italia S.p.A., it was necessary to renew the nationwide body, to represent both ex TIM Italia S.p.A. as well as Telecom Italia S.p.A. RSUs.

Given the expiration of the agreements related to Results-based Bonuses for employees of Telecom Italia S.p.A. and TIM Italia S.p.A during 2006, and in order to standardise the criteria and means of carrying out these bonuses, on June 5, 2007 a “bridge agreement” was signed with Trade Unions regarding Results-Based Bonuses that will be valid through December 31, 2007. The amount of the Bonus is tied to the financial results of the Company (EBITDA) and to the employees' days of service; moreover, the bonus payment is made according to an advance-based reserve mechanism whereby the bonus is paid in advance with a subsequent adjustment to bring the advance in line with the actual bonus amount.

Negotiations are underway with Trade Unions to define a new Results-based Bonus agreement that would take effect from January 1, 2008.
These negotiations are part of a larger set of contractual negotiations whose most important topics include an intranet board and the use of email, teleworking, work travels, meal tickets, work hours and availability, various types of leave, training, sickness and the Welfare system. In order to reach a more comprehensive agreement, several meetings have been held to examine these areas in more depth and three working committees were formed.

In conclusion, Telecom Italia S.p.A. supports and has participated in the meetings of the sector association (ASSTEL) that has been negotiating with industry Trade Unions since February 21, 2007 to renew the economic conditions as part of the Italian national work contract.

Stock option

Stock options have been used over the years within the Telecom Italia Group for retention purposes and as a long-term incentive for managers.

At June 30, 2007, the stock option plans existing in the Group are related to options entitling to subscription of shares in Telecom Italia S.p.A. and Telecom Italia Media S.p.A.

During the first half of 2007:
- The terms for exercising the first part of the Telecom Italia 2001 Stock Option Plan have expired and given that the second part has already expired for failing to reach performance parameters, on April 15, 2007 all rights relative to the entire Plan have expired;
- the exercise of the Telecom Italia options has been suspended starting from March 29, 2007 (the tenth day of Stock market open prior to the first call of the Shareholders' meeting) until April 20, 2007 (the last working day prior to distribution of dividends);
- the exercise of the Telecom Italia Media options has been suspended from March 27, 2007 (the tenth day of Stock market open prior to the first call of the Shareholders' meeting) until April 12, 2007 (date on which the shareholders' meeting was held).

The essential information and characteristics of Telecom Italia and Telecom Italia Media Stock Option Plans is summarised in the Note “Other Information - Stock Option Plans of the Telecom Italia Group” in the Telecom Italia Group half-year Report.

Shareholders

Telecom Italia Shareholders' Club

Telecom Italia has improved its free services and offers for individual shareholders of the Group which are members of TI alw@ys ON, the first club for individual shareholders in Italy, a virtual meeting place between the company and its retail investors and for anyone interested in receiving economic-financial updates, information and news on the Group's performance.
Even those not owning shares can subscribe to the "Basic" users club in order to receive the same free services available to shareholders as described in the following:
– SMS alert: a daily update at the close of stock market trading, providing the closing price and the percentage change compared to the day before for the Telecom Italia ordinary and savings shares, as well as the daily percentage change in the S&P/MIB index;
– Quarterly Newsletter: the quarterly newsletter comments on the most recent economic and financial results and news regarding the Telecom Italia Group, provides updates on technology and marketing, interviews with managers, the results of business abroad and a calendar of the Group's future events;
– Weekly Stock Market report: this report is issued every Friday evening, within an hour of the close of the stock market, to provide highlights on the trend of the week.

Telecom Italia Shareholders (regardless of the number of held shares) may subscribe to the Club's "Premium" profile. In addition to offering the services included in the "Basic" user profile, it offers new subscribers (if included in the first 5,000 members who made the request) a welcome gift, a free euro 25 of prepaid TIM traffic or in alternative, a Pago Rosso Alice e-coupon worth euro 20.
Furthermore, Premium subscribers are automatically entered in the "TI rewards" contest that periodically gives away mobile phones, tickets to sporting events and other gadgets.

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 compared with that described in detail in the Corporate Governance section of the Annual Report for 2006 (p. 171 et seq.).

In fact, as indicated in the Annual Report, the Company's system of corporate governance was restructured in 2006 and the early months of 2007 to adapt it to the intervening changes in the law and the evolution of self-regulation. On the one hand the reference is to the provisions introduced by the legislation on the protection of savings (Law 262/2005 and Legislative Decree 303/2006), the changes made by Consob to the regulatory framework when implementing the above-mentioned legislation on the protection of savings and to the transposition of the Market Abuse Directive; on the other it is to the principles and recommendations of the latest edition of Borsa Italiana's Corporate Governance Code (March 2006).

1. Following the completion of the term of office of the Board of Directors appointed on May 6, 2004, the shareholders' meeting held on April 16, 2007 was called upon to adopt the consequent resolutions, in the first place to decide on the number of members of the new Board and its duration. The number of members was set at 19 and the duration at one year, i.e. until the shareholders' meeting called to approve the financial statements for the year ending December 31, 2007.

   The shareholders' meeting then proceeded to elect the new Board of Directors using the slate voting system as provided for by the Company's bylaws and made mandatory under the law on the protection of savings. Slates had been presented by the following shareholders: Olimpia, Holinvest and Arca s.g.r. (the latter together with other asset management companies).

   Carlo Alessandro Puri Negri, Claudio De Conto, Luciano Gobbi, Gilberto Benetton, Gianni Mion, Carlo Orazio Buora, Riccardo Ruggiero, Aldo Minucci, Renato Pagliaro, Paolo Baratta, Diana Bracco, Domenico De Sole, Luigi Fausti, Jean Paul Fitoussi and Pasquale Pistorio were elected from the list presented by Olimpia, Renzo Capra and Cesare Giovanni Vecchio from that presented by Holinvest and Luigi Zingales and Stefano Cao from that presented by Arca s.g.r.

   As is customary, the CVs of the newly appointed directors are available on the Company's website. On the basis of the information they contained and/or of the declarations filed together with the slates at the Company's registered office, as provided for by the Company's bylaws, nine directors (Diana Bracco, Luigi Zingales, Stefano Cao, Renzo Capra, Luigi Fausti, Jean Paul Fitoussi, Domenico De Sole, Paolo Baratta, Pasquale Pistorio) were found to qualify as "independent" pursuant to Borsa Italiana's Corporate Governance Code, to which the Company's Self-Regulatory Code refers on this matter.

   The individual directors' satisfaction of the applicable requirements and the Board's compliance with the requirements for its composition (the presence of at least two independent Directors in accordance with the criteria laid down by law for members of the Board of Auditors) were verified by the Board at its meeting on April 17, 2007.

   On this occasion, after taking note that all the directors elected by the shareholders' meeting held on April 16, 2007 had accepted the office, the Board made the following appointments and delegation of powers.

   The Board of Directors appointed Pasquale Pistorio as Chairman and confirmed the appointments of Carlo Orazio Buora as Executive Deputy Chairman and Riccardo Ruggiero as Managing Director. The Board then went on to allocate responsibilities as follows:

   In addition to the legal representation of the Company, the Chairman, Pasquale Pistorio, was given responsibility for:
   – directing the process of examining and establishing the strategic guidelines of the Company and the Group, assisted by the Executive Deputy Chairman and the Managing Director;

– introducing the strategic guidelines established by the Board of Directors; and
– supervising the formulation of operational plans and the processes for their implementation.

The Chairman was also assigned organizational responsibility for the coordination of the Group Functions of General Counsel and Corporate and Legal Affairs, Public Affairs and Strategy.

In addition to the legal representation of the Company and all the powers, to be exercised with a single signature, necessary to fulfil the acts pertinent to the various corporate operations, none excluded, the Executive Deputy Chairman, Carlo Orazio Buora, was assigned responsibility for the overall governance of the Group, including the drafting – in coordination with the Chairman – of the strategic guidelines, the coordination of the activities of the Managing Director and the formulation, in agreement with the latter, of the operational plans implementing the strategic guidelines of the Company and the Group approved by the Board of Directors. The Executive Deputy Chairman, who is also responsible for internal control, was also given organizational responsibility for:
– coordination of the Olivetti Business Unit and the Media Business Unit;
– coordination of the Group Functions of Finance, Administration and Control, Human Resources, Organization and Security, Domestic Legal Affairs and Judicial Authority Services, International Legal Affairs, Purchasing, External Relations, International Affairs and Investor Relations, with responsibility for guaranteeing the direction and control of the business and the overall governance of business-wide issues;
– coordination of Telecom Italia Audit and Compliance Services and Telecom Italia Latam.

In addition to the legal representation of the Company and all the powers, to be exercised with a single signature, necessary to fulfil the acts pertinent to the various corporate operations, none excluded, the Managing Director, Riccardo Ruggiero, was assigned responsibility for the coordination of operations, with responsibility for ensuring the management and development of the fixed and mobile telecommunications and internet services businesses. The Managing Director was also assigned organizational responsibility for:
– coordination of the Functions of Domestic Fixed Services, Domestic Mobile Services, Top Clients & ICT Services and Technology;
– coordination of Quality and Field Services Management, National Wholesale Services, International Wholesale and Broadband Services;
– coordination of the Functions of Business Development and Regulatory Affairs;
– coordination of Tim Brasil.

Following the appointment of Pasquale Pistorio as Chairman with executive functions, he no longer qualified as an "independent" director.

At present there are nine independent directors, namely: Diana Bracco, Luigi Zingales, Stefano Cao, Renzo Capra, Luigi Fausti, Jean Paul Fitoussi, Domenico De Sole, Paolo Baratta and Cesare Giovanni Vecchio, who declared after his appointment that he satisfied the independence criteria of the Company's Self-Regulatory Code.

On July 6, 2007 the membership of the Board of Directors underwent a change with the resignation of Luciano Gobbi, elected from the slate presented by Olimpia. On July 24, 2007 the Board proceeded, pursuant to the first paragraph of Article 2386 of the Civil Code, to fill the gap by appointing Gaetano Miccichè, whose CV is available on the Company's website.

Accordingly, at present the Board of Directors consists, in line with the original decision of the shareholders' meeting, of 19 directors, nine of whom qualify as independent.

2. On April 16, 2007 the shareholders' meeting filled the gap in the membership of the Board of Auditors created by the resignation on October 20, 2006 of Stefano Meroi, the member elected from the "minority" slate, who had been replaced by the alternate member elected from the same slate, Enrico Maria Bignami. The shareholders' meeting confirmed him in the position and appointed Luigi Gaspari as the new alternate member of the Board until its expiry at the shareholders' meeting called to approve the financial statements for 2008.

   As usual, the CVs of the above-mentioned members of the Board of Auditors are available on the Company's website.

3. Pursuant to the Company's Self-Regulatory Code, in its meeting on May 8, 2007, the Board of Directors created the following Board committees:
   - the Strategy Committee, which, pursuant to the Company's Self-Regulatory Code, consists of the executive directors and non-executive directors specialized in the fields of technology, organizational strategies and corporate finance. In addition to the Chairman, the Executive Deputy Chairman and the Managing Director, the directors on the Committee are: Paolo Baratta (independent), Domenico De Sole (independent), Jean Paul Fitoussi (independent) and Renato Pagliaro (non-executive). The Chairman of the Board of Directors, Pasquale Pistorio, was chosen to chair this committee;
   - the Internal Control and Corporate Governance Committee, which, pursuant to the Company's Self-Regulatory Code, consists of independent directors and must have at least one member elected from a minority slate and at least one expert in accounting and financial matters. The following independent directors are on the committee: Paolo Baratta, Diana Bracco, Domenico De Sole, Luigi Fausti and Cesare Giovanni Vecchio (elected from a minority slate). Paolo Baratta was chosen to chair this committee;
   - the Remuneration Committee, which, pursuant to the Company's Self-Regulatory Code, consists of independent directors and must have at least one member elected from the minority slate. The following independent directors are on the committee: Stefano Cao, Renzo Capra, Luigi Zingales (all elected from minority slates) and Luigi Fausti. Luigi Zingales was chosen to chair this committee.

4. On July 24, 2007 the Board of Directors acknowledged and ratified the choice made by the independent directors in an executive session of Domenico De Sole as Lead Independent Director. This position, introduced in 2004, is intended to provide a point of reference and coordination for the needs and inputs of the independent directors.

5. In 2004 Telecom Italia's Board of Directors adopted the rule for the Supervisory Panel, established pursuant to and for the purposes of Article 6 of Legislative Decree 231/2001, whereby it would remain in office until the Board's own expiry. Ever since it was first set up, the members of the Supervisory Panel have been a member of the Internal Control and Corporate Governance Committee, a member of the Board of Auditors and the person responsible for internal control (a representative of Telecom Italia Audit and Compliance Services s.c.a.r.l., the consortium company charged with the internal audit of Telecom Italia). In fact this membership was deemed to be the most suitable to ensure the Supervisory Panel's independence and the presence among its members of the various skills that are required in controlling the Company's activity. In its meeting on May 8, 2007, the Board of Directors confirmed this approach and called on the following to make up the Supervisory Panel: Federico Maurizio D'Andrea, the person responsible for internal control (who took over from Armando Focaroli as head of Telecom Italia Audit and Compliance Services on March 6, 2007), Ferdinando Superti Furga, nominated by the Board of Auditors, and Paolo Baratta, nominated by the Internal Control and Corporate Governance Committee. During its first meeting the Supervisory Panel appointed Ferdinando Superti Furga as its chairman.

6. As already indicated in the Annual Report for 2006, the shareholders' meeting approved some amendments to the Company's bylaws, deriving primarily from the need to bring them into line with the law on the protection of savings and some corrections to the Meeting Regulations (adopted by the shareholders' meeting held on May 6, 2004).

   In addition, following Consob's issue of implementing regulations for the law on the protection of savings, the Board of Directors checked the compatibility with the new legislative frame-work of the Company's bylaws, which had been updated by the shareholders' meeting held on April 16, 2007, when Consob's regulations had not yet been issued. The analysis showed that Telecom Italia's bylaws were basically in conformity with the rules and regulations, but the Board of Directors considered it advisable to make some minor changes to ensure complete conformity with the latest version of Consob Regulation 11971/1999 on issuers of the bylaws concerning the mechanisms for electing the members of the Board of Directors and the Board of Auditors.

   Specifically, the amendments introduced by the Board of Directors on July 24, 2007 concerned:
   - the reduction from 1% to 0.5% of the shareholding required for the presentation of a slate, as provided for large cap companies;
   - some aspects of the procedure for the election of candidates to the Board of Auditors, now completely covered by Consob Regulation 11971/1999 on issuers. In particular, the requirement presenting shareholders to publish slates at their expense in at least one daily newspaper with national circulation has been eliminated;
   - the manner of filling gaps in the Board of Auditors in the event of members ceasing to perform their duties during their term of office, with measures aimed at ensuring compliance with the principle of minority representation. In addition, an amendment of an "interpretative" nature was made based on the mechanism for confirmation of the minority alternate member by the shareholders' meeting.

7. On April 16, 2007, after examining a report prepared by the Board of Directors, the shareholders' meeting approved an equity-based system for motivating and retaining top management. The "2007-2010 Plan" will last for three years and envisages the award of shares. For the operation of the plan – whose implementation is entrusted to the Board of Directors, which, without prejudice to the guidelines laid down in the above-mentioned report, will also be responsible for identifying the beneficiaries – approval has been granted for market purchases of up to a maximum of 25 million Telecom Italia S.p.A. ordinary shares, with the simultaneous revocation of the authorization to purchase treasury shares granted by the shareholders' meeting held on April 13, 2006.

8. The issue of the audit report on the financial statements for the year ended December 31, 2006 marked the end of the second three-year engagement of Reconta Ernst & Young S.p.A. awarded by the shareholders' meeting of Telecom Italia on May 6, 2004. Since the transitional provision contained in Article 8.7 of Legislative Decree 303/2006 allows companies to extend, up to the date of the first shareholders' meeting called to approve the annual financial statements, those engagements under way at the date of the entry into force of the above-mentioned decree whose total duration (taking into account the intervening renewals and extensions) has not exceeded nine fiscal years, the shareholders' meeting, acting on a reasoned proposal by the Board of Auditors, extended the engagement of Reconta Ernst & Young S.p.A to audit the annual financial statements of Telecom Italia S.p.A. and the consolidated annual financial statements of the Telecom Italia Group and to review the Company and Group half-yearly report for the fiscal years 2007, 2008 and 2009.

9. As regards compliance with the provisions implementing the Sarbanes-Oxley Act, the first half of 2007 saw further progress in carrying out Project 404, which involves the whole Group and, under the guidance of the related Steering Committee, is intended to equip the Company with the most suitable means and instruments to ensure prompt and exact

fulfilment of the requirements regarding attestations "on internal control over financial reporting" introduced by Section 404 of the Sarbanes-Oxley Act referred to above. Telecom Italia became subject to these requirements with its Annual Report for 2006, which therefore contains the first management's report on internal control over financial reporting. The outcome of the assessment was positive and was the subject of an attestation issued by the external auditor and filed together with the Company's Form 20-F.

10. On June 30, 2007 the largest shareholder of Telecom Italia S.p.A. was still Olimpia S.p.A., with an interest equal to approximately 18% of the ordinary share capital. The capital of Olimpia S.p.A. is owned for 80% by Pirelli & C. S.p.A. and for 20% by Sintonia S.p.A. and Sintonia S.A., which took over the holdings of respectively Edizione Holding S.p.A. and Edizione Finance International S.A.

    On April 28, 2007 Pirelli & C. S.p.A., Sintonia S.p.A. and Sintonia S.A. announced that they had reached an agreement with leading financial investors and industrial operators for the sale of 100% of the share capital of Olimpia S.p.A. The shares will be bought by a vehicle company, Telco S.p.A., owned by Assicurazioni Generali S.p.A. (28.1%), Intesa San Paolo S.p.A. (10.6%), Mediobanca S.p.A. (10.6%), Sintonia S.A. (8.4%) and Telefonica S.A. (42.3%). Telco S.p.A., after acquiring Olimpia S.p.A., will hold about 23.6% of the ordinary share capital of Telecom Italia S.p.A., of which 18% through Olimpia S.p.A. and 5.6% contributed by Generali S.p.A. and Mediobanca S.p.A..

Telecom Italia Group
Interim consolidated financial statements
at june 30, 2007

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Consolidated balance sheets

Assets

(millions of euro)	note	6/30/2007	*of which related parties*	12/31/2006	*of which related parties*
NON-CURRENT ASSETS					
Intangible assets					
– Goodwill	5)	44,422		43,739	
– Intangible assets with a finite life	6)	6,848		6,740	
		51,270		50,479	
Tangible assets	7)				
– Property, plant and equipment owned		15,606		15,690	
– Assets held under finance leases		1,478		1,525	
		17,084		17,215	
Other non-current assets	8)				
– Investments in associates and joint ventures accounted for using the equity method		519		488	
– Other investments		59		776	
– Securities, financial receivables and other non-current financial assets		699	*25*	691	*24*
– Miscellaneous receivables and other non-current assets		962	*9*	871	*10*
– Deferred tax assets		261		912	
		2,500		3,738	
TOTAL NON-CURRENT ASSETS (A)		**70,854**		**71,432**	
CURRENT ASSETS					
Inventories		318		291	
Trade and miscellaneous receivables and other current assets	9)	9,559	*236*	8,748	*220*
Current income tax receivables		212		287	
Securities		265	*8*	812	*–*
Financial receivables and other current financial assets		399	*1*	433	*1*
Cash and cash equivalents	10)	3,664	*–*	7,219	*1*
CURRENT ASSETS SUB-TOTAL		**14,417**		**17,790**	
Discontinued operations/assets held for sale	11)				
of a financial nature		–		–	
of a non-financial nature		939		235	
		939		235	
TOTAL CURRENT ASSETS (B)		**15,356**		**18,025**	
TOTAL ASSETS (A+B)		**86,210**		**89,457**	

Equity and liabilities

(millions of euro)	note	6/30/2007	*of which related parties*	12/31/2006	*of which related parties*
EQUITY	12)				
Share capital issued		10,674		10,674	
Less: Treasury shares		(69)		(69)	
Share Capital		**10,605**		**10,605**	
Reserves for additional paid-in capital		1,689		1,689	
Other reserves and retained earnings (accumulated losses), including net income for the period		12,735		13,724	
Equity attributable to equity holders of the Parent		**25,029**		**26,018**	
Equity attributable to Minority Interests		**1,072**		**1,080**	
TOTAL EQUITY (A)		**26,101**		**27,098**	
Non-current liabilities					
Non-current financial liabilities	13)	38,216	*445*	40,803	*239*
Employee severance indemnities and other employee-related provisions	15)	1,249		1,262	
Deferred tax liabilities		526		194	
Provisions for risks and charges	16)	863		775	
Miscellaneous payables and other non-current liabilities		1,743	*23*	1,857	*23*
TOTAL NON-CURRENT LIABILITIES (B)		**42,597**		**44,891**	
Current liabilities					
Current financial liabilities	13)	5,986	*179*	5,653	*148*
Trade and miscellaneous payables and other current liabilities	17)	11,394	*259*	11,596	*204*
Current income tax payables		132		219	
CURRENT LIABILITIES SUB-TOTAL		**17,512**		**17,468**	
Liabilities relating to discontinued operations/assets held for sale					
of a financial nature		–		–	
of a non-financial nature		–		–	
		–		–	
TOTAL CURRENT LIABILITIES (C)		**17,512**		**17,468**	
TOTAL LIABILITIES (D=B+C)		**60,109**		**62,359**	
TOTAL EQUITY AND LIABILITIES (A+D)		**86,210**		**89,457**	

Consolidated statements of income

(millions of euro)	note	1st Half 2007	*of which related parties*	1st Half 2006	*of which related parties*
Revenues		15,470	*169*	15,335	*244*
Other income		165	*1*	311	*3*
Total operating revenues and other income		**15,635**		**15,646**	
Purchases of materials and external services		(6,886)	*(91)*	(6,769)	*(124)*
Personnel costs	21)	(1,925)	*(27)*	(1,992)	*(24)*
Other operating expenses		(832)		(666)	
Changes in inventories		21		69	
Capitalized internal construction costs		281		230	
OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) OF NON-CURRENT ASSETS (EBITDA)		**6,294**		**6,518**	
of which net impact of non-recurring items	27)	***(20)***		***(14)***	
Depreciation and amortization		(2,853)		(2,843)	
Gains (losses) on disposals of non-current assets (1)		8		152	
Impairment reversals (losses) on non-current assets		–		(26)	
OPERATING INCOME (EBIT)		**3,449**		**3,801**	
of which net impact of non-recurring items	27)	***(10)***		***111***	
Share of profits (losses) of associates and joint ventures accounted for using the equity method		58		25	
Financial income	22)	1,243	*7*	1,649	*–*
Financial expenses	23)	(2,226)	*(24)*	(2,743)	*(14)*
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES		**2,524**		**2,732**	
of which net impact of non-recurring items	27)	***(9)***		***238***	
Income taxes		(1,018)		(1,305)	
NET INCOME FROM CONTINUING OPERATIONS		**1,506**		**1,427**	
Net income from discontinued operations/assets held for sale	11)	(4)		46	
NET INCOME FOR THE PERIOD		**1,502**		**1,473**	
of which net impact of non-recurring items	27)	***(15)***		***226***	
of which:					
* **Net income attributable to equity holders of the Parent**		**1,500**		**1,496**	
* Net income (loss) attributable to Minority Interests		2		(23)	

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

(euro)	1st Half 2007	1st Half 2006
Basic and Diluted Earnings Per Share (EPS) (*)		
Basic and Diluted EPS per:		
· Ordinary Share	0.07	0.07
· Savings Share	0.08	0.08
of which:		
From continuing operations		
· Ordinary Share	0.07	0.07
· Savings Share	0.08	0.08
From discontinued operations/assets held for sale		
· Ordinary Share	–	–
· Savings Share	–	–

(*) Basic EPS is equal to Diluted EPS.

Consolidated statements of changes in equity

CHANGES IN EQUITY IN THE FIRST HALF OF 2006

	Equity attributable to the equity holders of the Parent						
(millions of euro)	Share capital	Additional paid-in capital	Reserve for net translation differences	Other reserves and 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**	**7,805**	**25,662**	**1,323**	**26,985**
Reclassifications of the Parent pursuant to Legislative Decree 38/2005, art. 7		(4,796)		4,796			
Balance at December 31, 2005 - IFRS, adjusted	**10,599**	**1,669**	**793**	**12,601**	**25,662**	**1,323**	**26,985**
Changes in equity during 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 income							
Fair value adjustments of hedging instruments:							
Unrealized gains (losses) from fair value adjustments of cash flow hedge derivatives				(30)	(30)		(30)
Gains (losses) transferred to the statement of income				216	216		216
Translation differences			(30)		(30)	(19)	(49)
Tax effect				(61)	(61)		(61)
Total net income (expenses) for the period recognized directly in equity			**(30)**	**145**	**115**	**(19)**	**96**
Net income for the period				1,496	1,496	(23)	1,473
Total recognized net income (loss) for the period			**(30)**	**1,641**	**1,611**	**(42)**	**1,569**
Dividends paid				(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 mobile telephone segment in Brazil				(59)	(59)	59	
Change in the scope of consolidation			(9)		(9)	(15)	(24)
Other changes				11	11	(3)	8
Balance at June 30, 2006 - IFRS	**10,605**	**1,688**	**754**	**11,425**	**24,472**	**1,088**	**25,560**

CHANGES IN EQUITY IN THE FIRST HALF OF 2007

(millions of euro)	Equity attributable to the equity holders of the Parent: Share capital	Additional paid-in capital	Reserve for net translation differences	Other reserves and retained earnings, including net income for the period	Total	Equity attributable to Minority interests	Total equity
Balance at December 31, 2006 - IFRS	**10,605**	**1,689**	**686**	**13,038**	**26,018**	**1,080**	**27,098**
Changes in equity during the first half of 2007							
Fair value adjustments of available-for-sale financial assets:							
Unrealized gains (losses) on fair value adjustments				(17)	(17)		(17)
Gains (losses) transferred to the statement of income				1	1		1
Fair value adjustments of hedging instruments:							
Unrealized gains (losses) from fair value adjustments of cash flow hedge derivatives				39	39		39
Gains (losses) transferred to the statement of income				39	39		39
Translation differences			241		241	64	305
Tax effect				(17)	(17)		(17)
Total net income (expenses) for the period recognized directly in equity			**241**	**45**	**286**	**64**	**350**
Net income for the period				1,500	1,500	2	1,502
Total recognized net income for the period			**241**	**1,545**	**1,786**	**66**	**1,852**
Dividends paid				(2,766)	(2,766)	(73)	(2,839)
Other changes				(9)	(9)	(1)	(10)
Balance at June 30, 2007 - IFRS	**10,605**	**1,689**	**927**	**11,808**	**25,029**	**1,072**	**26,101**

Consolidated statements of cash flows

(millions of euro)	note	1st Half 2007	1st Half 2006
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income from continuing operations		1,506	1,427
Adjustments to reconcile net income from continuing operations to cash flows generated by (used in) operating activities:			
– Depreciation and amortization		2,853	2,843
– Impairment (reversals) losses of non-current assets (including investments)		(103)	33
– Net change in deferred tax assets and liabilities		925	904
– Net (gains) losses realized on disposals of non-current assets (including investments)		(9)	(262)
– Share of (profits) losses of associates and joint ventures accounted for using the equity method		(58)	(25)
– Change in employee severance indemnities and other employee-related provisions		(32)	(11)
– Change in other operating assets/liabilities:			
– Change in inventories		(26)	(69)
– Change in trade receivables and net receivables on construction contracts		(491)	(510)
– Change in trade payables		(244)	(826)
– Net change in miscellaneous receivables/payables and other assets/liabilities		(66)	(276)
CASH FLOWS GENERATED BY (USED IN) OPERATING ACTIVITIES (A)		**4,255**	**3,228**
CASH FLOWS FROM INVESTING ACTIVITIES:			
Acquisitions of intangible assets on an accrual basis	*6)*	*(1,046)*	*(885)*
Acquisitions of tangible assets on an accrual basis	*7)*	*(1,428)*	*(1,331)*
Total acquisitions of intangible and tangible assets on an accrual basis (*)		(2,474)	(2,216)
Change in amounts due to fixed asset suppliers		*(270)*	*(433)*
Total acquisitions of intangible and tangible assets on a cash basis		(2,744)	(2,649)
Acquisitions of investments in subsidiaries and businesses, net of cash acquired (I)	3, 5)	(669)	–
Acquisitions of other investments (I)		–	(1)
Change in financial receivables and other financial assets		573	582
Proceeds from sale of investments in subsidiaries, net of cash disposed of (II)		1	100
Proceeds from sale/repayment of intangible, tangible and other non-current assets (II)		41	516
CASH FLOWS GENERATED BY (USED IN) INVESTING ACTIVITIES (B)		**(2,798)**	**(1,452)**
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net change in current financial liabilities and other liabilities		(415)	(627)
Proceeds from non-current financial liabilities (including current portion)		1,456	2,812
Repayments of non-current financial liabilities (including current portion)		(3,231)	(8,302)
Proceeds from equity instruments		–	2
Dividends paid (distribution of reserves included) (*)		(2,830)	(2,994)
CASH FLOWS GENERATED BY (USED IN) FINANCING ACTIVITIES (C)		**(5,020)**	**(9,109)**
CASH FLOWS GENERATED BY (USED IN) DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE (D)		**–**	**(13)**
AGGREGATE CASH FLOWS (E=A+B+C+D)		**(3,563)**	**(7,346)**
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)		**6,960**	**9,958**
Net effect of foreign currency translation on net cash and cash equivalents (G)		21	1
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (H=E+F+G)		**3,418**	**2,613**

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

(*) OF WHICH RELATED PARTIES		
Total acquisitions of intangible and tangible assets on an accrual basis	233	293
Dividends paid (distribution of reserves included)	344	348

ADDITIONAL CASH FLOW INFORMATION:		
(millions of euro)	1st Half 2007	1st Half 2006
Income taxes (paid) received	(67)	(269)
Interest expense paid	(2,230)	(1,928)
Interest income received	805	449
Dividends received	13	27

RECONCILIATION OF TOTAL NET CASH AND CASH EQUIVALENTS		
(millions of euro)	1 st Half 2007	1 st Half 2006
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD:		
Cash and cash equivalents - from continuing operations	7,219	10,323
Bank overdraft repayable on demand - from continuing operations	(259)	(383)
Cash and cash equivalents - from discontinued operations/assets held for sale	–	37
Bank overdraft repayable on demand - from discontinued operations/assets held for sale	–	(19)
	6,960	**9,958**
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD:		
Cash and cash equivalents - from continuing operations	3,664	2,958
Bank overdraft repayable on demand - from continuing operations	(246)	(345)
	3,418	**2,613**

Note 1 - Form and content and other general information

Form and content

Telecom Italia S.p.A. is a corporation organized under the laws of the Republic of Italy. Telecom Italia S.p.A. and its subsidiaries (the "Telecom Italia Group" or the "Group") operate mainly in Europe, the Mediterranean basin and South America.

The Group operates principally in the communications sector, particularly in the areas of telephone and data services on fixed lines for final customers (retail) and other providers (wholesale), in the development of fiber optic networks for wholesale customers, in broadband services, in Internet services, in domestic and international mobile telecommunications (especially in Brazil), in the television sector using both analog and digital terrestrial technology and in the office products sector.

The head office of the Parent, Telecom Italia, is located in Milan, Italy.

The interim consolidated financial statements of the Telecom Italia Group are expressed in millions of euro which is also the currency of the primary economies in which the Group operates. The foreign subsidiaries are included in the interim consolidated financial statements in accordance with the accounting policies described in the Note "Accounting policies" at December 31, 2006, to which reference can be made.

The interim consolidated financial statements for the year ended June 30, 2007 of the Telecom Italia Group have been prepared in accordance with IFRS issued by the International Accounting Standards Board and endorsed by the European Union ("IFRS''), by Consob Resolution 15519 dated July 27, 2006 and by Consob Communication DEM/6064293 dated July 28, 2006. IFRS also include all effective International Accounting Standards ("IAS") and all Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC"), comprising those previously issued by the Standing Interpretations Committee ("SIC").

Moreover, the Group did not elect the early adoption of any IFRS in the first half of 2007.

The interim consolidated financial statements for the first half of 2007 of the Telecom Italia Group have been prepared in a condensed format, as permitted by IAS 34 (Interim Financial Reporting). Therefore, the interim consolidated financial statements for the first half of 2007 of the Telecom Italia Group do not include all the information that would be required for the annual consolidated financial statements and should be read together with the consolidated financial statements of the Telecom Italia Group prepared for the year ended December 31, 2006.

For purposes of comparison, the following are presented in accordance with IAS 1 (Presentation of financial statements): the balance sheets at December 31, 2006, the statement of income and the statement of cash flows for the first half of 2006 as well as the statement of changes in equity for the first half of 2006.

The interim consolidated financial statements have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets held for trading and derivative instruments at fair value through the statement of income, as well as discontinued operations/assets held for sale, which have been stated for certain financial assets at fair value and other assets at the lower of historical cost and fair value less costs to sell. The carrying amounts of hedged assets and liabilities have been adjusted to reflect the changes in fair value of the hedged risks (fair value hedge).

Financial statement formats

The financial statement formats adopted are consistent with those indicated in IAS 1. In particular:

- the consolidated balance sheet has been prepared by classifying the assets and liabilities according to "current and non-current" and separately indicating on two lines "Discontinued operations/assets held for sale" and "Liabilities relating to discontinued operations/assets held for sale" as required by IFRS 5;
- the consolidated statement of income has been prepared by classifying the operating costs by nature of expense, since this form of presentation is considered more appropriate and representative of the specific business of the Group, conforms to internal reporting and is in line with the industrial sector of reference. Moreover, results from continuing operations are shown separately from the "Net income (loss) from discontinued operations/assets held for sale" as required by IFRS 5;
- the consolidated statement of changes in equity has been prepared in conformity with the IAS 1;
- the consolidated statement of cash flows has been prepared by presenting financial flows from operating activities according to the "indirect method", as permitted by IAS 7, and separately showing financial flows from "Discontinued operations/assets held for sale", as required by IFRS 5.

Furthermore, as required by Consob Resolution 15519 dated July 27, 2006, in the statement of income by nature, income and expenses relating to non-recurring transactions or events which infrequently occur during the normal course of business operations and the relative effects have been shown separately at the main intermediate result levels.

Non-recurring events and transactions are identified basically according to the nature of the transactions. Specifically, non-recurring income (expenses) include events or transactions which by their very nature do not occur continuously during the normal course of operations and refer to:

- income / expenses from the sale of properties;
- income / expenses from the sale of business segments and investments included under non-current assets;
- any income / expenses from reorganizations connected with extraordinary corporate-related transactions (mergers, demergers, acquisitions and other corporate-related transactions);
- any income / expenses from fines levied by regulatory agencies (AGCom (the Italian Communications Authority) and the Antitrust Authority).

Again in reference to the above Consob resolution, the amounts of balances or transactions with related parties are shown separately by caption of the balance sheets, statement of income and statement of cash flows.

Segment information

On January 22, 2007, in light of important technological, market and regulatory changes, Telecom Italia introduced a new organizational structure aimed at ensuring greater operational flexibility and facilitating the implementation of the strategic guidelines for the convergence of the various areas of business (fixed and mobile telecommunications, broadband Internet and media contents).

Consequently, in the interim consolidated financial statements at June 30, 2007, the disclosure by business segment was changed and current representation is the following:

– Domestic
– European Broadband
– Brazil Mobile
– Media
– Olivetti
– Other activities.

In particular:

- the "Domestic" Business Unit includes fixed and mobile telecommunications of Telecom Italia S.p.A and the Telecom Italia Sparkle S.p.A. group as well as the relative support activities;
- the "European Broadband" Business Unit comprises Broadband services in France, Germany and the Netherlands;
- the "Brazil Mobile", "Media" and "Olivetti" Business Units have remained substantially unchanged in relation to the prior periods under comparison;
- the "Other activities" include the financial companies, the foreign activities that are not included in the other Business Units (Entel Bolivia) and other minor companies not strictly related to the core business of the Telecom Italia Group.

Seasonal factors affecting revenues

Domestic

The trend of revenues from basic subscription charges and traffic relating to fixed telecommunications was not significantly affected by seasonal factors in the comparison between the first half of 2007 and the first half of 2006.

The trend of voice traffic revenues relating to the domestic mobile business was not influenced by seasonal factors related to market campaigns in the comparison between the first half of 2007 and the first half of 2006. These campaigns, however, have an effect on the revenues from sales and marginally also on revenues from Valued-Added Services (VAS). Nevertheless, there are seasonal phenomena relating to the number of holidays during the months or periods in the reporting calendar.

Brazil Mobile

The trend of revenues relating to the Brazil Mobile business was only marginally affected by seasonal factors connected with marketing campaigns but were influenced by seasonal phenomena relating to the number of holidays during the months or periods in the reporting calendar.

Scope of consolidation

The changes in the scope of consolidation at June 30, 2007, excluding "Discontinued operations/assets held for sale" (analyzed later in the notes), are listed below:

Compared to December 31, 2006:

(a) inclusions in the scope of consolidation:
the companies in the AOL group (AOL Service Germany GmbH, AOL Erste Beteiligungsgesellschaft GmbH, AOL Zweite Beteiligungsgesellschaft GmbH and AOL Deutschland GmbH & Co KG) acquired at the end of February 2007, consolidated starting March 1, 2007 and merged in the company HanseNet Telekommunikation GmbH in June 2007;

(b) exclusions from the scope of consolidation:
Domus Academy S.p.A. (sold in June 2007); Olivetti Systems Technology Corp. (liquidated and deleted from the Companies Register in March 2007); Olivetti Tecnost Nederland B.V. (liquidated and deleted from the Companies Register in February 2007) and OMS Holding B.V. (liquidated and deleted from the Companies Register in May 2007);

(c) merged companies:
the companies in the AOL group and the company Mediterranean Nautilus S.A. which was merged in Telecom Italia Sparkle Luxembourg S.A. (ex-Latin American Nautilus S.A.) in February 2007.

Compared to June 30, 2006, the following changes took place during the first half of 2007 in addition to those indicated above:

(a) inclusions in the scope of consolidation:
the company Advalso S.p.A. (established in November 2006);

(b) exclusions from the scope of consolidation:
Blah! Inc (wind-up closed in October 2006); Edotel S.p.A. (wind-up closed in December 2006); Emax Trade S.r.l. (wind-up closed in November 2006); Liberty Telecom B.V. (wind-up closed in December 2006); Telecom Italia Learning Services S.p.A. (sold in July 2006); Telecom Media International Italy-Canada Inc. (wind-up closed in November 2006), Olivetti Tecnost H.K. Ltd (wind-up closed in October 2006); Tin Web S.r.l (wind-up closed in December 2006);

(c) merged companies:
Nuova Tin.It S.r.l. was merged in and with the Parent, Telecom Italia S.p.A. (beginning October 2006).

At June 30, 2007 and at December 31, 2006, the subsidiaries, associates and jointly controlled companies of Telecom Italia can be summarized as follows:

		6/30/2007	
	Italy	**Abroad**	**Total**
Companies:			
• subsidiaries consolidated on a line-by-line basis	41	82	123
• jointly controlled companies accounted for using the equity method	1	1	2
• associates accounted for using the equity method	22	7	29
Total companies	**64**	**90**	**154**

		12/31/2006	
	Italy	**Abroad**	**Total**
Companies:			
• subsidiaries consolidated on a line-by-line basis	43	85	128
• jointly controlled companies accounted for using the equity method	1	1	2
• associates accounted for using the equity method	26	7	33
Total companies	**70**	**93**	**163**

For further details, see the Note “List of companies of the Telecom Italia Group”.

Discontinued operations/assets held for sale

As required by IFRS 5 (Non-current assets held for sale and discontinued operations), balance sheet and statement of income data relating to discontinued operations have been classified in two separate lines on the balance sheet in “Discontinued operations/assets held for sale” and in “Liabilities relating to discontinued operations/assets held for sale” and in one line on the statement of income in “Net income (loss) from discontinued operations/assets held for sale”.

In particular:

- the statement of income for the first half of 2006 includes the data of Digitel Venezuela (sold in May 2006) and statement of income for the first half of 2007 includes accruals and expenses in connection with the sales of Digitel Venezuela (euro 2 million) and Gruppo Buffetti (euro 2 million) in 2006;
- the balance sheet at December 31, 2006 includes the investments held in Solpart Partecipaçoes and Brasil Telecom Participações and the balance sheet at June 30, 2007 also includes the investment in Oger Telecom (sold on July 3, 2007) and the investments Capitalia and Mediobanca following the decision to proceed with their sale.

Note 2 - Accounting policies

Consolidation

The accounting policies and principles of consolidation adopted for the preparation of the interim consolidated financial statements at June 30, 2007 have been applied on a basis consistent with those used for the annual consolidated financial statements at December 31, 2006, to which reference should be made, except for the changes required for purposes of interim financial reporting. Specifically, at June 30, 2007, current income taxes of the individual consolidated companies as well as deferred taxes are conventionally classified in the "Deferred tax liabilities". If the balance between deferred tax assets and deferred tax liabilities is an asset it is conventionally recognized in "Deferred tax assets". Income taxes for the six-month period of the individual consolidated companies 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.

Employee benefits - Provision for employee severance indemnities

The Provision for employee severance indemnities, mandatory for Italian companies pursuant to art. 2120 of the Italian Civil Code, is considered deferred compensation and is based, among other things, on the employees' years of service and the compensation earned by the employee during the service period.

Starting January 1, 2007, the Finance Bill and the relative decrees implementing the bill introduced changes to the employee severance indemnity system including the employee's choice as to the destination of his/her employee severance indemnity that is accruing (either to supplementary pension funds or to the "Treasury fund" managed by INPS).

Consequently, the company's obligation with INPS, the same as contributions for supplementary pension schemes, takes the form of "Defined contribution plans", whereas the amounts recorded in the Provision for employee severance indemnities, pursuant to IAS 19, retain the nature of "Defined benefit plans".

These legislative changes have also lead to a revision of the actuarial assumptions and the consequent calculations used for the computation of employee severance indemnities.

New Standards and Interpretations endorsed by the European Union effective beginning January 1, 2007

As required by IAS 8 (Accounting policies, changes in accounting estimates and errors) the IFRS in effect from January 1, 2007 are indicated below and briefly illustrated.

IFRS 7 - Financial instruments: disclosures

This Standard, endorsed by the European Union in January 2006 (Regulation EC 108-2006), supersedes IAS 30 (Disclosures in financial statements of banks and other financial institutions) and includes the section on Disclosures contained in IAS 32 (Financial instruments: presentation and disclosures) with amendments and additions; consequently, the title of IAS 32 is changed to "Financial instruments: presentation".

Amendments to IAS 1 - Presentation of Financial Statements - capital disclosures

Such amendments, endorsed by the European Union in January 2006 (Regulation EC 108-2006), provide that an entity presents disclosures which allow users of the financial statements to assess its objectives, policies and processes for managing capital.

IFRIC 8 - Scope of IFRS 2

On September 8, 2006, the European Commission endorsed Interpretation IFRIC 8 (Scope of IFRS 2) with Regulation EC 1329-2006.

IFRIC 8 clarifies that IFRS 2 (Share-based Payment) applies to contracts where an entity makes share-based payments also for services for apparently nil or inadequate consideration. IFRIC 8 specifically explains that if the identifiable consideration given appears to be lower than the fair value of the equity instruments granted (or liability incurred), this typically indicates that additional consideration has been or will be received.

The application of this Interpretation did not have any impact on the interim consolidated financial statements at June 30, 2007.

IFRIC 9 - Reassessment of embedded derivatives

On September 8, 2006, the European Commission endorsed Interpretation IFRIC 9 (Reassessment of embedded derivatives) with Regulation EC 1329-2006. This Interpretation concludes that an entity must assess whether an embedded derivative is required to be separated from the host contract and accounted for as a derivative when the entity first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment on the separation of the embedded derivative is required.

The application of this Interpretation did not have any impact on the interim consolidated financial statements at June 30, 2007.

IFRIC 10 - Interim financial reporting and impairment

On June 1, 2007, the European Commission endorsed Interpretation IFRIC 10 (Interim financial reporting and impairment) with Regulation EC 610-2007.

This interpretation addresses the interaction between the requirements of IAS 34 (Interim financial reporting) and the recognition of impairment losses on goodwill under IAS 36 and on some financial assets discussed in IAS 39, and the effect of this interaction in subsequent interim financial statements and in the annual financial statements.

IFRIC 10 clarifies the accounting treatment to be adopted in the annual financial statements or in subsequent interim financial statements for the impairment losses of some assets recognized in a previous interim period (for example, quarterly or first-half financial statements) if at the end of the period the conditions which previously gave rise to the recognition of an impairment loss no longer exist.

The application of this Interpretation did not have any impact on the interim consolidated financial statements at June 30, 2007.

New Standards and Interpretations endorsed by the European Union but not yet effective

The IFRS in effect from July 1, 2007 or subsequently are indicated below and briefly illustrated.

IFRIC 11 - IFRS 2 - Group and treasury share transactions

On June 1, 2007, the European Commission endorsed Interpretation IFRIC 11 (IFRS 2 - Group and treasury share transactions) with Regulation EC 611-2007.

This Interpretation establishes, first of all, that share-based payment arrangements in which the company receives services (for example, from its employees) as consideration for its treasury shares must be accounted for as equity-settled, regardless of whether the entity chooses or is required to buy its own treasure shares from a third party to satisfy its obligations with its employees.

IFRIC 11 also clarified the accounting treatment to be adopted in the separate financial statements of subsidiaries for payment arrangements involving the equity instruments of the parent in certain specified cases.

IFRIC 11 will be applicable from the year 2008.

Note 3 - Business combinations, acquisitions of minority interests, transactions among companies under common control

Acquisition of AOL Germany

On February 28, 2007, the transaction for the acquisition of the AOL internet activities in Germany (broadband and narrowband) by the Telecom Italia Group from the Time Warner Group was finalized. The consideration paid amounts to euro 671 million, including euro 6 million of transaction costs.

The assets acquired, which had initially been divided among the four companies of the AOL group (AOL Services Germany GmbH, AOL Erste Beteiligungsgesellschaft GmbH, AOL Zweite Beteiligungsgesellschaft GmbH and AOL Deutschland GmbH), following the merger approved by the German authorities on June 22, 2007 (with effect for legal purposes on January 1, 2007 and for accounting purposes on March 1, 2007), were taken over by HanseNet Telekommunikation GmbH, the Telecom Italia Group company which has been operating on the German broadband market with the "Alice" brand since 2003.

The following table presents the analysis of the effect of accounting for the purchase of the investment in those companies which, for this purpose, has been considered as a single group as of the date of acquisition.
The difference between the price paid (euro 671 million) and the net assets acquired (negative for euro 3 million, excluding euro 70 million of goodwill already in the group) is equal to euro 674 million, which has provisionally been allocated as follows:

- euro 584 million to goodwill
- euro 130 million to intangible assets with a finite life (of which customer relationship euro 115 million and audience agreement euro 15 million)
- euro –40 million to deferred tax liabilities

euro 674 million

The estimate of the value of the customer relationship was based on an earnings criteria. The main parameters which define the value based on this criteria are:

- the residual life of the customer relationship, which is estimated to be equal to half the reciprocal of the churn rate;
- the net margin per customer, obtained by subtracting the remuneration of the fixed assets which make a contribution to the generation of earnings from the gross margin.

The value of the customer relationship acquired is equal to the present value of the defiscalized net margin per customer, projected for a period of time equivalent to the residual life of the customer relationship, multiplied by the number of customers acquired.

At the same time the internet access business was purchased, a 5-year commercial partnership was also sealed with the Time Warner / AOL group which will involve the creation of a dedicated portal under a joint brand, managed by AOL, which will represent the home page for Telecom Italia's entire customer base in Germany. A revenue-sharing mechanism is also envisaged which will be based on the number of visits to that portal and the use of the services offered on it. The value of the contract with AOL was calculated by discounting the defiscalized operating result flows estimated for the duration of the contract. The discount rate used is equal to 9.0%.

The customer relationship will be amortized over 5.4 years while the audience agreement will be amortized over 5 years (the impact on the statement of income for the first half of 2007 is a total of euro 8 million).
The effect on the net financial position is euro 669 million (euro 671 million for the consideration paid net of euro 2 million of cash and cash equivalents acquired).

AOL Group - Data at February 28, 2007

(millions of euro)		Fair values		Carrying amounts
Goodwill		584		70
Other non-current assets		154		24
Total current assets		14		14
Total assets	**(A)**	**752**		**108**
Deferred tax liabilities		40		–
Total current liabilities		41		41
Total liabilities	**(B)**	**81**		**41**
Net assets acquired	**(A-B)**	**671**	(*)	**67**
(*) of which:				
Cost of the investment		665		
Incidental costs (taxes, legal fees and other expenses)		6		
Total acquisition cost		**671**		

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 2006 annual consolidated financial statements since there were no changes in the risk management policy during the period under consideration.

Note 5 - Goodwill

Compared to December 31, 2006, goodwill went from euro 43,739 million to euro 44,422 million, with an increase of euro 683 million, mainly as a result of the acquisition of the AOL internet business in Germany. Details of goodwill by business segment and the changes during the period are presented in the following table:

(millions of euro)	12/31/2006	Increase	Exchange differences	6/30/2007
Domestic	41,953			41,953
European BroadBand	357	584		941
Mobile Brasile	1,199		99	1,298
Media	230			230
Totale	**43,739**	**584**	**99**	**44,422**

Goodwill under IAS 36 is not amortized but is tested for impairment annually or more frequently if specific events or circumstances indicate that it may be impaired.

Note 6 - Intangible assets with a finite life

Intangible assets with a finite life increased from euro 6,740 million at December 31, 2006 to euro 6,848 million. Details on the composition and movements during the period are as follows:

(millions of euro)	12/31/ 2006	Additions	Amorti- zation	Disposals	Exchange differences	Other changes	6/30/ 2007
Industrial patents and intellectual property rights	2,621	389	(877)		35	379	2,547
Concessions, licenses, trademarks and similar rights	3,172	89	(153)	(4)	48	(6)	3,146
Other intangible assets	176	142	(131)		4	129	320
Work in progress and advance payments	771	426		(1)	4	(365)	835
Total	**6,740**	**1,046**	**(1,161)**	**(5)**	**91**	**137**	**6,848**

Additions made during the first half of 2007 include euro 170 million of capitalized internal development costs (euro 144 million in the first half of 2006).

Industrial patents and intellectual property rights at June 30, 2007 consist almost entirely of applications software purchased outright and user license rights acquired for an indefinite time period (amortized over the period of useful benefit estimated in three years). They mainly refer to Telecom Italia S.p.A. (euro 1,867 million) and to Brazil Mobile (euro 449 million).

Concessions, licenses, trademarks and similar rights at June 30, 2007 mainly refer to:
- the remaining unamortized cost of UMTS and PCS licenses (euro 1,958 million for Telecom Italia S.p.A. and euro 627 million for the Brazil Mobile Business Unit). Additionally, during the first half of 2007, Tim Celular (a company in the Tim Brasil group) purchased a license for providing switched fixed telephone service (STFC) on Brazilian territory which is expected to be marketed in the second half of 2007;
- Indefeasible Rights of Use-IRU (euro 207 million);
- TV frequencies of the Media Business Unit (euro 155 million);
- costs incurred by the European Broadband companies for Local Loop Unbundling (euro 158 million).

Other intangible assets at June 30, 2007 include:
- euro 190 million mainly for the capitalization of subscriber acquisition costs referring to the new sales offers of Telecom Italia S.p.A. (euro 122 million), the Tim Brasil group (euro 53 million) and Liberty Surf Group S.A. (euro 9 million);
- euro 122 million (euro 130 million gross of the amortization charge for the period included in the column Other changes) for the amount allocated to the customer relationship (euro 115 million) and the audience agreement (euro 15 million) following the allocation of the price paid upon the purchase of the AOL companies in Germany;
- euro 8 million for the residual amount allocated to the Customer List and representing a part of the acquisition cost of the controlling interest in Liberty Surf Group S.A..

Note 7 - Tangible assets (owned and under finance leases)

Property, plant and equipment owned

Property, plant and equipment owned decreased from euro 15,690 million at December 31, 2006 to euro 15,606 million. Details on the composition and movements during the period are as follows:

(millions of euro)	12/31/2006	Additions	Depreciation	Disposals	Exchange differences	Other changes	6/30/2007
Land	134			(2)			132
Civil and industrial buildings	598	2	(22)	(5)	3	1	577
Plant and equipment	12,955	847	(1,369)	(8)	104	227	12,756
Manufacturing and distribution equipment	59	6	(16)			3	52
Aircrafts and ships	40		(4)			8	44
Other	1,016	70	(217)	(6)	25	88	976
Construction in progress and advance payments	888	486			7	(312)	1,069
Total	**15,690**	**1,411**	**(1,628)**	**(21)**	**139**	**15**	**15,606**

Additions in the first half of 2007 include euro 111 million of capitalized internal construction costs (euro 86 million in the first half of 2006).

Assets held under finance leases

Assets held under finance leases decreased from euro 1, 525 million at December 31, 2006 to euro 1,478 million. Details on the composition and changes are as follows:

(millions of euro)	12/31/2006	Additions	Depreciation	Other changes	6/30/2007
Civil and industrial buildings	1,417	11	(50)	13	1,391
Plant and equipment	1				1
Aircrafts and ships	10		(2)		8
Other	47	1	(12)		36
Construction in progress and advance payments	50	5		(13)	42
Total	**1,525**	**17**	**(64)**	**–**	**1,478**

Note 8 - Other non-current assets

Other non-current assets decreased from euro 3,738 million at December 31, 2006, to euro 2,500 million and include:

(millions of euro)	6/30/2007	12/31/2006
Investments accounted for using the equity method:		
· Associates	492	471
· Jointly controlled companies	27	17
	519	488
Other investments	59	776
Securities, financial receivables and other non-current financial assets:		
· Securities other than investments	10	12
· Financial receivables and other non-current financial assets	689	679
	699	691
Miscellaneous receivables and other non-current assets		
· Miscellaneous receivables	439	360
· Medium/long-term prepaid expenses	523	511
	962	871
Deferred tax assets	261	912
Total	**2,500**	**3,738**

Investments in associates are detailed as follows:

(millions of euro)	12/31/2006	Disposals and reimbursements of capital	Valuation using equity method	6/30/2007
Etecsa	311		11	322
Italtel Group	43		1	44
Tiglio I	69	(6)	5	68
Tiglio II	4		12	16
Other	44	(1)	(1)	42
Total	**471**	**(7)**	**28**	**492**

Investments in jointly controlled companies include the investments in Sofora Telecomunicaciones S.A. and Perseo S.r.l., in which 50% stakes are held.

The list of companies accounted for using the equity method is presented in the Note "List of companies of the Telecom Italia Group".

Other investments (in other companies) refer to the following:

(millions of euro)	12/31/2006	Valuation at fair value	Reclassifications	6/30/2007
Assicurazioni Generali	5	..		5
Capitalia	75		(75)	–
Fin.Priv.	15			15
Mediobanca	267		(267)	–
New Satellite Radio	7			7
Oger Telecom	375		(375)	–
Sia	11			11
Other	21			21
Total	**776**	**..**	**(717)**	**59**

The decrease compared to December 31, 2006 is mainly due to the decision to sell shares of Capitalia, Mediobanca and Oger Telecom and the consequent reclassification of the carrying amounts of the investments to "Discontinued operations/assets held for sale".

Financial receivables and other non-current financial assets increased by euro 10 million compared to December 31, 2006. The composition is as follows:

(millions of euro)	6/30/2007	12/31/2006
Financial receivables for lessors' net investments	261	229
Loans to employees	68	70
Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	298	243
Other financial receivables	62	137
Total	**689**	**679**

Financial receivables for lessors' net investments refer to:

- Teleleasing lease contracts directly negotiated with customers and guaranteed by Telecom Italia S.p.A.;
- medium/long-term portion of contracts which provide for the sale, under finance leases, of assets to customers which the Group has available under finance leaseback contracts, with the performance of accessory services under the "full rent" formula.

The total amount (non-current and current portion) of these receivables is as follows:

(millions of euro)	6/30/2007	12/31/2006
Non-current portion	261	229
Current portion	137	148
Total	**398**	**377**

Other financial receivables decreased from euro 137 million at December 31, 2006 to euro 62 million mainly as a result of the cash collateral (euro 68 million) released by Goldman Sachs on the guarantee for the two Cross Currency Interest Rate Swap contracts.

Miscellaneous receivables and other non-current assets increased from euro 871 million at December 31, 2006 to euro 962 million and include:

- the fair value of the two call options on 50% of Sofora Telecomunicaciones S.A. share capital for euro 283 million (euro 190 million at December 31, 2006);
- the tax credit from the advance payment of taxes on the provision for employee severance indemnities of euro 14 million (euro 19 million at December 31, 2006);
- medium/long-term prepaid expenses relating to the deferral of costs in conjunction with the recognition of revenues of euro 523 million (euro 511 million at December 31, 2006).

At December 31, 2006, miscellaneous receivables included the remaining receivable of euro 6 million on the sale of Gruppo Buffetti, reclassified in 2007 to current receivables on the sale of consolidated investments.

Note 9 - Trade and miscellaneous receivables and other current assets

Trade and miscellaneous receivables and other current assets increased from euro 8,748 million at December 31, 2006 to euro 9,559 million and consist of the following:

(millions of euro)	6/30/2007	12/31/2006
Receivables for construction contracts	15	12
Trade receivables:		
• Receivables from customers	5,978	5,731
• Receivables from other telecommunication operators	1,922	1,638
	7,900	7,369
Miscellaneous receivables and other current assets:		
• Other receivables	1,149	972
• Trade and miscellaneous prepaid expenses	495	395
	1,644	1,367
Total	**9,559**	**8,748**

Trade receivables amount to euro 7,900 million (euro 7,369 million at December 31, 2006), and are net of the provision for bad debts of euro 891 million (euro 791 million at December 31, 2006). The caption also includes euro 2 million (euro 3 million at December 31, 2006) of medium/long-term trade receivables from customers.
Trade receivables specifically refer to the Parent, Telecom Italia, (euro 5,890 million) and the Brazil Mobile Business Unit (euro 1,057 million). The increase of euro 531 million mainly refers to the Brazilian mobile telephone companies (euro 184 million) and the Parent (euro 348 million) basically due to the increase in receivables from other mobile telecommunications operators (+euro 230 million).

Other receivables amount to euro 1,149 million (euro 972 million at December 31, 2006) and are net of a provision account for euro 52 million. Details are as follows:

(millions of euro)	6/30/2007	12/31/2006
Advances to suppliers	61	144
Receivables from employees	37	33
Tax receivables	230	223
Receivables on the sale of consolidated investments	5	4
Sundry receivables	816	568
Total	**1,149**	**972**

The decrease in **advances to suppliers** refers to the recovery of the advances paid to Ericsson following the amounts invoiced on the contract dealing with software updates for the Telecom Italia GSM/EGPRS/UMTS networks for euro 61 million.

Receivables on the sale of consolidated investments totaling euro 5 million include the residual receivable on the sale of 100% of Gruppo Buffetti for euro 3 million after a decrease, compared to December 31, 2006, of euro 3 million due to the settlement of the dispute which arose after the sale of the investment. This receivable was collected in the month of August 2007 when the dispute was settled.

Sundry receivables rose by euro 248 million mainly as a result of the increase in receivables due from dealers sold to factoring companies (+euro 247 million).
Sundry receivables also comprise an amount still due from the Financial Administration (euro 100 million) for the interest earned up to the date of the refund, which took place in 2006, for the principal portion of the telecommunications operating fee paid for the year 1999 (Law 448/1998).

Note 10 - Cash and cash equivalents

Cash and cash equivalents decreased from euro 7,219 million at December 31, 2006 to euro 3,664 million. They consist of the following:

(millions of euro)	6/30/2007	12/31/2006
Liquid assets with banks, financial institutions and post offices	3,516	7,186
Checks	–	4
Cash	1	1
Other assets and deposits for cash flexibility	1	1
Securities other than investments (due within 3 months)	146	27
Total	**3,664**	**7,219**

The decrease in liquid assets with banks, financial institutions and post offices from the end of 2006 is mainly due to the repayment of liabilities which became due during the course of the first half of 2007 that were not fully covered by new bond issues and the fact that the cash flows provided by operations were absorbed by the payment of dividends and other investing activities.

The different technical forms used for the investment of available resources as of June 30, 2007 can be further analyzed as follows:

- Maturities. 91% of deposits have a maximum maturity date of one month;
- Counterpart risk. Deposits are made with leading banks and financial institutions with at least an A rating;
- Country risk. The geographic location of deposits is principally on major European markets.

Securities other than investments (due within 3 months) include euro 141 million (euro 20 million at December 31, 2006) of Euro Commercial Paper held by Telecom Italia Finance S.A. maturing within one month. The issuers all have A ratings and are located in Europe.

Note 11 - Discontinued operations/assets held for sale

In the balance sheet at June 30, 2007, "Discontinued operations/assets held for sale" include the investments held in Solpart Participações, Brasil Telecom Participações, Oger Telecom (the latter sold on July 3, 2007) and Capitalia and Mediobanca following the decision to proceed with their sale. The investments in Mediobanca and Capitalia continue to be measured at fair value in accordance with IAS 39, as set forth in IFRS 5 (paragraph,5, letter c).

The composition and movements during the period are as follows:

(millions of euro)	12/31/2006	Reclassi-fications	Disposals	Valuation at fair value	6/30/2007
Brasil Telecom Participações	22				22
Solpart Participações	213				213
Capitalia		75	(1)	2	76
Mediobanca		267		(14)	253
Oger Telecom		375			375
Total	**235**	**717**	**(1)**	**(12)**	**939**

In the statement of income and in the statement of cash flows for the first half of 2006, the caption "Net income from discontinued operations/assets held for sale" includes the effects of the disposal of Digitel Venezuela (sold in May 2006) for a total of euro 46 million; in the first half of 2007, this caption includes accruals to the provisions for risks and charges for a total of euro 4 million in connection with the divestitures of Digitel Venezuela and Gruppo Buffetti, which took place in 2006.

Solpart Participações

On July 18, 2007, Brasilco S.r.l., a company for which Credit Suisse Securities (Europe) Limited acts as the trustee for Telecom Italia International N.V., the sole beneficiary, signed an agreement for the sale of 38% of Solpart Participações S.A. ("Solpart") to the Brazilian pension funds, Previ, Petros and Funcef for consideration of USD 515 million.

The contract, after authorization was received from the Brazilian social security agency (Secretaria de Previdência Complementar - SPC) according to the terms agreed, became effective and the transaction can be executed once the conditions established in the contract to this effect are met.

At the same time, an agreement was sealed in which Techold Participações S.A. ("Techold") agrees to take over the contract as buyer in lieu of the Previ, Petros and Funcef funds, at the same terms and conditions as the funds, if the purchase option with the right of first refusal held by Techold pursuant to the Solpart shareholders' agreement is exercised.

The execution of the contract, subject, among other things, to the approval of the transaction by Anatel, will take place on the sixtieth day after the signing of the agreement, if the contract is approved by Anatel during that time frame, or on the fifth business day after such approval is obtained, if later.

On the same date, a letter of credit was issued in favor of Brasilco, for an amount of USD 25.7 million which can be executed by Brasilco as a break-up fee in the event in which (i) the buyers (regardless of whether they are the Pension Funds or Techold) do not pay the full amount of the purchase price, or (ii) the authorizations for the settlement agreement (described below) are not obtained within the time frame established in the contract from the corporate bodies of the entities in the Brasil Telecom corporate chain and from the corporate bodies of Techold for the execution of the contact, provided that the above absence of authorizations does not depend on a binding order from the competent judicial or administrative authorities.

The contract shall be automatically annulled if the transaction is not executed within six months of its signing or if, at the date established for executing the transfer of the shares, the competent corporate bodies of the entities of the Brasil Telecom corporate chain have not approved the settlement agreement due to a binding judicial or administrative order.

On July 18, 2007, an agreement was also signed between Telecom Italia S.p.A., Telecom Italia International N.V., TIM International N.V., TIM Brasil Serviços e Participações S.A., Brasilco, Credit Suisse Securities (Europe) Limited, some Brazilian pension funds that are indirect shareholders of Solpart (including the buyers), some entities that report to Citigroup and the companies in the Brasil Telecom corporate chain (including Techold), in which the parties agree, in the event the sale of Brasilco's investment in Solpart is executed and the authorizations of the corporate bodies of the entities of the Brasil Telecom corporate chain are effectively obtained: (i) to fulfill of a series of acts necessary to settle the various disputes pending before the Brazilian judicial authorities and the arbitration courts and (ii) to reciprocally relinquish any claims, present or future, connected with the respective investments in Brasil Telecom or, furthermore, deriving from the joint venture in Solpart.

This settlement agreement also provides that in the event the pending proceedings are not closed within six months of executing the contract, Telecom Italia shall have the right to compensation for any loss or cost that can stem from a possible unfavorable ruling against the Group.

The obligations undertaken in the settlement agreement by some companies in the Brasil Telecom corporate chain (Zain, Invitel, Techold and Solpart) and the obligations of Techold relating to the purchase and sale of the Brasilco's shares in Solpart will be covered by specific contractual guarantees.

Telecom Italia International N.V., as the sole beneficiary of the trust, will receive the proceeds from the sale of the investment in Solpart. The transaction will lead, using the exchange rates as of the date of the agreement, to a reduction in the net financial debt of the Telecom Italia Group of euro 354 million and a positive impact on the net income of the Group of euro 195 million.

Capitalia

The Capitalia shares in portfolio have been reclassified here following the decision to proceed with their sale. At June 30, 2007, there are 10,352,180 Capitalia ordinary shares remaining (equal to 0.399% of share capital with a carrying amount of euro 76 million) after the sale of 100,871 shares on June 29, 2007.
In July, August and September 2007, another 7,488,669 shares were sold with a consequent reduction in financial debt of euro 55 million and a positive effect on the net income attributable to the equity holders of the Parent of euro 27 million, net of income taxes on the gain of euro 1 million.

Mediobanca

Following the decision to proceed with their sale, the 15,003,207 Mediobanca ordinary shares in portfolio, equal to 1.835% of share capital, were reclassified to assets held for sale. At June 30, 2007, the carrying amount is equal to euro 253 million.

Oger Telecom

On July 3, 2007, the sale to Saudi Oger of the stake in Oger Telecom (10.36%) held by the subsidiary TIM International was executed. The total price was USD 477 million.
Saudi Oger also undertook, with the issue of an "indemnity letter", to assume Telecom Italia's commitment to disburse/guarantee a subordinated loan to AVEA I.H.A.S. for an amount of USD 150 million (euro 111 million). The above-described transactions will lead to a reduction in the net financial debt of the Telecom Italia Group of euro 462 million and positive effect on the statement of income of euro 86 million.

Note 12 - Equity

Equity includes:

(millions of euro)	6/30/2007	12/31/2006
Equity attributable to equity holders of the Parent	25,029	26,018
Equity attributable to Minority interests	1,072	1,080
Total	**26,101**	**27,098**

Equity attributable to equity holders of the Parent decreased by euro 989 million compared to December 31, 2006 mainly due to:

- the "Net income for the period attributable to equity holders of the Parent" (euro 1,500 million),
- the increase in "Other income (charges) recognized directly in equity" (euro 45 million),
- the increase in the "Reserve for net translation differences" (euro 241 million),
- the distribution of dividends (euro 2,766 million, net of dividends on shares held by Telecom Italia Finance).

Equity attributable to Minority interests decreased by euro 8 million mainly due to the distribution of dividends (euro 73 million), the net income for the period (euro 2 million) and the increase in the "Reserve for net translation differences" (euro 64 million).

The movements in **share capital** during the first half of 2007 are presented in the following tables:

RECONCILIATION OF THE NUMBER OF SHARES OUTSTANDING AT DECEMBER 31, 2006 AND JUNE 30, 2007

	Number of shares at 12/31/2006	Shares issued as a result of bond conversions	Number of shares at 6/30/2007
Ordinary shares issued	13,380,723,078	24,188	13,380,747,266
Less: treasury shares	(125,816,387)		(125,816,387)
Ordinary shares outstanding	13,254,906,691	24,188	13,254,930,879
Savings shares issued	6,026,120,661		6,026,120,661
Less: treasury shares			
Savings shares outstanding	6,026,120,661		6,026,120,661
Total shares issued by Telecom Italia S.p.A.	**19,406,843,739**	**24,188**	**19,406,867,927**
Less: treasury shares	(125,816,387)		(125,816,387)
Total Telecom Italia S.p.A. shares outstanding	**19,281,027,352**	**24,188**	**19,281,051,540**

RECONCILIATION OF THE VALUE OF SHARES OUTSTANDING AT DECEMBER 31, 2006 AND JUNE 30, 2007

(millions of euro)	Share capital at 12/31/2006	Share capital at 6/30/2007
Ordinary shares issued	7,360	7,360
Less: treasury shares	(69)	(69)
Ordinary shares outstanding	7,291	7,291
Savings shares issued	3,314	3,314
Less: treasury shares		
Savings shares outstanding	3,314	3,314
Share capital issued by Telecom Italia S.p.A.	**10,674**	**10,674**
Less: treasury shares	(69)	(69)
Telecom Italia S.p.A. share capital	**10,605**	**10,605**

Share capital is divided into two classes of shares: ordinary and savings. Ordinary shares have the right to attend, take part and vote in the ordinary and special shareholders' meetings. The holders of such shares have the right to the earnings distributed by the Company after the distribution of dividends to the holders of savings shares. Savings shares, in the absence of voting rights in the ordinary and special shareholders' meetings of the Company, have the right to the distribution of the net income for the year equal to 5% of the par value of the stock (euro 0.55) and, in any case, to receive dividends higher than those of ordinary shares by 2% of the par value of the stock.

Additional paid-in capital is equal to euro 1,689 million at June 30, 2007, unchanged compared to December 31, 2006.

Reserve for net translation differences shows a positive balance of euro 927 million at June 30, 2007 and increased by euro 241 million compared to December 31, 2006. The reserve mainly includes differences in euro from the translation of the financial statements of the Brazilian mobile telephone companies.

Other reserves and retained earnings (losses), including net income for the period amount to euro 11,808 million (euro 13,038 million at December 31, 2006) and include:

– **Other income (charges) recognized directly in equity** for a positive euro 163 million at June 30, 2007 (a positive euro 118 million at December 31, 2006) referring to the following:
  - "Reserve for fair value adjustments to hedging derivatives" is a positive euro 7 million (a negative euro 54 million at December 31, 2006), attributable to the Parent for euro 93 million and other Group companies for – euro 86 million.

This reserve is expressed net of deferred tax liabilities of euro 2 million (deferred tax assets of euro 15 million at December 31, 2006). In particular, this reserve includes the effective portion of gains or losses related to the fair value adjustment to cash flows hedge derivatives;

- "Reserve for fair value adjustments to available-for-sale financial assets" is a positive euro 156 million (a positive euro 172 million at December 31, 2006). This reserve refers to the adjustment to market price of shares of Mediobanca (euro 119 million), Capitalia (euro 38 million) and Assicurazioni Generali (euro 1 million) held in the portfolio of the Parent, in addition to other shares held by the Group (– euro 2 million) and is expressed net of deferred tax liabilities of euro 9 million.

– **Other reserves** are a positive euro 5,175 million at June 30, 2007, unchanged compared to December 31, 2006, and include the other reserves of the Parent net of the amount of treasury stock held by the Parent and Telecom Italia Finance for the amount in excess of the relative par value which was deducted from "Share capital".

– **Retained earnings (losses), including net income for the period**, at June 30, 2007, is euro 6,470 million, with a decrease of euro 1,275 million compared to December 31, 2006 mainly as a result of the balance between the following:

- "Net income for the period attributable to the equity holders of the Parent", equal to euro 1,500 million (euro 1,496 million in the first half of 2006),
- dividends approved for euro 2,766 million (euro 2,766 million in 2006).

  Dividends payable to ordinary and savings shareholders are, respectively, euro 1,856 million (euro 0.14 per share) and euro 910 million (euro 0.1510 per share).

Equity attributable to Minority interests, equal to euro 1,072 million (euro 1,080 million at December 31, 2006), includes the "Net income for the period attributable to Minority interests" of euro 2 million (net loss of euro 23 million in the first half of 2006).
The reduction compared to December 31, 2006 is primarily due to the balance between dividends approved (euro 73 million) and the increase in the "Reserve for net translation differences (euro 64 million).

This item consists mainly of the equity attributable to the minority interests of the Brazil mobile telephone companies and the Media Business Unit.

The following table shows the future potential changes in share capital by reason of the conversion of bonds and the exercise of options in the stock option plans still outstanding at June 30, 2007:

	Bonds/ options outstanding at 6/30/2007	**Conversion/ grant ratio**	**Number of maximum shares issuable**	**Par value** (thousands of euro)	**Additional paid-in capital** (thousands of euro)	**Subscription price per share** (euro)
Additional increases approved (ord. sh.)						
"Telecom Italia 1.5% 2001 - 2010 bonds"	484,934,322.00	0.471553	228,672,234	125,770	359,165	
Stock Option Plan 2000	5,349,998.00	3.300871	17,659,608	9,713	64,197	4.185259
Stock Option Plan 2002 Top	7,880,001.33	3.300871	26,010,852	14,306	58,214	2.788052
Stock Option Plan 2002	15,716,553.93	3.300871	51,877,967	28,533	122,218	
of which: *– granted March 2002*	*15,046,553.50*	*3.300871*	*49,666,390*	*27,317*	*118,107*	*2.928015*
– granted August 2002	*670,000.43*	*3.300871*	*2,211,577*	*1,216*	*4,111*	*2.409061*
Stock Option Plans 2000-2002 - ex-TIM	9,748,990.00	1.73	16,865,659	9,276	53,312	3.710983
Stock Option Plans 2002-2003 - ex-TIM	17,100,000.00	1.73	29,583,000	16,271	80,686	3.277457
Stock Option Plans 2003-2005 - ex-TIM	1,685,900.00	1.73	2,916,605	1,604	6,943	2.930636
Total additional increases approved (ord. sh.)			**373,585,925**	**205,473**	**744,735**	**–**
Additional increases not yet approved (ord. sh.)			**1,600,000,000**	**880,000**		

With regard to the "Telecom Italia 1.5% 2001 - 2010 convertible bonds with a repayment premium", it should be noted that the number of outstanding bonds at June 30, 2007:

A) does not include 4,521 bonds for which the conversion to shares has already been requested. On July 13, 2007, the corresponding 2,131 ordinary shares were issued for a total par value of euro 1.2 thousand and additional paid-in-capital of euro 3.3 thousand;

B) includes 504 bonds for which the conversion to shares had already been requested during the period June 16 - June 29, 2007, but were not yet cancelled. These bonds were cancelled on July 13, 2007 and on the same date 237 ordinary shares were issued and the relative share capital was registered in the companies register on that date.

Additional details on the stock option plans are disclosed in the Note "Stock option plans of the Telecom Italia Group".

Lastly, the shareholders' meeting of May 6, 2004 also granted the Board of Directors the right (which, to date, has not been exercised), for a maximum period of five years beginning May 6, 2004, to increase against payment, at one or more times, the share capital for a maximum total amount of euro 880,000,000, through the issue of a maximum of 1,600,000,000 ordinary shares, in whole or in part:

(i) to be offered as option rights to the shareholders and convertible bondholders, or

(ii) to be offered for subscription to the employees of Telecom Italia S.p.A. or to the companies which it controls, with the exclusion of the pre-emptive rights, pursuant to the combined provision of art. 2441, last paragraph, of the Italian Civil Code, and art. 134, second paragraph, of Legislative Decree 58/1998.

The resolutions for capital increases passed by the Board of Directors in exercising the aforementioned right shall establish the subscription price (including any additional paid-in-capital) and shall fix a specific deadline for the subscription of the shares; they may also provide that, in the event the increase voted by the board is not fully subscribed to by the deadline set each time for that purpose, the capital shall be increased for an amount equal to the subscriptions received up to that deadline date.

Note 13 - Financial liabilities (current and non-current)

Non-current financial liabilities decreased from euro 40,803 million at December 31, 2006 to euro 38,216 million at June 30, 2007; current financial liabilities increased from euro 5,653 million at December 31, 2006 to euro 5,986 million at June 30, 2007.
The composition is as follows:

(millions of euro)	6/30/2007	12/31/2006
Financial payables (medium/long-term):		
· Bonds	28,346	29,856
· Convertible and exchangeable bonds	496	482
	28,842	30,338
· Amounts due to banks	5,644	6,832
· Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature	1,693	1,451
· Other financial payables	202	221
	36,381	38,842
Finance lease liabilities (medium/long-term)	1,834	1,847
Other financial liabilities (medium/long-term)	1	114
Total non-current financial liabilities (A)	**38,216**	**40,803**
Financial payables (short-term):		
· Bonds	2,981	4,050
· Convertible and exchangeable bonds	4	7
	2,985	4,057
· Amounts due to banks	2,205	906
· Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature	203	219
· Non-hedging derivatives	56	12
· Other financial payables	163	180
	5,612	5,374
· Finance lease liabilities	254	269
· Other financial liabilities	120	10
Total current financial liabilities (B)	**5,986**	**5,653**
Total financial liabilities (C = A+B)	**44,202**	**46,456**

Bonds total euro 31,327 million (euro 33,906 million at December 31, 2006) and decreased by euro 2,579 million. Details are as follows:

(millions of euro)	6/30/2007	12/31/2006
Non-current portion	28,346	29,856
Current portion	2,981	4,050
Total carrying amount	**31,327**	**33,906**
Fair value adjustment and measurement at amortized cost	(160)	(787)
Total nominal repayment amount	**31,167**	**33,119**

The nominal repayment amount totals euro 31,167 million and decreased by euro 1,952 million compared to December 31, 2006 (euro 33,119 million), mainly due to repayments made by Telecom Italia S.p.A. and Telecom Italia Finance S.A. during the first half of 2007 and the difference in the USD /euro exchange rate.

The regulations and/or Offering Circulars relating to the bonds described below are available on the corporate website http://www.telecomitalia.it.

Bonds expressed at the nominal amount refer to the following:

Bonds issued by Telecom Italia S.p.A. (for a total of euro 10,948 million)
In addition to what was described for these bonds in the 2006 consolidated financial statements, the following took place:

- on February 1, 2007, Telecom Italia S.p.A. repaid the 5.625% coupon bonds of euro 1,250 million that had reached maturity;
- on June 7, 2007, Telecom Italia S.p.A. issued the following bonds:
  - bonds for euro 850 million with a quarterly coupon indexed to the 3-month Euribor plus a spread of 0.20%, maturing June 7, 2010, issued at 99.915%;
  - bonds for euro 400 million with a quarterly coupon indexed to the 3-month Euribor plus a spread of 0.79%, maturing June 7, 2016, issued at 100%.

The bonds issued in 2007 are part of the Euro Medium Term Note Programme of Telecom Italia for euro 15 billion approved by the Board of Directors 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 10,889 million)
In addition to what was described for these bonds in the 2006 consolidated financial statements, the following took place:

- on April 24, 2007, Telecom Italia Finance S.A. duly repaid the 6.50% 2002-2007 annual coupon bonds for euro 1,720 million that had reached maturity (the originally issued amount of euro 1,750 million was reduced as a result of bonds repurchased on the market and later cancelled for euro 30 million).

Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A. (for a total of euro 9,330 million)
With regard to such bonds, reference should be made to the description in the 2006 consolidated financial statements.

The following table lists the bonds issued to third parties by companies in the Telecom Italia Group, divided by issuing company, expressed at the nominal repayment amount and market value:

Currency	Amount (millions)	Nominal repayment amount (euro/millions)	Coupon	Issue date	Maturity date	Issue price (%)	Market price (%)	Market value (euro/ millions)
Bonds issued by Telecom Italia S.p.A.								
Euro	750	750	3-month Euribor + 0.22%	6/9/06	6/9/08	100	100.110	751
Euro	110	110	3-month Euribor+ 0.60%	4/8/04	3/30/09	100	100.840	111
Euro	850	850	3-month Euribor+ 0.20%	6/7/07	6/7/10	99.915	99.885	849
Euro	750	750	4.500%	1/29/04	1/28/11	99.56	98.053	735
Euro	1,250	1,250	6.250%	2/1/02	2/1/12	98.952	104.222	1,303
Euro	1,000	1,000	3-month Euribor + 0.53%	12/6/05	12/6/12	100	100.576	1,006
Euro	750	750	4.750%	5/19/06	5/19/14	99.156	96.243	722
Euro	120	120	3-month Euribor+ 0.66%	11/23/04	11/23/15	100	98.710	118
GBP	500	742	5.625%	6/29/05	12/29/15	99.878	92.286	685
Euro	400	400	3-month Euribor + 0.79%	6/7/07	6/7/16	100	100.214	401
Euro	1,250	1,250	5.375%	1/29/04	1/29/19	99.07	95.756	1,197
GBP	850	1,261	6.375%	6/24/04	6/24/19	98.85	95.804	1,208
Euro	272	272	6-month Euribor (base 365)	1/1/02	1/1/22	100	100.000	272
GBP	400	593	5.875%	5/19/06	5/19/23	99.622	90.759	538
Euro	850	850	5.250%	3/17/05	3/17/55	99.667	81.240	691
Subtotal		**10,948**						**10,587**
Bonds issued by Telecom Italia Finance S.A. and guaranteed by Telecom Italia S.p.A.								
Euro	1,659	1,659	5.875%	1/24/03	1/24/08	99.937	100.731	1,671
Euro	499.67	500	3-month Euribor + 1.3%	9/14/06	9/14/08	100	102.771	514
Euro	1,500	1,500	5.150% (b)	2/9/99	2/9/09	99.633	100.473	1,507
Euro	2,210	2,210	6.575% (c)	7/30/99	7/30/09	98.649 (*)	103.313	2,283
Euro	2,000	2,000	7.250% (a)	4/20/01	4/20/11	99.214	107.212	2,144
Euro	1,000	1,000	7.250%	4/24/02	4/24/12	101.651 (*)	108.577	1,086
Euro	850	850	6.875%	1/24/03	1/24/13	99.332	107.195	911
JPY	20,000	120	3.550%	4/22/02	5/14/32	99.25	92.495	111
Euro	1,050	1,050	7.750%	1/24/03	1/24/33	109.646 (*)	115.401	1,212
Subtotal		**10,889**						**11,439**
Bonds issued by Telecom Italia Capital S.A. and guaranteed by Telecom Italia S.p.A.								
USD	1,000	740	4.000%	10/29/03	11/15/08	99.953	98.000	726
USD	1,250	926	4.000%	10/6/04	1/15/10	99.732	96.161	890
USD	700	518	4.875%	9/28/05	10/1/10	99.898	97.595	506
USD	400	296	3-month US Libor + 0.48%	9/28/05	2/1/11	100	100.324	297
USD	850	630	3-month US Libor + 0.61%	7/18/06	7/18/11	100	100.561	633
USD	750	556	6.200%	7/18/06	7/18/11	99.826	101.318	563
USD	2,000	1,481	5.250%	10/29/03	11/15/13	99.742	95.354	1,412
USD	1,250	926	4.950%	10/6/04	9/30/14	99.651	92.558	857
USD	1,400	1,037	5.250%	9/28/05	10/1/15	99.37	93.067	965
USD	1,000	740	6.375%	10/29/03	11/15/33	99.558	93.913	695
USD	1,000	740	6.000%	10/6/04	9/30/34	99.081	90.042	666
USD	1,000	740	7.200%	7/18/06	7/18/36	99.44	102.751	761
Subtotal		**9,330**						**8,971**
Total		**31,167**						**30,997**

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

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

The mechanism for coupon changes on step-up/step-down bonds is described in the 2006 consolidated financial statements and on the corporate website (www.telecomitalia.it) under "Investors".

Changes in Telecom Italia's ratings

On March 30, 2006, Standard & Poor's revised its expectations on Telecom Italia changing the outlook from "Stable" to "Negative" and confirming the "BBB+" rating on the company's long-term debt. On September 11, 2006, S&P's placed its "BBB+ negative outlook" rating on Telecom Italia on negative creditwatch following the first announcements of a Group reorganization plan. On September 14, 2006, S&P's justified its decision by indicating some of its assessments about a possible increase in the risk that could be associated with the decisions taken by the Board of Directors on September 11, 2006 and stated that it would resolve its creditwatch status. Following a greater in-depth analysis, on December 4, 2006, S&P's confirmed its "BBB+ *negative outlook*" rating and removed the creditwatch. The "BBB+ *negative outlook*" rating was confirmed on March 13, 2007.

On April 11, 2006, Fitch Ratings downgraded its rating of Telecom Italia from "A-" to "BBB+" deeming that the financial flexibility of the company had been reduced as a consequence of the announcement of an increase in dividends. After the rating change, the outlook was raised from "Negative" to "Stable". The "BBB+ stable outlook" rating was confirmed on March 15, 2007.

As for Moody's, when the rating was last updated, on March 12, 2007, although confirming its rating of Baa2, the outlook on the Group's debt was changed from "stable" to "negative".

The current ratings on Telecom Italia by the major rating agencies are the following:

S&P's Last update March 13, 2007		**Moody's** Last update March 12, 2007		**Fitch Ratings** Last update March 15, 2007	
Rating	Outlook	Rating	Outlook	Rating	Outlook
BBB+	Negative	Baa2	Negative	BBB+	Stable

(a) Telecom Italia Finance S.A. bonds - "Euro Notes": Euro 2,000 million, 7.250%, maturing April 2011

These securities carry protection for investors which would be triggered by a change in the rating assigned to Telecom Italia to below the Baa1/BBB+ ratings (by Moody's and S&P's, respectively): each downgrade in the rating by one "notch" by each of the two rating agencies to below the stated thresholds would cause an increase in the coupon interest (or the spread above the Euribor in the case of floating-rate securities) by 0.25%, starting from the coupon payment date subsequent to the downgrade in the rating.

The downgrade in the rating from the thresholds is evaluated at the end of each coupon period and, on the basis of this evaluation, the interest for the next coupon is fixed; therefore, changes in the ratings during the coupon interest period would have no impact on the coupon in progress at that particular time.
Nevertheless, the relative step-up/step-down will only be applied when the rating at the end of the coupon period is different from the rating at the end of the preceding coupon period.

By virtue of this mechanism, the coupons for these securities are currently subject to an increase of 0.25% due to a Baa2 rating assigned by Moody's in August 2003. The increase was applied beginning from the coupon period which started in April 2004, accordingly, the coupon is equal to 7.25% for securities maturing in April 2011.

(b) Telecom Italia Finance S.A. bonds: euro 1,500 million, 5.150% interest, maturing February 2009

These bonds carry protection for investors which would only be triggered by a downgrade in the minimum rating (among the ratings assigned by the various agencies, in this specific case, the Baa2 rating by Moody's).
At the beginning of every coupon period, this minimum rating will be checked, and depending upon the rating, the coupon interest will be fixed; once fixed, changes in the minimum rating during the coupon period will have no effect on the coupon to be paid, and will only have an impact when the next coupon interest rate is fixed (if the changes are still in effect).

Starting from the initial level of the coupon at issue (5%), a 0.15% increase in interest was granted to investors definitively up to the maturity date, bringing the current coupon interest rate to 5.150%.

This current coupon can be further increased in relation to the level of the minimum rating:
- if at the time the coupon interest is fixed, the minimum rating is Ba1/BB+ or below, the current coupon will be increased by 1.5%;
- if at the time the coupon interest is fixed, the minimum rating is Baa3/BBB-, the current coupon will be increased by 0.5%;
- ratings higher than the minimum rating do not lead to increases in the current coupon.

Therefore, only future downgrades in the minimum rating could cause an increase in the current coupon; this coupon cannot be reduced because of upgrades in the rating.

(c) Telecom Italia Finance S.A. Bonds: euro 2,210 million, 6.575% interest, maturing July 2009

These bonds carry protection for investors which would be triggered by a change in the minimum rating (among those assigned by the various agencies, in this specific case, the Baa2 rating by Moody's).
At the beginning of every coupon period, this minimum rating will be checked and depending upon the rating, the coupon interest will be fixed; once fixed, changes in the minimum rating during the coupon period will have no effect on the coupon to be paid, and will only have an impact when the next coupon interest rate is fixed (if the changes are still in effect).

Starting from the initial level of interest at issue (6.125%), the coupon to be paid will be increased in relation to the level of the minimum rating:
- if, at the time the coupon interest is fixed, the minimum rating is Ba1/BB+ or below, the original coupon will be increased by 1.95%;
- if, at the time the coupon interest is fixed, the minimum rating is Baa3/BBB-, the original coupon will be increased by 0.95%;
- if, at the time the coupon interest is fixed, the minimum rating is Baa2/BBB, the original coupon will be increased by 0.45%;
- if, at the time the coupon interest is fixed, the minimum rating is Baa1/BBB+, the original coupon will be increased by 0.15%;
- ratings higher than the minimum rating do not lead to increases in the original coupon.

Under this mechanism, since October 2000 (the date the mechanism was introduced), the original coupon has been increased by 0.45% (reaching the current 6.575%).

Future upgrades/downgrades in the minimum rating could cause a decrease/increase in the coupon according to the mechanism described above.

Convertible and exchangeable bonds amount to euro 500 million (euro 489 million at December 31, 2006) and increased by euro 11 million. The composition is as follows:

(millions of euro)	6/30/2007	12/31/2006
Non-current portion	496	482
Current portion	4	7
Total carrying amount	**500**	**489**
Measurement at amortized cost	74	85
Total nominal repayment amount	**574**	**574**

The following table shows the "Telecom Italia S.p.A. 1.5% 2001-2010 convertible bonds with a repayment premium", expressed at the nominal repayment amount and at market value:

Currency	Nominal repayment amount (euro millions)	Coupon	New shares issuers	Issue date	Maturity date	Issue price (%)	Market price 6/30/2007 (%)	Market value 6/30/2007 (euro millions)
Convertible bonds issued by Telecom Italia S.p.A.								
Euro	574	1.50%	Telecom Italia S.p.A.	11/23/01	1/1/10	100	118.427	574

Financial covenants / other covenants / other features of convertible bonds

The bonds listed do not contain either financial covenants or clauses that would force the early redemption of the bonds in relation to events other than the insolvency of the Telecom Italia Group. Furthermore, the redemption of the bonds and the payment of interest are not covered by specific guarantees nor are there commitments provided relative to the assumption of future guarantees, except for the full and unconditional guarantees provided by Telecom Italia S.p.A. for the bonds issued by Telecom Italia Finance S.A. and Telecom Italia Capital S.A.. None of the securities summarized here carry any other interest rate structures or structural complexities.
Since these bonds have been placed principally with institutional investors on major world capital markets (Euromarket and the U.S.A.), the terms which regulate the bonds are in line with market practice for similar transactions effected on these same markets.

Medium/long-term **amounts due to banks** total euro 5,644 million (euro 6,832 million at December 31, 2006) and decreased by euro 1,188 million. The reduction is mainly due to the reclassification to short-term of the current portion due within 12 months in relation to the early repayment of euro 1 billion in July 2007 on the term loan for a total of euro 3 billion expiring in 2010.
Short-term amounts due to banks of euro 2,205 million increased by euro 1,299 million (euro 906 million at December 31, 2006) and include euro 1,871 million of the current portion of medium/long-term transactions due within 12 months.

Hedging derivatives relating to hedged items classified as non-current assets/liabilities of a financial nature amount to euro 1,693 million (euro 1,451 million at December 31, 2006). The increase is due to a negative mark to market change connected principally with the decrease in the value of the U.S. dollar against the euro and the rise in rates during the first half of 2007 which were compensated by a positive change in the underlying amounts.
Hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature total euro 203 million (euro 219 million at December 31, 2006).
Additional details are provided in the Note "Financial instruments".

Medium/long-term **other financial payables** amount to euro 202 million (euro 221 million at December 31, 2006). They include euro 120 million for the Telecom Italia Finance S.A. loan of JPY 20,000 million maturing in 2029 and euro 64 million of payables to the Ministry of Economic Development. Short-term other financial payables amount to euro 163 million (euro 180 million at December 31, 2006) and include euro 44 million of payables to the Cassa Depositi e Prestiti, euro 15 million of payables to the Ministry of Economic Development and euro 72 million of payables for factoring transactions.

Medium-long term **finance lease liabilities** total euro 1,834 million (euro 1,847 million at December 31, 2006) and mainly refer to building sale and leaseback transactions recorded in accordance with IAS 17. Short-term finance lease liabilities amount to euro 254 million (euro 269 million at December 31, 2006).

Short-term **non-hedging derivatives** totaling euro 56 million (euro 12 million at December 31, 2006) increased by euro 44 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.

Short-term **other financial liabilities** amount to euro 120 million (euro 10 million at December 31, 2006) and principally refer (euro 111 million) to the reclassification to short-term of the temporarily deferred gain on the sale of Avea I.H.A.S. in relation to the Telecom Italia Group's commitment to make or have a bank make a subordinated loan to Avea I.H.A.S. for USD 150 million. In fact, following the disposal of the interest held by the Telecom Italia Group in Oger Telecom in July 2007, the buyer, Saudi Oger, undertook, through the issue of an "indemnity letter", to assume this commitment. Therefore, the liability will be eliminated and the temporarily deferred gain will be released to the income statement, without any kind of financial disbursement.

At June 30, 2007, the unused credit lines of the Telecom Italia Group amount to euro 8,146 million (euro 8,443 million at December 31, 2006) and include euro 6,500 million of the Revolving Credit Facility expiring August 2012 (euro 8 billion secured, of which euro 1.5 billion is drawn down).
Approximately 98% of the credit lines is denominated in euro and linked to a floating interest rate.

Finally, in August 2007, the terms of the euro 8 billion Revolving Credit Facility expiring August 2012 were revised as follows:

1) extension of the expiration date: extended by 2 years so that the new maturity date is August 2014;
2) acquisition of control clause: the new clause guarantees that Telecom Italia will retain the credit line even after the expected change in its shareholders of reference.

The revisions were introduced without changing the advantageous economic conditions of the credit line (Euribor +0.225%) and made it possible to extend the average term of the euro 8 billion committed bank credit line while guaranteeing maximum flexibility in terms of the company's access to the capital market.

Gross financial debt according to the original currency of the transaction is as follows:

	6/30/2007		12/31/2006	
	(millions of foreign currency)	(millions of euro)	(millions of foreign currency)	(millions of euro)
USD	12,948	9,587	13,126	9,966
GBP	1,757	2,607	1,782	2,653
BRL	2,304	886	2,177	773
JPY	27,146	163	20,755	132
EURO		30,959		32,932
		44,202		**46,456**

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

(millions of euro)	6/30/2007	12/31/2006
Up to 2.5%	138	120
From 2.5% a 5%	15,798	14,530
From 5% a 7.5%	20,353	22,644
From 7.5% a 10%	4,672	5,635
Over 10%	768	742
Accruals/deferrals, MTM and derivatives	2,473	2,785
	44,202	**46,456**

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

(millions of euro)	6/30/2007	12/31/2006
Up to 2.5%	850	867
From 2.5% a 5%	20,144	19,797
From 5% a 7.5%	17,317	19,587
From 7.5% a 10%	2,623	2,656
Over 10%	795	764
Accruals/deferrals, MTM and derivatives	2,473	2,785
	44,202	**46,456**

Gross financial debt by maturity date (divided between medium/long-term and short-term) at June 30, 2007 is as follows (carrying amounts):

	Medium/long term debt	Short-term debt	Total
By June 30, 2008 (*)	5,494	492	5,986
By June 30, 2009	3,388		3,388
By June 30, 2010	7,042		7,042
By June 30, 2011	3,967		3,967
By June 30, 2012	3,780		3,780
Beyond June 30, 2013	20,039		20,039
	43,710	**492**	**44,202**

(*) The total includes accrued liabilities and deferred income which increase the amount of non-current financial liabilities by euro 1 million, non-current financial liabilities due within 12 months by euro 1,022 million (including euro 111 million relating to the temporarily deferred gain on the sale of AVEA I.H.A.S.) and current other financial liabilities by euro 67 million.

Note 14 - Net financial debt

As required by Consob Communication DEM/6064293 dated July 28, 2006, the following table presents the net financial debt at June 30, 2007 and December 31, 2007 calculated in accordance with the criteria indicated in the Recommendation of CESR (Committee of European Securities Regulators) dated February 10, 2005 “Recommendations for the uniform implementation of the European Commission regulation on disclosures” and also introduced by Consob itself. This table also includes the reconciliation of net financial debt determined according to the criteria indicated by CESR and the net financial debt calculated according to the criteria of the Telecom Italia Group adopted in previous years and presented in the Directors' Report on Operations.

Net financial debt determined according to the criteria of Consob amounts to euro 39,315 million at June 30, 2007 (euro 37,520 million at December 31, 2006) and, compared to the corresponding amount determined according to the criteria of the Group, is higher by euro 140 million at June 30, 2007 (higher by euro 219 million at the end of 2006).

The net financial debt determined according to the criteria of the Group amounts to euro 39,175 million at June 30, 2007, with an increase of euro 1,874 million compared to euro 37,301 million at December 31, 2006.

(millions of euro)		6/30/2007 (a)	12/31/2006 (b)	Change (a-b)
Non-current financial liabilities (**):				
Financial payables		34,688	37,391	(2,703)
Finance lease liabilities		1,834	1,847	(13)
Non-current liabilities for hedging derivatives		1,693	1,451	242
Other financial liabilities		1	114	(113)
	(1)	38,216	40,803	(2,587)
Less:				
Non-current financial receivables for lessors' net investments		*(261)*	*(229)*	*(32)*
Non-current assets for hedging derivatives		*(298)*	*(243)*	*(55)*
		(559)	*(472)*	*(87)*
Total non-current financial liabilities (**)	**(A)**	**37,657**	**40,331**	**(2,674)**
Current financial liabilities (**):				
Financial payables		5,353	5,143	210
Finance lease liabilities		254	269	(15)
Current liabilities for hedging and non-hedging derivatives		259	231	28
Other financial liabilities		120	10	110
	(2)	5,986	5,653	333
Less:				
Current financial receivables for lessors' net investments		*(137)*	*(148)*	*11*
Current assets for hedging derivatives		*(172)*	*(207)*	*35*
		(309)	*(355)*	*46*
Total current financial liabilitiesi (**)	**(B)**	**5,677**	**5,298**	**379**
Financial liabilities relating to discontinued operations/assets held for sale	(C) (3)	–	–	–
Total gross financial debt (**)	**(D=A+B+C)**	**43,334**	**45,629**	**(2,295)**
Current financial assets (**)				
Securities		(265)	(812)	547
Financial receivables and other current financial assets		(399)	(433)	34
Cash and cash equivalents		(3,664)	(7,219)	3,555
	(4)	(4,328)	(8,464)	4,136
Less:				
Current financial receivables for lessors' net investments		*137*	*148*	*(11)*
Current assets for hedging derivatives		*172*	*207*	*(35)*
		309	*355*	*(46)*
	(E)	**(4,019)**	**(8,109)**	**4,090**
Financial assets relating to discontinued operations/assets held for sale	(F) (5)	–	–	–
Total current financial assets (**)	**(G=E+F)**	**(4,019)**	**(8,109)**	**4,090**
Net financial debt as of CONSOB communication N. DEM/6064293/2006	**(H=D+G)**	**39,315**	**37,520**	**1,795**
Non-current financial assets (**)				
Securities other than investments		(10)	(12)	2
Financial receivables and other non-current financial assets		(689)	(679)	(10)
	(6)	(699)	(691)	(8)
Less:				
Non-current financial receivables for lessors' net investments		*261*	*229*	*32*
Non-current assets for hedging derivatives		*298*	*243*	*55*
		559	*472*	*87*
TOTAL NON-CURRENT FINANCIAL ASSETS (**)	**(I)**	**(140)**	**(219)**	**79**
NET FINANCIAL DEBT (*)	**(L=H+I)**	**39,175**	**37,301**	**1,874**
COMPOSITION OF THE NET FINANCIAL DEBT:				
Total gross financial debt:				
Non-current financial liabilities	(1)	38,216	40,803	(2,587)
Current financial liabilities	(2) + (3)	5,986	5,653	333
		44,202	**46,456**	**(2,254)**
Total gross financial assets:				-
Non-current financial assets	(6)	(699)	(691)	(8)
Current financial assets	(4) + (5)	(4,328)	(8,464)	4,136
		(5,027)	**(9,155)**	**4,128**
		39,175	**37,301**	**1,874**

(*) As regards the effects of related party transactions on net financial debt, see the specific table included in the Note "Related party transactions" in the consolidated financial statements.
(**) Net of assets for hedging derivatives and financial receivables for lessors' net investments.

For purposes of determining net financial debt in accordance with Consob criteria, "Non-current financial assets (excluding the current portion)" totaling euro 140 million are not considered as a deduction from gross financial debt. Such assets principally consist of the following:

- euro 68 million for the non-current portion of low-rate loans made to employees;
- euro 12 million for the non-current portion of the residual receivable on the sale of the investment in Telekom Srbija to PTT Srbija on July 7, 2003, due in 2008;
- euro 25 million for the non-current portion of loans made to Aree Urbane S.r.l.;
- euro 10 million for securities other than investments included in non-current assets and relating to the investment by Telecom Italia Finance S.A. in the closed-end investment fund Clessidra Sgr, registered under Italian law, for euro 7 million.

At December 31, 2006, "Non-current financial assets" that were not considered as a deduction from gross financial debt for purposes of the calculation in accordance with Consob criteria amounted to euro 219 million and also included euro 68 million relating to cash collateral with Goldman Sachs to guarantee two Cross Currency Interest Rate Swap contracts carried by Telecom Italia S.p.A.

Covenants and negative pledges relating to outstanding positions at June 30, 2007

With reference to loans received by Telecom Italia S.p.A. from the European Investment Bank (EIB), the amount of euro 350 million, out of a total of euro 1,771 million at June 30, 2007, is not secured by bank guarantees but there are covenants which cover the following:

- in the event the company becomes the target of a merger, demerger or contribution of a business segment outside the Group, or sells, disposes or transfers assets or business segments, it shall immediately inform EIB which shall have the right to ask for guarantees to be provided or changes to be made to the loan contract;
- starting from Telecom Italia's rating situation (at June 30, 2007: BBB+ for S&P's, Baa2 for Moody's and BBB+ for Fitch), if the company's rating is downgraded by Standard & Poor's or Fitch Ratings, it shall immediately inform EIB which shall have the right to ask for suitable guarantees to be provided, indicating a date for setting up these guarantees. After that date and if Telecom Italia fails to provide the guarantees, EIB shall have the right to demand immediate repayment of the amount disbursed.

The syndicated bank lines of Telecom Italia do not contain financial covenants which would oblige Telecom Italia to automatically to repay the outstanding loan if the covenants are not observed. Mechanisms are provided for adjusting the cost of funding in relation to Telecom Italia's credit rating, with a spread compared to the Euribor of between a minimum of 0.15% and a maximum of 0.425% for the line expiring in 2010 and a minimum of 0.0875% and a maximum of 0.2625% for the line expiring in 2012.
The two syndicated bank lines contain the usual negative pledge clauses consisting of the commitment not to change the business purpose or sell the assets of the company unless specific conditions exist (e.g. the sale shall take place at fair market value). The same negative pledge conditions are also found in the export credit loan agreements.
The syndicated bank lines (as well as an export credit agreement for a residual nominal amount of euro 150 million at June 30, 2007) consider the case where a party, other than the current relative majority shareholder or permitted acquiring shareholders, acquires control of Telecom Italia, individually or jointly. In that case, a 30-day period is established during which the parties shall negotiate the terms with which to continue the relationship.

Lastly, in the documentation of loans granted to certain companies of the TIM Brasil group, the companies must generally respect certain financial ratios (e.g. capitalization ratios, ratios for servicing debt, profit ratios and debt ratios) as well as negative pledge clauses.

Finally, at June 30, 2007, none of the covenants, negative pledge clauses or other clauses regarding the above-described debt positions have been breached or violated in any way.

Note 15 - Employee severance indemnities and other employee-related provisions

Employee severance indemnities and other employee-related provisions decreased from euro 1,372 million at December 31, 2006 to euro 1,340 million. Details are as follows:

(millions of euro)		12/31/2006	Increase	Decrease	6/30/2007
Provision for employee severance indemnities(a)		**1,228**	**86**	**(98)**	**1,216**
Provisions for pension plans		31	1	(1)	31
Provisions for termination benefit incentives		113		(20)	93
Other employee-related provisions (*)	**(b)**	**144**	**1**	**(21)**	**124**
Total	**(a+b)**	**1,372**	**87**	**(119)**	**1,340**
of which:					
Non-current portion		1,262			1,249
(*) Current portion		110			91

Employee severance indemnities refer only to Italian companies of the Group. The provision decreased by euro 12 million mainly as a result of the accrual to the statement of income (euro 86 million), utilizations for indemnities paid to employees who terminated employment, advances and transfers to pension funds and to the INPS treasury fund (euro 67 million) and the impact of revised actuarial calculations as a result of the new law on employee severance indemnities as envisaged by the Finance Bill 2007 (euro 31 million).
According to the laws and national regulations, the amount to which each employee is entitled matures in relation to the period of service and must be paid immediately when the employee leaves the company. This severance indemnity is due upon termination of employment and is calculated in accordance with civil laws and Italian labor laws on the basis of the period of employment and the taxable income of each employee. This liability is adjusted annually based on the official cost-of-living index and interest earned. This liability is not associated with any vesting condition or period or any funding obligation. Consequently, in accordance with IAS 19, this provision has been recognized as a Defined benefit plan, using the "Projected Unit Credit Method". Since there are no funding obligations there are no assets to service the provision.

The effect on the statement of income (Personnel costs) is as follows:

(millions of euro)	1st Half 2007	1st Half 2006
Current service cost	59	64
Financial expenses	25	24
Net actuarial (gains) losses recognized during the period	2	(11)
	86	**77**
Impact of new law on employee severance indemnities	(31)	
Total expenses	**55**	**77**
Effective return on plan assets	**n/a**	**n/a**

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

Provisions for termination benefit incentives include accruals made both for agreements regarding mobility pursuant to Law 223/91, agreed in December 2005 with the labor unions, and the plan for termination incentive benefits for managers with regard to the cases currently pending.

Note 16 - Provisions for risks and charges

Provisions for risks and charges increased from euro 1,355 million at December 31, 2006 to euro 1,393 million. The composition and changes are as follows:

(millions of euro)	12/31/2006	Increase	Used through statement of income	Used directly	Exchange differences and other	6/30/2007
Provision for taxation and tax risks	262	30		(5)	7	294
Provision for restoration costs	387	22		(3)	6	412
Provision for legal disputes	206	66		(88)	5	189
Provision for commercial risks	90	6	(2)	(5)	–	89
Provisions for risks and charges on investments and corporate-related transactions	289	3	(11)	(4)	–	277
Other provisions for risks and charges	121	27	(1)	(9)	(6)	132
Total	**1,355**	**154**	**(14)**	**(114)**	**12**	**1,393**
of which:						
Non-current portion	775					863
Current portion	580					530

Provision for restoration costs refers to the accrual for the estimated cost to decommission tangible assets and restore the sites of the Parent (euro 346 million) and the companies of Brazil Mobile Business Unit (euro 65 million).

Provisions for legal disputes decreased by euro 17 million compared to December 31, 2006, as a result of the utilization of euro 88 million (of which euro 61 million for compensation to Fastweb following the ruling against the group by the arbitration board with regard to the contract which covers "Local Loop Unbundling") and the accruals for disputes and settlements of euro 66 million (of which euro 33 million for the operator Eutelia and other operators).

Other provisions for risks and charges increased as a result of the fine of euro 20 million levied against Telecom Italia by the Antitrust Authority (proceeding A357) in August 2007 for having acted in a manner aimed at excluding competitors from the wholesale market of termination services and from the related retail market of fixed-mobile telephone services for business clientele.

In the first half of 2007, exchange differences are minor in amount.

Note 17 - Trade and miscellaneous payables and other current liabilities

Trade and miscellaneous payables and other current liabilities decreased from euro 11,596 million at December 31, 2006 to euro 11,394 million. The composition is as follows:

(millions of euro)		6/30/2007	12/31/2006
Payables for construction work	**(A)**	**27**	**2**
Trade payables:			
• Payables to suppliers		4,722	5,487
• Payables to other telecommunication operators		1,596	1,322
	(B)	**6,318**	**6,809**
Tax payables	**(C)**	**1,083**	**550**
Miscellaneous payables and other current liabilities:			
• Payables for employee compensation		552	524
• Payables to social security authorities		344	381
• Trade and miscellaneous deferred income		786	832
• Advances received		16	48
• Customer-related items		1,356	1,434
• Payables for "TLC operating fee"		38	35
• Dividends approved, but yet to be paid to shareholders		29	24
• Other current liabilities		224	267
• Employee-related provisions (except for Employee severance indemnities) expected to be settled within 12 months		91	110
• Other provisions for risks and charges, expected to be settled within 12 months		530	580
	(D)	**3,966**	**4,235**
Total	**(A+B+C+D)**	**11,394**	**11,596**

Payables for construction work, equal to euro 27 million, refer to advances received from customers for the construction of network systems.

Trade payables (all due within 12 months) refer principally to Telecom Italia S.p.A. (euro 4,469 million) and to the Tim Brasil group (euro 716 million). The decrease in payables to suppliers is due to the higher concentration of capital expenditures during the last months of the year.

Tax payables refer to the Parent for a total of euro 885 million (including VAT payable for euro 699 million, the government concession tax for euro 121 million and the withholding tax payable to the tax authorities as the substitute taxpayer for euro 54 million) and to the Brazilian mobile telephone companies for euro 139 million. The increase in tax payables is due to a higher balance of VAT payable since the payable at the end of the year was reduced by the VAT payment on account.

Note 18 - Financial instruments

Fair value

The majority of non-current financial liabilities of the Telecom Italia Group consist of bonds and their measurement at fair value can be easily determined since they are represented by financial instruments which, because of their size and diffusion among investors, are frequently exchanged on the markets (see the Note "Financial liabilities (current and non-current)". Instead, for other types of loans, where there is no public trading, the following assumptions were made:

- the floating-rate loans were considered at the nominal repayment amount;
- the fixed-rate loans were measured at fair value (present value of future flows using June 30, 2007 market rates).

Finally, the carrying amount of most of the financial assets represents a reasonable approximation of their fair value as they are highly liquid short-term financial investments.

In accordance with the requirements of IFRS 7, the following table presents the fair values (accruals included) of financial liabilities and financial assets at June 30, 2007 and at December 31, 2006 according to the categories set out in IAS 39:

	6/30/2007		12/31/2006	
(millions of euro)	Carrying amount	Fair value (accruals included)	Carrying amount	Fair value (accruals included)
a) financial liabilities at fair value through the statement of income				
(i) designated as such at the time of initial recognition	–	–	–	–
(ii) classified as held for trading	56	56	12	12
– of which non-hedging derivatives	56	56	12	12
b) financial liabilities measured at amortized cost	35,998	36,687	36,821	37,739
c) fair value of financial liabilities hedged (fair value hedge)	6,252	6,304	7,953	7,941
d) hedging derivatives				
– of which Fair Value Hedges	1,107	1,107	897	897
– of which Cash Flow Hedge	789	789	773	773
Total Financial Liabilities	**44,202**	**44,943**	**46,456**	**47,362**

	6/30/2007		12/31/2006	
(millions of euro)	Carrying amount	Fair value (accruals included)	Carrying amount	Fair value (accruals included)
a) financial assets at fair value through the statement of income				
(i) designated as such at the time of initial recognition	–	–	–	–
(ii) classified as held for trading	68	68	562	562
– of which non-hedging derivatives	57	57	9	9
b) investments held to maturity	–	–	–	–
c) loans and receivables	4,225	4,225	7,871	7,871
d) available-for-sale financial assets	264	264	272	272
e) hedging derivatives				
– of which Fair Value Hedges	98	98	153	153
– of which Cash Flow Hedge	372	372	297	297
Total Financial Assets	**5,027**	**5,027**	**9,155**	**9,155**

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, 2007 are principally used to manage debt positions. They include Interest Rate Swaps (IRS) and Interest Rate Options (IRO) to reduce interest rate exposure on fixed-rate and floating-rate bank loans and bonds, as well as cross currency and interest rate swaps (CCIRS), currency forwards and currency options to convert the loans secured in different foreign currencies to the functional currencies of the various companies of the Group.
Respectively, 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, 2007 divided between fair value hedge derivatives (Table 1 - Fair Value Hedge Derivatives), cash flow hedge derivatives (Table 2 - Cash Flow Hedge Derivatives) and non-hedge accounting derivatives (Table 3 - Non-Hedge Accounting Derivatives) under IAS 39:

Table 1 - Fair Value Hedge Derivatives

Description (millions of euro)	**Notional Amount**	**Mark to Market (Clean Price)**
CCIRS transactions put into place by Telecom Italia S.p.A. maturing November 2008 on the USD 1,000 million (equivalent amount of euro 740 million at June 30, 2007) 5-year tranche of the bonds issued by Telecom Italia Capital S.A. for a total amount of USD 4,000 million in October 2003	850	(129)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing May 2032 on Telecom Italia Finance S.A. bonds of JPY 20 billion (equivalent amount of euro 120 million at June 30, 2007) originally issued by Olivetti Finance N.V.S.A. (2002-2032)	171	(45)
CCIRS transactions put into place by Telecom Italia Capital S.A. on bonds issued by Telecom Italia Capital S.A. in October 2004 for a total amount of USD 3,500 million (equivalent amount of euro 2,592 million at June 30, 2007) (5-year tranche of USD 1,250 million, 10-year tranche of USD 1,250 million and 30-year tranche of USD 1,000 million)	2,831	(437)
CCIRS transactions put into place by Telecom Italia Capital S.A. on bonds issued by Telecom Italia Capital S.A. in September 2005 for a total amount of USD 2,500 million (equivalent amount of euro 1,851 million at June 30, 2007) (5-year tranche of USD 700 million, 5.35-year tranche of USD 400 million and 10-year tranche of USD 1,400 million)	2,068	(307)
CCIRS transactions put into place by Telecom Italia Capital S.A. maturing in July 2011 on bonds issued by Telecom Italia Capital S.A. in July 2006 for a total amount of USD 2,600 million on the two 5-year tranches for a total of USD 1,600 million (equivalent amount of euro 1,186 million at June 30, 2007)	1,264	(78)
Total Fair Value Hedge Derivatives	**7,184**	**(996)**

- 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 coupon rate of 4% in USD to the 3-month Euribor.
- For euro 171 million, on the bonds 2002-2032 of JPY 20 billion with a 3.55% fixed rate coupon maturing May 2032, originally issued by Olivetti Finance N.V.S.A., the following transactions were put in place:
  - by Telecom Italia Finance S.A., an IRS contract under which Telecom Italia Finance S.A. receives the semiannual coupon of 3.55% in JPY and pays a semiannual floating rate in JPY;
  - by Telecom Italia S.p.A., a CCIRS contract, on a floating rate intragroup loan in JPY, under which Telecom Italia S.p.A. receives 6-month Libor in JPY and pays 6-month Euribor.
- On the bonds of USD 3,500 million issued by Telecom Italia Capital S.A. in October 2004, Telecom Italia Capital S.A. put in place CCIRS contracts for euro 2,831 million converting the coupon fixed rate in USD to the 6-month Euribor.
- On the bonds of USD 2,500 million issued by Telecom Italia Capital S.A. in September 2005, Telecom Italia Capital S.A. put in place CCIRS contracts for euro 2,068 million converting the coupon rate in USD to the 6-month Euribor.
- On the two tranches maturing July 2011 for USD 1,600 million of bonds for a total of USD 2,600 million issued by Telecom Italia Capital S.A. in July 2006, Telecom Italia Capital S.A. put into place CCIRS contracts for euro 1,264 million converting the coupon rate (respectively, of 6.2% in USD and the USD 3-month Libor + 0.61%) to the 6-month Euribor.

Table 2 - Cash Flow Hedge Derivatives

Description (millions of euro)	**Notional Amount**	**Mark to Market (Clean Price)**
Forward purchase transactions of USD 3 million (equivalent amount of euro 2 million at June 30, 2007) put into place by Telecom Media News S.p.A. originally with monthly maturities between January 2007 and December 2008	2	–
USD Call / EUR Put options purchased by Telecom Media News S.p.A. maturing December 2009, December 2010 and February 2011	3	–
Commodity swaps put into place by Telecom Italia S.p.A. on behalf of Telenergia S.r.l. for the purchase of electrical energy in 2007	145	2
IRS transactions put into place by Telecom Italia S.p.A. maturing March 2009 on bonds of euro 110 million issued by Telecom Italia S.p.A. (2004-2009)	110	4
IRS transactions put into place by Telecom Italia S.p.A. maturing January 2010 on the 5-year tranche C of the term loan for a total amount of euro 12,000 million finalized in December 2004 and connected with the loan for the tender offer for TIM S.p.A.	2,000	80
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 1,481 million at June 30, 2007) on the bonds issued by Telecom Italia Capital S.A. in October 2003 for a total amount of USD 4,000 million	1,709	(278)
IRS transactions put into place by Telecom Italia S.p.A. maturing November 2015 on bonds of euro 120 million issued by Telecom Italia S.p.A. (2004-2015)	120	11
CCIRS transactions put into place by Telecom Italia S.p.A. maturing December 2015 on bonds of GBP 500 million (equivalent amount of euro 742 million at June 30, 2007) issued by Telecom Italia S.p.A. in June 2005	751	–
CCIRS transactions put into place by Telecom Italia S.p.A. maturing starting from June 2019 on bonds of GBP 850 million (equivalent amount of euro 1,261 million at June 30, 2007) issued by Telecom Italia S.p.A. in June 2004	1,258	(3)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing May 2023 on bonds of GBP 400 million (equivalent amount of euro 593 million at June 30, 2007) issued by Telecom Italia S.p.A. in May 2006	587	(12)
IRS transaction put into place by Telecom Italia S.p.A. maturing December 2010 on floating-rate bonds of euro 1,000 million issued by Telecom Italia S.p.A. in December 2005 and maturing December 2012	1,000	24
CCIRS transactions put into place by Telecom Italia S.p.A. maturing October 2029 related to the Telecom Italia Finance S.A. "Dual-Currency" loan with a notional principal of JPY 20 billion (equivalent amount of euro 120 million at June 30, 2007) originally received by Olivetti International Finance N.V. and now carried by Telecom Italia Finance S.A..	174	(18)
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 740 million at June 30, 2007) on the bonds issued by Telecom Italia Capital S.A. in October 2003 for a total amount of USD 4,000 million	849	(187)
CCIRS transactions put into place by Telecom Italia S.p.A. maturing July 2036 on the 30-year tranche of USD 1,000 million (equivalent amount of euro 740 million at June 30, 2007) on the bonds issued by Telecom Italia Capital S.A. in July 2006 for a total amount of USD 2,600 million	791	(20)
Total Cash Flow Hedge Derivatives	**9,499**	**(397)**

- 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 originally from January 2007 to December 2008.
- USD call / EUR put options, for an equivalent amount of euro 3 million, purchased by Telecom Media News S.p.A. to hedge the exchange rate risk on the commitment to make monthly payments in USD from January 2009 to February 2011.
- Commodity swaps for euro 145 million by which Telenergia S.r.l. set the price for a part of the energy purchased at euro 56.10 per MW (fixed weighted average price). The contract expires in December 31, 2007.
- 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 in December 2004 in connection with the cash tender offer for TIM S.p.A., Telecom Italia S.p.A. put in place IRS contracts, originally for an amount of euro 3,000 million, reduced to euro 2,000 million at June 30, 2007, converting the 6-month Euribor relating to Tranche C maturing January 2010 to an annual fixed rate of 3.084%.

- On the tranche maturing in November 2013 of USD 2,000 million relating to the bonds issued in October 2003 by Telecom Italia Capital S.A. for a total amount of USD 4,000 million, Telecom Italia S.p.A. put in place CCIRS contracts for euro 1,709 million converting the coupon rate of 5.25% in USD to a fixed rate of 5.035% in euro.
- On the bonds of euro 120 million at a quarterly floating rate issued by Telecom Italia S.p.A. maturing November 2015, Telecom Italia S.p.A. put in place IRS contracts converting the 3-month Euribor to an annual fixed rate of 4.161%.
- On the bonds 2005-2015 of GBP 500 million issued by Telecom Italia S.p.A. in June 2005, Telecom Italia S.p.A. put in place CCIRS contracts for euro 751 million converting a rate of 5.625% in GBP to a fixed rate of 4.34% in euro.
- On the GBP 850 million bonds issued by Telecom Italia S.p.A. in June 2004, Telecom Italia S.p.A. put into place CCIRS contracts for euro 1,258 million, maturing June 2019, converting the fixed rate of 6.375% in GBP to a fixed rate of 5.31% in euro.
- On the bonds 2006-2023 of GBP 400 million issued by Telecom Italia S.p.A. in May 2006, Telecom Italia S.p.A. put into place CCIRS contracts for euro 587 million converting a rate of 5.875% in GBP to a fixed rate of 5.53% in euro.
- On the bonds 2005-2012 of euro 1,000 million issued by Telecom Italia S.p.A. in December 2005, Telecom Italia S.p.A. put into place IRS contracts converting the Euribor + 0.53% coupon rate to a fixed rate of 4.54% in euro up to December 2010.
- For euro 174 million, with reference to the Telecom Italia Finance S.A. “Dual Currency” loan with a notional principal of JPY 20 billion and a 5% fixed interest rate with a step-up of +0.45% in USD maturing October 2029, originally received by Olivetti International Finance N.V., equivalent to euro 120 million at June 30, 2007, now carried by Telecom Italia Finance S.A., the following was put in place:
  - by Telecom Italia Finance S.A., an IRS contract converting the 5% fixed rate in USD to the 6-month Libor in JPY;
  - by Telecom Italia S.p.A., a CCIRS contract with which Telecom Italia S.p.A., with regard to the intragroup loan in JPY, receives 6-month Libor in JPY and pays 6-month Euribor;
  - by Telecom Italia S.p.A. an IRS contract converting the semiannual floating rate in euro to a 6.94% fixed rate up to maturity.
- On the tranche of USD 1,000 million maturing in November 2033 relating to the bonds issued in October 2003 by Telecom Italia Capital S.A. for a total amount of USD 4,000 million, Telecom Italia S.p.A. put in place CCIRS contracts for euro 849 million converting the rate of 6.375% in USD to the fixed rate of 6% in euro.
- On the tranche of USD 1,000 maturing in July 2036 relating to the bonds issued in July 2006 by Telecom Italia Capital S.A. for a total of USD 2,600 million, Telecom Italia S.p.A. put into place CCIRS contracts for euro 791 million converting the rate of 7.20% in USD to the fixed rate of 5.88% in euro.

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

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

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

Table 3 - Non-Hedge Accounting Derivatives

Description (millions of euro)	**Notional Amount**	**Mark to Market (Clean Price)**
IRS transactions put into place by Telecom Italia Finance S.A. maturing July 2011 on bonds of USD 850 million issued by Telecom Italia Capital S.A. (2006-2011)	100	–
IRS transactions put into place by Telecom Italia Finance S.A. maturing December 2014	50	(1)
IRS transactions put into place by Telecom Italia Finance S.A. maturing January 2019 on bonds of euro 1,250 million issued by Telecom Italia S.p.A. (2004-2019)	100	(1)
Interest rate and foreign exchange contracts put into place by Group companies	549	5
Total Non-Hedge Accounting Derivatives	**799**	**3**

- On the 2006-2011 bonds of USD 850 million maturing July 2011 issued by Telecom Italia Capital S.A., Telecom Italia Finance S.A. put into place IRS for a total of euro 100 million under which Telecom Italia Finance S.A. receives the floating rate coupon if the 10-year USD rate is higher than the 2-year USD rate and pays a semiannual floating rate.
- IRS transactions maturing December 2014 put into place by Telecom Italia Finance S.A. for euro 50 million under which Telecom Italia Finance S.A. receives the difference if the 10-year euro swap rate less 2% is positive and pays a fixed spread of 0.36%.
- On the 2004-2019 bonds of euro 1,250 million maturing January 2019 issued by Telecom Italia S.p.A., Telecom Italia Finance S.A. put into place IRS for a total of euro 100 million under which Telecom Italia Finance S.A. receives the fixed-rate coupon if the 10-year GBP swap rate is higher than the 10-year euro swap rate and pays a floating rate.
- Interest rate and foreign exchange rate contracts amount to a total of euro 549 million and comprise:
  - foreign exchange rate transactions of Telecom Italia S.p.A. for euro 26 million;
  - foreign exchange rate transactions of Telecom Italia Finance S.A. for euro 134 million;
  - foreign exchange rate transactions of Telecom Italia Capital S.A. for euro 8 million;
  - foreign exchange rate transactions of Telecom Italia Sparkle S.p.A. for euro 35 million;
  - interest rate and foreign exchange rate transactions of Tim Celular S.A. for euro 259 million;
  - interest rate and foreign exchange rate transactions of Tim Nordeste S.A. for euro 87 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 6/30/2007** (millions of euro)	**Mark to Market Spot (Clean Price) at 12/31/2006** (millions of euro)
Cross Currency and Interest Rate Swaps	Interest rate risk and foreign currency exchange rate risk	7,184	(996)	(787)
Total Fair Value Hedge Derivatives		**7,184**	**(996)**	**(787)**
Interest rate swaps	Interest rate risk	3,230	119	102
Cross Currency and Interest Rate Swaps	Interest rate risk and foreign currency exchange rate risk	6,119	(518)	(538)
Commodity Swap	Commodity risk	145	2	(6)
Forward and FX Options	Foreign currency exchange rate risk	5	–	–
Total Cash Flow Hedge Derivatives		**9,499**	**(397)**	**(442)**
Non-Hedge Accounting Derivatives		**799**	**3**	**6**
Total Telecom Italia Group Derivatives		**17,482**	**(1,390)**	**(1,223)**

The following table shows, for Cash Flow Hedge Derivatives, the amount recognized in the Reserve for fair value adjustments to hedging derivatives during the first half of 2007 and the portion reversed from the reserve to the statement of income as an exchange rate adjustment net of interest of euro 46 million and before the relative tax effect:

Description (millions of euro)	Reserve for fair value adjustments to cash flow hedge derivatives at June 30, 2007	Reserve for fair value adjustments to cash flow hedge derivatives at December 31, 2006	Mark to Market change recognized in the Reserve for fair value adjustments to hedging derivatives	Amount reversed from the Reserve for fair value adjustments to hedging derivatives to the statement of income as an exchange rate adjustment	Impact of cash flow hedge derivatives in the first half of 2007 on the Reserve for fair value adjustments to hedging derivatives
Cash Flow Hedge Derivatives	**9**	**(69)**	**(7)**	**85**	**78**

Note 19 -Financial assets pledged as collateral for financial liabilities

The contracts for easy-term loans granted by the Brazilian development bank BNDES (Banco Nacional de Desenvolvimento Econômico e Social) to certain operating companies of the Tim Brasil Serviços e Participações S.A. group for a total equivalent amount of euro 454 million are guaranteed by a part of the receipts of those companies which pass through bank accounts that are pledged in favor of BNDES. The bank will have access to such amounts only in the case of default by the company, otherwise the funds are automatically transferred to accounts on which the company has full access.

Note 20 - Contingent assets and liabilities, commitments and other guarantees

The information given in the Annual Report for 2006 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) Potential liabilities

Vodafone

In February 2007 the Lazio Regional Administrative Court upheld Telecom Italia's appeal against the measure adopted in December 2006 by the Ministry of Communications authorizing the supply of the "Vodafone Casa Numero Fisso" service on an experimental basis. The decision on the merits of the case is still pending.

In addition, the Milan Court has fixed October 31, 2007 for the next hearing of the case brought by Vodafone on November 2, 2006 to determine the violation of the obligation to negotiate the interconnection and to establish that such refusal amounted to unfair competition since in the meantime Telecom Italia had suspended the negotiations regarding the inverse interconnection contract, on the basis of which the supply of the Vodafone service in question is based. Telecom Italia has defended the case and has made a counterclaim, applying for the compensation of the losses deriving from the diversion of customers caused by Vodafone's conduct.

Fastweb

On May 19, 2007 Telecom Italia was notified of the award issued in the arbitration proceeding it had initiated in December 2005 with Fastweb S.p.A. (concerning inverse termination) with a view to obtaining a decision recognizing that Fastweb had breached the interconnection contract concluded in January 2000 by unilaterally altering the economic conditions for termination on Fastweb's fixed network of traffic involving geographical numbers.

The arbitration board declared Fastweb's unilateral alteration of the inverse termination charge to have been illegitimate. In particular, the board declared that it was competent to decide on the questions raised by Telecom Italia and Fastweb and falling outside the scope of the authority of the AGCom (the Italian Communications Authority), while leaving the latter to determine: (i) the price of the inverse termination service (which in fact is the subject of a dispute pending between the parties before the AGCom since December 2005); and (ii) the starting time of the change in the termination charge (which, since it is connected with the question of determining the price, will be established by the Authority in the context of the dispute brought earlier by Fastweb.

As regards the refunding of the higher-than-contractual amounts paid to Fastweb (subject to reserve), the arbitration board suspended the proceeding until the decision of the AGCom determining the termination price, after which either of the parties may request it to be revived within 6 months of such decision.

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Again in relation to the question of inverse termination, in December 2005 Fastweb (in an attempt to have the dispute already subject to the arbitration proceeding referred to above settled by the AGCom) initiated a proceeding before the Authority for a ruling on the question concerning the interconnection contract and specifically the charge payable by Fastweb for termination. Telecom Italia has defended the case, arguing that Fastweb's requests were inadmissible and that the Authority was not competent, informing it of the setting up of the arbitration board on March 31, 2006.

In Resolution no. 16/06/CIR of May 4, 2006 the AGCom recognized Fastweb's right to apply different economic conditions for its termination service from those applied by Telecom Italia and arranged on its own authority for a technical appraisal to determine possible minimum and maximum termination charges on Fastweb's network. The appraisal was also to consider the accounting documentation produced by Fastweb concerning its termination costs, which the Authority declared not to be accessible however.

For this reason Telecom Italia applied for the stay of execution and annulment of the relevant part of the above-mentioned AGCom resolution with an appeal dated July 11, 2006 to the Lazio Regional Administrative Court, which dismissed it. By contrast, the Council of State upheld it, inter alia establishing Telecom Italia's right of access to the documentation filed by Fastweb and establishing a time limit for the Authority to this end. It also ruled that Fastweb was not entitled to make unilateral changes to the content of the contract concluded with Telecom Italia on January 28, 2000 but only to submit a proposal to the latter for a change in the termination price, which, if not agreed to be Telecom Italia (as was the case) should have led to an intervention by the Authority in a special regulatory proceeding under Article 23 of the Electronic Communications Code to establish the exact termination price.

After giving Telecom Italia access to Fastweb's regulatory accounts, the AGCom, stayed the proceeding pending the outcome of the arbitration.

In Resolution no. 31/07/CIR of May 9, 2007 the AGCom revived the proceeding and established time limits for the presentation of submissions and documents; subsequently it established new time limits and fixed September 30, 2007 for the conclusion of its technical appraisal of Fastweb's regulatory accounts.

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In a judgment handed down on March 27, 2007 the Milan Court of Appeal dismissed the appeal filed by Telecom Italia in August 2006 against the precautionary injunction issued by the same court upholding the appeal filed by Fastweb in March 2006 to obtain urgent measures to counter Telecom Italia's alleged illegitimate win-back strategy in the residential retail market for broad-band Internet access services.

Since Fastweb had not initiated the trial on the merits of the case within the time limits laid down by Article 669-octies of the Code of Civil Procedure, Telecom Italia had applied to the Court for the annulment of the above-mentioned injunction under Article 669-*novies*.

Specifically, the Milan Court of Appeal ruled that the substance of Telecom Italia's application was unfounded since the new rules of procedure in force as of March 1, 2006 made it optional and no longer obligatory to initiate the trial on the merits of the case after the issue of a precautionary measure under Article 700 of the Code of Civil Procedure.

Alice 20 Mega

With an order published on July 6, 2007 the Lazio Regional Administrative Court dismissed the petitions filed by the Italian Association of Internet Providers (AIIP) and Wind in their appeals to obtain the stay and annulment of AGCom Resolution no. 82/06/CIR definitively authorizing Telecom Italia's Alice 20 Mega offer (including the IPTV part) for access to ADSL services up to 20 Mbit/sec.

H3G

On February 10, 2004 and May 18, 2005 Tim S.p.A. and H3G concluded agreements on the main commercial relationships between the two operators. Amongst other things, these agreements governed the termination prices on the mobile operators' networks on the basis of reciprocity. In 2006 disputes developed due to the companies' different positions on the interpretation and application of the agreements. These disputes are the subject of arbitration that is expected to lead to the issue of an award in the early months of 2008.

Levy under Article 20.2 of Law 448/1998

In a judgment published on July 10, 2006 the Lazio Administrative Court upheld the compliance petition submitted by Telecom Italia and ordered the Ministry for the Economy and Finance and the Ministry for Communications, jointly and severally, to implement the judgments it had published in January 2005, in which the administrative court had upheld the petitions filed by Tim S.p.A. and Telecom Italia for the annulment of the provisions regarding the levy under Article 20.2 of Law 448/1998 and ascertained the obligation for the Government to return the amount so paid for 1999 and the accrued interest (more than euro 546 million and more than euro 100 million respectively). In September 2006 the Avvocatura Generale dello Stato notified an appeal to the Council of State for the stay of enforceability and annulment of the administrative court's ruling. On November 7, 2006 the Council of State dismissed the request for a stay and consequently the Ministry for the Economy and Finance paid the principal amount, but not the interest, with the right to its restoration depending on the outcome of the appeal.

On July 3, 2007 the Council of State discussed the merits of the appeal and its judgment is expected shortly.

Actions brought against other operators for unfair competition and violation of privacy

With an order published on July 26, 2007 the Rome Court upheld the urgent petition filed by Telecom Italia on October 16, 2006 against Wind and Tele2 to obtain a conviction for unfair competition and conduct contrary to the law on privacy. In particular, Telecom Italia had requested the Court to declare the two companies' telemarketing policies, based on cold calling to Telecom Italia clients who had not consented to this (and therefore had chosen not to be contactable for promotional offers over the phone), to be in violation of competition law.

Antitrust proceeding A-357

As regards this antitrust proceeding, initiated by the Antitrust Authority on February 23, 2005 with an investigation of TIM S.p.A. (now Telecom Italia), Vodafone Omnitel N.V. and Wind Telecomunicazioni S.p.A. to establish whether violations of Articles 81 and 82 of the European Community Treaty had been committed, on August 3, 2007 the Authority notified the closure of the procedure with the imposition of a fine of 20 million on Telecom Italia for its conduct aimed at excluding competitors from the wholesale termination market and the related retail fixed-mobile market for sound services for business customers. In its accounts for the half year ended June 30, 2007 Telecom Italia created a special provision for this contingent liability.

Galactica

With reference to the period 2000-01 the Internet Service Provider Galactica S.p.A. (later Servinternet S.p.A. and now SPAL TLC S.r.l.) brought an action for damages before the Milan Court alleging Telecom Italia's non-performance of an "experimental contract" for the supply of connectivity and unfair competition under Article 2598 of the Civil Code.

The company also brought two other actions, subsequently joined with the first, in which it sued Telecom Italia in relation to contractual and extra-contractual liabilities. The damages requested amounted to euro 90 million.

In its defense Telecom Italia argued that Galactica's claims were unfounded and filed a counterclaim for more than euro 5 million, as a larger consideration payable in relation to the second six-month period in which the contract was in force and for anticompetitive conduct.

On July 10, 2007 the court issued a partial judgment finding a precontractual liability on the part of Telecom Italia and ordered the quantification of the damages to continue in the next hearing scheduled for January 22, 2008. It also arranged on its own authority for a technical appraisal. A special provision for this contingent liability has been created in the Company's accounts for the half year ended June 30, 2007.

Eutelia

In June 2007 Telecom Italia reached a settlement with Eutelia S.p.A. covering both the disputes described in the 2006 Annual Report and other commercial questions. A special provision for this contingent liability has been created in the Company's accounts for the half year ended June 30, 2007.

Brazil

The disputes that are the subject of the settlement agreed on July 18, 2007, at the same time as Brasilco's disposal of its interest in Solpart, are connected with the signing on April 28, 2005, as already reported in the 2006 Annual Report, of a series of agreements designed, very briefly:

- to settle a series of disputes in different venues involving Telecom Italia and Telecom Italia International versus respectively: (i) Brasil Telecom, for alleged abuses by the Group in extraordinary corporate actions undertaken by the Brazilian operator; and (ii) Telecom Italia International's partners in Solpart Participações (controller of Brasil Telecom through Brasil Telecom Participações) and Solpart, Brasil Telecom Participações and Brasil Telecom in connection with the agreement concluded on August 27, 2002 for the temporary reduction from 37.29% to 19% of the Group's interest in the ordinary capital of Solpart, the suspension – again temporary – of its governance rights, and the option for the repurchase of the aforesaid equity interest;
- to amend the shareholders' agreement among the shareholders of Solpart (Telecom Italia International, Techold and Timepart);
- to draw up a plan for the merger of Brasil Telecom Celular into Tim Brasil.

Reference was also made in the same Report to the opening of several disputes regarding the above-mentioned agreements in which the Telecom Italia Group was sometimes the plaintiff and sometimes the defendant, with reciprocal requests for damages, both before the Brazilian Courts and in arbitration proceedings before the International Chamber of Commerce of Paris. These disputes continued in 2006 and are still under way, although most of the proceedings have been suspended pending the possible conclusion (with the consequent settlement of the disputes) of the transaction involving Solpart Participações described in the section "Discontinued operations/assets held for sale" in this report.

It should also be noted that:

- following the annulment of the agreement regarding the merger of Brasil Telecom Celular into Tim Brasil, Telecom Italia International, TIM International and TIM Brasil applied for the closure of the related proceedings since the disputed matter no longer existed. In one case the judge upheld the request, whereas in the second a decision has not yet been issued. With reference to the same facts, in 2006 Brasil Telecom and Brasil Telecom Celular had initiated arbitration proceedings against Tim International and Tim Brasil before the International Chamber of Commerce of Paris. Following a request by Brasil Telecom, the arbitration board suspended the proceedings in April 2007 pending the decision in other arbitration proceedings under way between the parties.
- in other arbitration proceedings before the ICC between Telecom Italia International and Techold (in one of which, initiated by Techold, Telecom Italia is involved) the discovery phase has been concluded and the parties have put forward their conclusions.

Greece

On January 23, 2007 Telecom Italia was served with a summons by TCS Capital Management LLC (TCS) in the action brought by the latter before the United States District Court for the Southern District of New York.

TCS (formerly a minority shareholder of Tim Hellas) has applied for the indemnification of the losses it allegedly incurred following the sale of Tim International's interest in Tim Hellas to some investment funds (which are also cited) and the subsequent cash-out merger carried out by the funds, allegedly to the detriment of the interests of the minority shareholders of Tim Hellas.

TCS has requested the court to ascertain Telecom Italia's violation of US law, which is applicable because Tim Hellas was listed on NASDAQ and to order it to pay punitive damages and legal expenses in an amount to be established during the trial.

The proceedings are still at the preliminary stage.

Other contingent liabilities related to disposals of assets and shareholdings

As part of the major company disposals made in prior years and in 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 questions still open in the legal, tax, social security and labour law fields.

At June 30, 2007 about euro 200 million had been set aside for the commitments referred to above. Additional guarantees connected with the above-mentioned disposals, for which the risk is considered to be remote, amount to about euro 700 million.

The Telecom Italia Group also undertook to indemnify buyers in other cases for which no maximum amount was fixed, so that it is not currently possible to estimate the contingent liability.

b) Potential assets

Consip tender

With a judgment issued on May 31, 2007 the Lazio Regional Administrative Court dismissed the appeal filed by Telecom Italia in July 2006 for the annulment of the Consip resolution in which Fastweb was awarded the contract in the tender held in 2005 for the supply to governmental bodies of fixed telephony, IP connectivity and satellite data transmission services.

The court also dismissed the petition filed by Fastweb in July 2006 contesting Consip's decision to verify the fairness of Fastweb's bid and claiming that the requests to access the tender documents, on which Telecom Italia's appeal particularly insisted, were unfounded.

Telecom Italia is assessing whether to appeal the Lazio Regional Administrative Court's judgment before the Council of State.

Challenge of AGCom (the Italian Communications Authority) resolutions on inverse termination

In a decision issued on July 2, 2007 the Council of State upheld part of the appeal Telecom Italia had filed in March 2006 against the Lazio Administrative Court's judgment of January 2006 dismissing its petition for the partial annulment of AGCom Resolutions nos. 11/03/CIR and 289/03/CONS.

These are the resolutions that first regulated the service of inverse termination, allowing so-called alternative operators to fix the price for inverse termination autonomously (by applying fees that did not have to take account of the reciprocity criterion) and forbidding differentiation of the price paid by final users on the basis of any higher costs incurred (i.e. without giving Telecom Italia a chance to pass on the higher cost to final users).

The Company is waiting for the publication of the Council's opinion, in order to understand exactly which part of Telecom Italia's appeal was upheld so that it can make a more thorough assessment.

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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 who were on their payrolls at February 20, 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 January 1, 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 June 30, 2007 INPS had not yet notified the Company of all the positions to be unified.

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

The sums due to social security institutions under this heading amount to euro 816 million (euro 783 million of principal and euro 33 million of accrued interest not yet paid), of which some euro 211 million is due in the short-term.

c) Commitments and other guarantees

Guarantees provided amounted to euro 307 million, net of euro 176 million of counter-guarantees received, and consisted mainly of sureties provided by Telecom Italia on behalf of affiliates (euro 99 million) and others for medium and long-term loans.
In addition, the 47.80% interest in Tiglio I has been pledged to the banks that financed the affiliate.

Purchase and sale commitments at the end of the period amounted to euro 519 million and euro 2 million respectively and referred to the part of commitments not falling within the normal "operating cycle" of the Group still to be fulfilled.

The purchase commitments consisted mainly of:
- euro 151 million of property leasing rentals under contracts lasting more than 6 years;
- euro 330 million of orders to suppliers of Telenergia in relation to the electricity supply agreements reached with Endesa for the three-year period 2004-06 and with Edison Energia for the three-year period 2007-09.
- euro 14 million for the commitment to acquire a stake in Fondo Clessidra.

The companies of the Telecom Italia Group included in the consolidation issued letters of patronage for a total of euro 137 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 (euro 2,117 million) and the performance of contracts (euro 301 million). The total included sureties issued by BBVA - Banco Bilbao Vizcaya Argentaria for euro 857 million, by Intesa San Paolo for euro 420 million, by Sumitomo for euro 129 million, by Bank of Tokyo - Mitsubishi UFJ for euro 142 million and by Banco Santander for euro 86 million in respect of EIB loans for the following projects developed by the parent company, Telecom Italia, and some subsidiaries: TIM Rete Mobile, Telecom Italia Breitband Infrastruktur Deutschland, Telecom Italia Media Digital Network and Telecom Italia Broadband France.

Note 21 - Personnel costs

Personnel costs amount to euro 1,925 million, a decrease of euro 67 million (– 3.4%) compared to the first half of 2006 (euro 1,992 million). The reduction is mainly due to the decrease of euro 102 million attributable to personnel in Italy and the increase of euro 35 million to personnel outside Italy (due to the inclusion of the AOL internet activities in Germany).

Personnel costs consist of the following:

(millions of euro)		1st Half 2007	1st Half 2006
Personnel costs			
Wages and salaries		1,388	1,376
Social security contributions		418	409
Severance indemnities		86	77
Other employee-related costs		33	39
	(A)	**1,925**	**1,901**
Temp work costs	**(B)**	**29**	**28**
Miscellaneous expenses for personnel and for other labor-related services rendered			
Remuneration of personnel other than employees		6	7
Charges for termination benefit incentives		76	55
Other		(111)	1
	(C)	**(29)**	**63**
Total	**(A+B+C)**	**1,925**	**1,992**

"Miscellaneous expenses for personnel and for other labor-related services rendered - other" (– euro 111 million) include the profit bonus (– euro 79 million) accrued in the second half of 2006 and no longer due as a result of the agreements reached with the unions in June 2007. Such agreements authorized the alignment of the profit bonus of the Parent, Telecom Italia, and other Group companies with the payment criteria established for ex-TIM Italia. This line also includes the positive impact of the actuarial calculation of the provision for employee severance indemnities as a result of applying the new law dealing with supplementary benefits (– euro 31 million).
Moreover, on July 31, 2007, the Hypotheses of Agreement for the renewal of the second two-year 2007/2008 economic part of the collective national labor contract for telecommunications was signed between ASSOTELECOMUNICAZIONI ASSTEL and SLC-CGIL, FISTEL-CISL, UILCOM-UIL..

The average equivalent number of salaried personnel, including those of discontinued operations/assets held for sale and personnel with temporary work contracts, in the first half of 2007, is 79,348 (80,911 in the first half of 2006). A breakdown by category is as follows:

(number)	1st Half 2007	1st Half 2006
Executives	1,312	1,425
Middle Management	5,116	5,128
White-collars	70,307	71,381
Blue-collars	345	445
Headcount on the payroll	**77,080**	**78,379**
Personnel with temp work contracts	2,268	2,532
Total employees (*)	**79,348**	**80,911**

(*) Including the personnel relating to Discontinued operations/assets held for sale (no one in the first half of 2007 and 558 people in the first half of 2006)

The number of employees at June 30, 2007 is 83,812 (83,209 at December 31, 2006), with an increase of 603.

Note 22 - Financial income

Financial income amounts to euro 1,243 million, a decrease of euro 406 million compared to the first half of 2006. Details are as follows:

(millions of euro)		1st Half 2007	1st Half 2006
Income from investments	**(A)**	**4**	**115**
Other financial income:			
Income from financial receivables classified as non-current assets		4	6
Income from securities other than investments, classified as non-current assets		2	1
Income from securities other than investments, classified as current assets		6	7
Income other than the above:			
Interest income		101	112
Foreign exchange gains		147	150
Income from fair value hedge derivatives		237	193
Reversal of the Reserve for fair value adjustments to cash flow hedge derivatives (interest rate component) to the statement of income		241	124
Income from non-hedging derivatives		18	23
Miscellaneous financial income		44	36
	(B)	**800**	**652**
Positive fair value adjustments to:			
Fair value hedge derivatives		40	–
Underlying financial assets and liabilities of fair value hedges		296	749
Non-hedging derivatives		103	133
	(C)	**439**	**882**
Impairment reversals on financial assets	**(D)**	**–**	**–**
Total	**(A+B+C+D)**	**1,243**	**1,649**

Income from investments (euro 4 million) decreased by euro 111 million compared to the first half of 2006 (euro 115 million); in the first half of 2006, this line included gains realized on the sale of the entire 4.99% holding in Neuf Télécom (euro 110 million).
Foreign exchange gains (euro 147 million) decreased by euro 3 million compared to the first half of 2006 (euro 150 million). This amount was reduced by euro 88 million for the foreign exchange losses originating from the Reversal of the Reserve for fair value adjustments to cash flow hedge derivatives to the statement of income (euro 207 million in the first half of 2006). The counterpart of foreign exchange gains is represented by foreign exchange losses (euro 143 million in the first half of 2007; euro 176 million in the first half of 2006).

Income from fair value hedge derivatives (euro 237 million) increased by euro 44 million compared to the first half of 2006 (euro 193 million) and mainly refer to CCIRS contracts.

The positive effect of the Reversal of the Reserve for fair value adjustments to cash flow hedge derivatives (interest rate component) to the statement of income (euro 241 million) increased by euro 117 million compared to the first half of 2006 (euro 124 million).
It refers to CCIRS contracts for euro 134 million and IRS contracts for euro 107 million, including euro 39 million for the positive effect of the early closing of cash flow hedge derivatives for euro 1 billion, reimbursed in advance in July 2007, on the term loan totaling euro 3 billion maturing 2010.

Income from non-hedging derivatives (euro 18 million) decreased by euro 5 million compared to the first half of 2006 (euro 23 million) and refers to IRS contracts for euro 15 million and other derivative contracts for euro 3 million.

Positive fair value adjustments to fair value hedge derivatives increased by euro 40 million compared to the first half of 2006. The counterpart of this amount is represented by negative fair value adjustments to the underlying financial assets and liabilities of fair value hedge derivatives (euro 49 million; euro 36 million in the first half of 2006).

Positive fair value adjustments to the underlying financial assets and liabilities of fair value hedge derivatives (euro 296 million) decreased by euro 453 million compared to the first half of 2006 (euro 749 million). The counterpart of this amount is represented by negative fair value adjustments to the corresponding fair value hedges (euro 297 million; euro 722 million in the first half of 2006).

Additional information is provided in the Note "Financial expenses".

Note 23 - Financial expenses

Financial expenses amount to euro 2,226 million, a decrease of euro 517 million compared to the first half of 2006. Details are as follows:

(millions of euro)		1st Half 2007	1st Half 2006
Charges to investments	**(A)**	–	–
Interest expenses and other financial expenses:			
Interest expenses and other costs relating to bonds		906	922
Interest expenses to banks		177	178
Interest expenses to others		113	131
		1,196	1,231
Commissions		11	12
Foreign exchange losses		143	176
Charges from fair value hedge derivatives		219	132
Reversal of the Reserve for fair value adjustments of cash flow hedge derivatives (interest rate component) to the statement of income		191	133
Charges from non-hedging derivatives		21	38
Miscellaneous financial expenses		87	113
	(B)	**1,868**	**1,835**
Negative fair value adjustments to:			
Fair value hedge derivatives		297	722
Underlying financial assets and liabilities of fair value hedge derivatives		49	36
Non-hedging derivatives		11	143
	(C)	**357**	**901**
Impairment losses on financial assets (investments and securities other than investments)	**(D)**	**1**	**7**
Total	**(A+B+C+D)**	**2,226**	**2,743**

Interest expenses and other financial expenses relating to bonds, banks and others (euro 1,196 million) decreased by euro 35 million compared to the first half of 2006 (euro 1,231 million) as a result of a reduction in the average debt exposure.
The reduction was partially offset by the negative effect of a rise in interest rates on a portion of floating-rate debt.

Foreign exchange losses (euro 143 million) decreased by euro 33 million compared to the first half of 2006 (euro 176 million). Such amount was reduced by euro 3 million for the foreign exchange gains arising from the Reversal of the Reserve for fair value adjustments to cash flow hedge derivatives to the statement of income. The counterpart of this amount is represented by Foreign exchange gains (euro 147 million in the first half of 2007, euro 150 million in the first half of 2006). Charges from fair value hedge derivatives (euro 219 million) increased by euro 87 million compared to the first half of 2006 (euro 132 million) and refer to CCIRS contracts for euro 188 million and IRS contracts for euro 31 million.

The negative effect of the Reversal of the Reserve for fair value adjustments to cash flow hedge derivatives to the statement of income (euro 191 million) increased by euro 58 million compared to the first half of 2006 (euro 133 million) and refers to CCIRS contracts for euro 132 million and IRS contracts for euro 59 million.

Charges from non-hedging derivatives (euro 21 million) decreased by euro 17 million compared to the first half of 2006 (euro 38 million) and include euro 15 million on IRS contracts and euro 6 million on other derivative contracts.

Negative fair value adjustments to fair value hedge derivatives (euro 297 million) decreased by euro 425 million compared to the first half of 2006 (euro 722 million). The counterpart of this amount is represented by the positive fair value adjustments to the underlying financial assets and liabilities of fair value hedge derivatives (euro 296 million; euro 749 million in the first half of 2006).

Negative fair value adjustments to underlying financial assets and liabilities of fair value hedge derivatives (euro 49 million), increased by euro 13 million compared to the first half of 2006 (euro 36 million). The counterpart of this amount is represented by the positive fair value adjustments to the corresponding fair value hedge derivatives (euro 40 million in the first half of 2007).

The effects of the above are summarized in the following table:

(millions of euro)		1st Half 2007	1st Half 2006
Net foreign exchange gains (losses):		**4**	**(26)**
Foreign exchange gains		147	150
Foreign exchange losses		(143)	(176)
Net result from derivative financial instruments	**(a+b+c)**	**65**	**37**
Income from fair value hedge derivatives		237	193
Charges from fair value hedge derivatives		(219)	(132)
Net result from fair value hedge derivatives	**a)**	**18**	**61**
Positive effect of the Reversal of the Reserve for fair value adjustments to cash flow hedge derivatives (interest rate component) to the statement of income		241	124
Negative effect of the Reversal of the Reserve for fair value adjustments to cash flow hedge derivatives (interest rate component) to the statement of income		(191)	(133)
Net effect of the Reversal of the Reserve for fair value adjustments to cash flow hedge derivatives (interest rate component) to the statement of income	**b)**	**50**	**(9)**
Income from non-hedging derivatives		18	23
Charges from non-hedging derivatives		(21)	(38)
Net result from non-hedging derivatives	**c)**	**(3)**	**(15)**
Net fair value adjustments (excluding non-hedging derivatives):	**(d+e)**	**(10)**	**(9)**
Positive fair value adjustments to fair value hedge derivatives		40	–
Negative fair value adjustments to fair value hedge derivatives		(49)	(36)
Net fair value adjustments	**d)**	**(9)**	**(36)**
Positive fair value adjustments to Underlying financial assets and liabilities of fair value hedge derivatives		296	749
Negative fair value adjustments to Underlying financial assets and liabilities of fair value hedge derivatives		(297)	(722)
Net fair value adjustments	**e)**	**(1)**	**27**

Note 24 - Segment information and geographical segment information

a) Segment information

On January 22, 2007, in light of important technological, market and regulatory changes, Telecom Italia introduced a new organizational structure aimed at ensuring greater operational flexibility and facilitating the implementation of the strategic guidelines for the convergence of the various areas of business (fixed and mobile communications, broadband internet and media content).

Accordingly, the disclosure by business segment was changed and the accounting representation is now the following:
- Domestic
- European Broadband
- Brazil Mobile
- Media
- Olivetti
- Other activities

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

SEGMENT CONSOLIDATED STATEMENT OF INCOME

(millions of euro)	Domestic		European Broadband		Brazil Mobile		Media		Olivetti		Other activities		Adjustments and eliminations		Consolidated total	
	1st Half 2007	1st Half 2006	1st Half 2007	1st Half 2006	1st Half 2007	1st Half 2006	1st Half 2007	1st Half 2006	1st Half 2007	1st Half 2006	1st Half 2007	1st Half 2006	1st Half 2007	1st Half 2006	1st Half 2007	1st Half 2006
Third-party revenues	12,086	12,813	683	419	2,318	1,720	116	95	165	185	102	103	–	–	15,470	15,335
Intragroup revenues	96	64	12	8	4	2	9	3	27	27	7	21	(155)	(125)	–	–
Revenues by segment	**12,182**	**12,877**	**695**	**427**	**2,322**	**1,722**	**125**	**98**	**192**	**212**	**109**	**124**	**(155)**	**(125)**	**15,470**	**15,335**
Other income	130	246	13	7	16	48	5	4	5	8	7	4	(11)	(6)	165	311
Total operating revenues and other income	**12,312**	**13,123**	**708**	**434**	**2,338**	**1,770**	**130**	**102**	**197**	**220**	**116**	**128**	**(166)**	**(131)**	**15,635**	**15,646**
Purchases of materials and external services	(4,901)	(5,151)	(525)	(350)	(1,274)	(1,009)	(107)	(109)	(173)	(192)	(57)	(76)	151	118	(6,886)	(6,769)
Personnel costs	(1,641)	(1,724)	(92)	(60)	(107)	(105)	(38)	(40)	(38)	(45)	(12)	(21)	3	3	(1,925)	(1,992)
of which accrual for employee severance indemnities	*(84)*	*(73)*	–	–	–	–	*(2)*	*(2)*	–	*(2)*	–	–	–	–	*(86)*	*(77)*
Other operating expenses	(416)	(325)	(20)	(16)	(378)	(302)	(7)	(8)	(5)	(6)	(6)	(10)	–	1	(832)	(666)
of which accrual for bad debts and accruals to risk provisions	*(269)*	*(173)*	*(17)*	*(13)*	*(134)*	*(83)*	*(1)*	*(1)*	*(4)*	*(4)*	*(1)*	*(6)*	–	–	*(426)*	*(280)*
Changes in inventories	12	69	–	1	6	–	1	2	2	(3)	–	(1)	–	1	21	69
Capitalized internal construction costs	253	218	17	5	–	–	–	1	–	–	–	1	11	5	281	230
EBITDA	**5,619**	**6,210**	**88**	**14**	**585**	**354**	**(21)**	**(52)**	**(17)**	**(26)**	**41**	**21**	**(1)**	**(3)**	**6,294**	**6,518**
Depreciation and amortization	(2,175)	(2,300)	(136)	(89)	(515)	(432)	(31)	(27)	(8)	(9)	(16)	(22)	28	36	(2,853)	(2,843)
Gains (losses) on disposals of non-current assets	12	127	(4)	(3)	(1)	–	–	–	1	–	–	29	–	(1)	8	152
Impairment reversals (losses) on non-current assets	–	–	–	–	–	–	–	–	–	–	–	–	–	(26)	–	(26)
EBIT	**3,456**	**4,037**	**(52)**	**(78)**	**69**	**(78)**	**(52)**	**(79)**	**(24)**	**(35)**	**25**	**28**	**27**	**6**	**3,449**	**3,801**
Share of profits (losses) of associates and jointly controlled companies accounted for using the equity method	20	(4)	–	–	–	–	–	–	–	–	38	29	–	–	58	25
Financial income															1,243	1,649
Financial expenses															(2,226)	(2,743)
Income from continuing operations before taxes															**2,524**	**2,732**
Income taxes															(1,018)	(1,305)
Net income from continuing operations															**1,506**	**1,427**
Net income (loss) from discontinued operations/ assets held for sale															(4)	46
Net income for the period															**1,502**	**1,473**
of which attributable to:																
* **equity holders of the Parent**															**1,500**	**1,496**
* minority interests															2	(23)

SEGMENT CAPITAL EXPENDITURES INFORMATION

(millions of euro)	Domestic		European Broadband		Brazil Mobile		Media		Olivetti		Other activities		Adjustments and eliminations		Consolidated total	
	1st Half 2007	1st Half 2006	1st Half 2007	1st Half 2006	1st Half 2007	1st Half 2006	1st Half 2007	1st Half 2006	1st Half 2007	1st Half 2006	1st Half 2007	1st Half 2006	1st Half 2007	1st Half 2006	1st Half 2007	1st Half 2006
– Intangible assets	725	710	103	103	180	92	38	45	–	–	–	–	–	(65)	1,046	885
– Tangible assets	1,170	1,083	149	125	91	101	8	14	5	5	5	4	–	(1)	1,428	1,331
Total capital expenditures	**1,895**	**1,793**	**252**	**228**	**271**	**193**	**46**	**59**	**5**	**5**	**5**	**4**	**–**	**(66)**	**2,474**	**2,216**

SEGMENT HEADCOUNT AT PERIOD-END

(number)	Domestic		European Broadband		Brazil Mobile		Media		Olivetti		Other activities		Consolidated total	
	6/30/07	12/31/06	6/30/07	12/31/06	6/30/07	12/31/06	6/30/07	12/31/06	6/30/07	12/31/06	6/30/07	12/31/06	6/30/07	12/31/06
Headcount (*)	**65,880**	**66,835**	**4,455**	**3,066**	**9,661**	**9,531**	**1,007**	**919**	**1,355**	**1,428**	**1,454**	**1,430**	**83,812**	**83,209**

(*) The headcount at the end of the period does not take into account the headcount relating to discontinued operations/assets held for sale

SEGMENT OTHER INFORMATION

(millions of euro)	Domestic		European Broadband		Brazil Mobile		Media		Olivetti		Other activities		Adjustments and eliminations		Consolidated total	
	6/30/07	12/31/06	6/30/07	12/31/06	6/30/07	12/31/06	6/30/07	12/31/06	6/30/07	12/31/06	6/30/07	12/31/06	6/30/07	12/31/06	6/30/07	12/31/06
Operating assets by segment	69,830	69,559	2,316	1,462	5,751	5,379	648	646	293	323	610	513	(258)	(280)	79,190	77,602
Investment accounted for by the equity method	148	139	1	1			–	–	1	1	366	345	3	2	519	488
Discontinued operations/assets held for sale															939	235
Unallocated assets															5,562	11,132
Total assets															**86,210**	**89,457**
Operating liabilities by segment	12,902	13,019	542	449	1,105	1,277	168	189	225	257	240	98	(319)	(179)	14,863	15,110
Liabilities relating to discontinued operations/assets held for sale															–	–
Unallocated liabilities															45,246	47,249
Equity															26,101	27,098
Total equity and liabilities															**86,210**	**89,457**

b) Geographical segment information

Geographical segment information on revenues by geographical location of the Group's customers:

(millions of euro)	1st Half 2007	1st Half 2006
Italy	11,088	11,691
Europe (excluding Italy)	1,461	1,391
Central and South America	2,463	1,856
Other countries	458	397
Total	**15,470**	**15,335**

Note 25 - Related party transactions

Related party transactions, including intragroup transactions, are neither unusual nor atypical but fall under the ordinary business operations of the companies of the Group. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm's length.

The following tables present balances relating to transactions with related parties and the effects of such amounts on the consolidated statement of income, balance sheet and statement of cash flows.
The statement of income and the capital expenditure figures are compared with the first half of 2006, while the balance sheet figures are compared with those at December 31, 2006.

	Transactions with related parties (amount)		Corresponding caption in financial statements (amount)		% impact of related parties	
(millions of euro)	1st Half 2007	1st Half 2006	1st Half 2007	1st Half 2006	1st Half 2007	1st Half 2006
Revenues						
Of which attributable to transactions with:						
– associates and jointly controlled entities	142	130				
– subsidiaries, associates and jointly controlled entities	9	105				
– other related parties through directors, statutory auditors and key managers	18	9				
– pension funds						
	169	**244**	**15,470**	**15,335**	**1.1**	**1.6**
Other income						
Of which attributable to transactions with:						
– associates and jointly controlled entities	1	3				
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and key managers						
– pension funds						
	1	**3**	**165**	**311**	**0.6**	**1.0**
Purchases of materials and external services						
Of which attributable to transactions with:						
– associates and jointly controlled entities	47	51				
– subsidiaries, associates and jointly controlled entities	9	21				
– other related parties through directors, statutory auditors and key managers	35	52				
– pension funds						
	91	**124**	**6,886**	**6,769**	**1.3**	**1.8**
Personnel costs						
Of which attributable to transactions with:						
– associates and jointly controlled entities						
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and key managers						
– pension funds	14	12				
– remuneration to key managers	13	12				
	27	**24**	**1,925**	**1,992**	**1.4**	**1.2**

(millions of euro)	Transactions with related parties (amount)		Corresponding caption in financial statements (amount)		% impact of related parties	
	1st Half 2007	1st Half 2006	1st Half 2007	1st Half 2006	1st Half 2007	1st Half 2006
Other operating expenses						
Of which attributable to transactions with:						
– associates and jointly controlled entities						
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and key managers						
– pension funds						
	0	**0**	**832**	**666**	**0.0**	**0.0**
Financial income						
Of which attributable to transactions with:						
– associates and jointly controlled entities	1					
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and key managers	6					
– pension funds						
	7	**0**	**1,243**	**1,649**	**0.6**	**0.0**
Financial expenses						
Of which attributable to transactions with:						
– associates and jointly controlled entities	15	14				
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and key managers	9					
– pension funds						
	24	**14**	**2,226**	**2,743**	**1.1**	**0.5**
Capital expenditures for intangible and tangible assets						
Of which attributable to transactions with:						
– associates and jointly controlled entities	37	65				
– subsidiaries, associates and jointly controlled entities	145	187				
– other related parties through directors, statutory auditors and key managers	51	41				
– pension funds						
	233	**293**	**2,474**	**2,216**	**9.4**	**13.2**
Dividends paid to third parties						
Of which attributable to transactions with:						
– associates and jointly controlled entities						
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and key managers	344	348				
– pension funds						
	344	**348**	**2,830**	**2,994**	**12.2**	**11.6**

	Transactions with related parties (amount)		Corresponding caption in financial statements (amount)		% impact of related parties	
(millions of euro)	6/30/2007	12/31/2006	6/30/2007	12/31/2006	6/30/2007	12/31/2006
NET FINANCIAL DEBT:						
Securities, financial receivables and other non-current financial assets						
Of which attributable to transactions with:						
– associates and jointly controlled entities	25	24				
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and key managers						
– pension funds						
	25	**24**	**699**	**691**	**3.6**	**3.5**
Securities (current assets)						
Of which attributable to transactions with:						
– associates and jointly controlled entities						
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and key managers	8					
– pension funds						
	8	**0**	**265**	**812**	**3.0**	**0.0**
Financial receivables and other current financial assets						
Of which attributable to transactions with:						
– associates and jointly controlled entities		1				
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and key managers	1					
– pension funds						
	1	**1**	**399**	**433**	**0.3**	**0.2**
Cash and cash equivalents						
Of which attributable to transactions with:						
– associates and jointly controlled entities		1				
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and key managers						
– pension funds						
	0	**1**	**3,664**	**7,219**	**0.0**	**0.0**
Non-current financial liabilities						
Of which attributable to transactions with:						
– associates and jointly controlled entities	268	239				
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and key managers	177					
– pension funds						
	445	**239**	**38,216**	**40,803**	**1.2**	**0.6**
Current financial liabilities						
Of which attributable to transactions with:						
– associates and jointly controlled entities	132	148				
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and key managers	47					
– pension funds						
	179	**148**	**5,986**	**5,653**	**3.0**	**2.6**
Total net financial debt						
Of which attributable to transactions with:						
– associates and jointly controlled entities	375	361				
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and key managers	215					
– pension funds						
	590	**361**	**39,175**	**37,301**	**1.5**	**1.0**

(millions of euro)	Transactions with related parties (amount) 6/30/2007	Transactions with related parties (amount) 12/31/2006	Corresponding caption in financial statements (amount) 6/30/2007	Corresponding caption in financial statements (amount) 12/31/2006	% impact of related parties 6/30/2007	% impact of related parties 12/31/2006
OTHER BALANCE SHEET CAPTIONS:						
Miscellaneous receivables and other non-current assets						
Of which attributable to transactions with:						
– associates and jointly controlled entities	9	10				
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and key managers						
– pension funds						
	9	**10**	**962**	**871**	**0.9**	**1.1**
Trade and miscellaneous receivables and other current assets						
Of which attributable to transactions with:						
– associates and jointly controlled entities	201	201				
– subsidiaries, associates and jointly controlled entities	11	14				
– other related parties through directors, statutory auditors and key managers	24	5				
– pension funds						
	236	**220**	**9,559**	**8,748**	**2.5**	**2.5**
Miscellaneous payables and other non-current liabilities						
Of which attributable to transactions with:						
– associates and jointly controlled entities						
– subsidiaries, associates and jointly controlled entities	23	23				
– other related parties through directors, statutory auditors and key managers						
– pension funds						
	23	**23**	**1,743**	**1,857**	**1.3**	**1.2**
Trade and miscellaneous payables and other current liabilities						
Of which attributable to transactions with:						
– associates and jointly controlled entities	59	99				
– subsidiaries, associates and jointly controlled entities	112	58				
– other related parties through directors, statutory auditors and key managers	62	27				
– pension funds	26	20				
	259	**204**	**11,394**	**11,596**	**2.3**	**1.8**

The following tables present the major economic, balance sheet and financial transactions and balances between companies consolidated line-by-line on one hand and associates and jointly controlled companies on the other.

(millions of euro)	1st Half 2007	1st Half 2006	
Revenues	142	130	These mainly refer to revenues from Teleleasing S.p.A. euro 122 million (euro 106 million in the first half of 2006), LI.SIT. S.p.A. euro 6 million (euro 7 million in the first half of 2006), Shared Service Center Scrl euro 9 million (euro 10 million in the first half of 2006), ETECSA euro 3 million (euro 5 million in the first half of 2006) and Telbios S.p.A. euro 1 million.
Other income	1	3	This mainly refers to cost recoveries for off-site personnel by certain subsidiaries and associates.
Purchases of materials and external services	47	51	These refer mainly to costs for rent from Tiglio I S.r.l. euro 3 million (euro 1 million in the first half of 2006), Tiglio II S.r.l. euro 1 million (euro 2 million in the first half of 2006), for TLC services from ETECSA euro 3 million (euro 4 million in the first half of 2006), for maintenance and assistance contracts from Shared Service Center Scrl euro 14 million (euro 12 million in the first half of 2006), for TLC equipment from Teleleasing S.p.A. euro 7 million (euro 8 million in the first half of 2006), for sponsorship costs from Luna Rossa Challenge 2007 S.L. euro 12 million (euro 8 million in the first half of 2006), for accessories and consumables from Baltea S.r.l. euro 2 million (euro 2 million in the first half of 2006), for remote medicine services 2006) and costs for software services from NordCom S.p.A. euro 1 million (euro 1 million in the first half of 2006). In the first half of 2006 there were costs for software and computer materials as well as maintenance and assistance contracts from Siemens Informatica S.p.A. euro 10 million, no longer a related party.
Financial income	1	–	This includes accrued interest income earned on loans made to Aree Urbane S.r.l..
Financial expenses	15	14	These refer to interest expenses to Teleleasing S.p.A. for finance leases.
Capital expenditures in tangible and intangible assets	37	65	These refer mainly to acquisitions of computer projects from Shared Service Center Scrl euro 35 million (euro 40 million in the first half of 2006) and software and hardware products and services for remote medicine services offered by Telbios S.p.A. euro 2 million. In the first half of 2006 there were purchases from Siemens Informatica S.p.A. euro 25 million, no longer a related party.

(millions of euro)	**6/30/2007**	**12/31/2006**	
Securities, financial receivables and other non-current financial assets	25	24	These refer to medium/long-term loans made to Aree Urbane S.r.l.
Miscellaneous receivables and other non-current assets	9	10	These refer to receivables from LI.SIT S.p.A. for the residual additional paid-in capital paid.
Trade and miscellaneous receivables and other current assets	201	201	These refer mainly to receivables from LI.SIT. S.p.A. euro 116 million (euro 120 million at 12/31/2006), Teleleasing S.p.A. euro 75 million (euro 64 million at 12/31/2006), Luna Rossa Challenge 2007 S.L. euro 1 million (euro 10 million at 12/31/2006), Shared Service Center Scrl euro 3 million (euro 2 million at 12/31/2006), ETECSA euro 2 million (euro 2 million at 12/31/2006), Telbios S.p.A. euro 2 million (euro 1 million at 12/31/2006), Im.Ser S.p.A. euro 1 million (euro 1 million at 12/31/2006).
Financial receivables and other current financial assets	–	1	At 12/31/2006 these referred to loans made to Aree Urbane S.r.l.
Cash and cash equivalents	–	1	At 12/31/2006 these referred to treasury accounts with associates.
Non-current financial liabilities	268	239	These refer to non-current financial payables to Teleleasing S.p.A. euro 260 million (euro 231 million at 12/31/2006) for finance leases, to Tiglio I S.r.l. euro 7 million (euro 7 million at 12/31/2006) and Tiglio II S.r.l. euro 1 million (euro 1 million at 12/31/2006) for building sale and leaseback transactions.
Current financial liabilities	132	148	These refer to current financial payables to Teleleasing S.p.A. euro 132 million (euro 143 million at 12/31/2006) for finance leases. At 12/31/2006 there were current financial payables to Tiglio I S.r.l. euro 4 million and Tiglio II S.r.l. euro 1 million for building sale and leaseback transactions.
Trade and miscellaneous payables and other current liabilities	59	99	These refer to payables, for supply transactions connected with operating and investment activities, to Shared Service Center Scrl euro 13 million (euro 16 million at 12/31/2006), Teleleasing S.p.A. euro 7 million (euro 3 million at 12/31/2006), ETECSA euro 14 million (euro 12 million at 12/31/2006), Telbios S.p.A. euro 5 million (euro 2 million at 12/31/2006), Baltea S.r.l. euro 1 million (euro 1 million at 12/31/2006), Luna Rossa Challenge 2007 S.L. euro 1 million (euro 1 million at 12/31/2006), Asscom S.r.l. euro 1 million (euro 1 million at 12/31/2006), NordCom S.p.A. euro 1 million (euro 1 million at 12/31/2006) and Tiglio I S.r.l. euro 1 million, and deferred income from LI.SIT S.p.A. euro 15 million relating to the accrued portion of investment income (euro 14 million at 12/31/2006). At 12/31/2006 there were also trade payables to Siemens Informatica S.p.A. euro 48 million, no longer a related party.

The Telecom Italia Group has also provided guarantees on behalf of associates for a total of euro 99 million (euro 102 million at December 31, 2006) of which euro 54 million is on behalf of Tiglio I S.r.l. (euro 54 million at December 31, 2006), euro 11 million on behalf of Aree Urbane S.r.l. (euro 11 million at December 31, 2006), euro 22 million on behalf of Italtel Group (euro 25 million at December 31, 2006) and euro 12 million on behalf of other companies (euro 12 million at December 31, 2006).

The following tables present the major economic, balance sheet and financial transactions and balances between companies consolidated line-by-line on one hand and companies controlled by associates and by jointly controlled companies on the other (the companies of the Italtel Group, a related party through the investment in the parent Italtel Group S.p.A. and the companies of the Telecom Argentina group related through Sofora Telecomunicaciones S.A.).

(millions of euro)	1st Half 2007	1st Half 2006	
Revenues	9	105	These refer to revenues from the Telecom Argentina Group euro 8 million (euro 6 million in the first half of 2006), Italtel Group euro 1 million (euro 1 million in the first half of 2006). In the first half of 2006 there were revenues from the Brasil Telecom Participaçoes Group euro 98 million relating to telecommunications services, no longer a related party.
Purchases of materials and external services	9	21	These refer to costs for maintenance and assistance contracts from the Italtel Group euro 6 million (euro 7 million in the first half of 2006) and TLC service costs from the Telecom Argentina Group euro 3 million (euro 3 million in the first half of 2006). In the first half of 2006 there were costs for Tlc services from the Brasil Telecom Participaçoes Group euro 11 million, no longer a related party.
Capital expenditures in tangible and intangible assets	145	187	These refer to the purchase of telephone exchanges from the Italtel Group.

(millions of euro)	6/30/2007	12/31/2006	
Trade and miscellaneous receivables and other current assets	11	14	These refer to telecommunications services rendered to the Italtel Group euro 1 million (euro 1 million at 12/31/2006) and receivables from the Telecom Argentina Group connected with Tlc activities for euro 10 million (euro 13 million at 12/31/2006).
Miscellaneous payables and other non-current liabilities	23	23	These refer to the medium/long-term portion of the deferral relating to the supply of "IRU" transmission capacity to Telecom Argentina S.A.
Trade and miscellaneous payables and other current liabilities	112	58	These refer to payables, for the supply transactions connected with investment and operating activities, to the Italtel Group euro 109 million (euro 54 million at 12/31/2006) and to the Telecom Argentina Group for Tlc activities euro 3 million (euro 4 million at 12/31/2006) of which euro 2 million represents the short-term portion of the deferral relating to the supply of "IRU" transmission capacity to Telecom Argentina S.A.

The following table presents the major economic, balance sheet and financial transactions and balances between companies consolidated line-by-line on one hand and parties related to Telecom Italia S.p.A. through Directors, Statutory Auditors and Managers with strategic responsibilities of the company on the other.

(millions of euro)	1st Half 2007	1st Half 2006	
Revenues	18	9	These refer to: (i) telecommunications services, information systems and computer services for assistance and consulting regarding economic analyses and sector studies to the Pirelli Group euro 4 million (euro 5 million in the first half of 2006); (ii) telecommunications services to the Edizione Holding Group euro 4 million (euro 3 million in the first half of 2006), to the Generali Group euro 4 million, to the Eni Group euro 2 million, to the Merloni Group euro 2 million, to related companies through Mr. Moratti euro 1 million (euro 1 million in the first half of 2006) and to Mediobanca euro 1 million.
Purchases of materials and external services	35	52	These refer to R&D expenditures, purchases of ADSL modems and equipment, consulting and services regarding intellectual property rights and real estate activities from the Pirelli Group euro 18 million (euro 40 million in the first half of 2006), sponsorship and content provider costs from F.C. Internazionale Milano S.p.A. – a related company through Mr. Moratti, euro 2 million (euro 1 million in the first half of 2006), sponsorships and commissions paid for the sale of prepaid telephone cards to Autogrill S.p.A (Edizione Holding Group) euro 1 million (euro 1 million in the first half of 2006), supply of energy by Camfin S.p.A. euro 1 million (euro 1 million in the first half of 2006), supply of fuel by the Eni Group euro 8 million and insurance premiums paid to the Generali Group euro 5 million. In the first half of 2006 there were also Document Management services from Telepost euro 9 million, no longer a related party.
Financial income	6	–	These refer income from derivative contracts with Mediobanca.
Financial expenses	9	–	These refer expenses on derivative contracts with Mediobanca.
Capital expenditures in tangible and intangible assets	51	41	These basically refer to purchases of ADSL modems and equipment from the Pirelli Group.

(millions of euro)	6/30/2007	12/31/2006	
Trade and miscellaneous receivables and other current assets	24	5	These mainly refer to the above-mentioned services for revenues from sales and services from the Pirelli Group euro 3 million (euro 3 million at 12/31/2006), to the Edizione Holding Group euro 3 million (euro 1 million at 12/31/2006), to the Generali Group euro 14 million, to the Eni Group euro 1 million and to the Merloni Group euro 2 million.
Securities (current assets)	8	–	These refer to securities issued by Mediobanca.
Financial receivables and other current financial assets	1	–	There refer to fair value hedge derivatives put into place with Mediobanca.
Non-current financial liabilities	177	–	These refer to contracts with Mediobanca: (i) non-current financial payables relating to the Term Loan Facility and Revolving Credit Facility for euro 149 million; (ii) fair value hedge derivatives for euro 28 million.
Current financial liabilities	47	–	These refer to contracts with Mediobanca: (i) current financial payables relating to the Term Loan Facility (partially reimbursed in advance on 7/30/2007) for euro 46 million; (ii) fair value hedge derivatives for euro 1 million.
Trade and miscellaneous payables and other current liabilities	62	27	These mainly refer to payables, for supply transactions connected to the acquisition and the performance of services and investment activities, to the Pirelli Group euro 54 million (euro 20 million at 12/31/2006) and to transactions with the Eni Group euro 8 million. At 12/31/2006 there were payables relating to sponsorship activities from F.C. Internazionale Milano S.p.A. – a related party through Mr. Moratti, paid in the first half of 2007, euro 2 million and costs for Document Management services by Telepost euro 4 million, no longer a related party.

Moreover, it should be noted that the contract with the Generali group signed on June 8, 2007 relating to the design of the new telecommunications network of the insurance group in Europe had no economic or financial impact on related party transactions during the first half of 2007.

The following table presents the major economic, balance sheet and financial transactions and balances between companies consolidated line-by-line on one hand and pension funds for employees of the companies of the Telecom Italia Group on the other.

(millions of euro)	1st Half 2007	1st Half 2006	
Personnel costs	14	12	These refer to the contribution made to pension funds of which euro 9 million for Telemaco (euro 8 million in the first half of 2006), euro 3 million for Fontedir (euro 3 million in the first half of 2006) and euro 2 million for other Italian and foreign pension funds (euro 1 million in the first half of 2006).

(millions of euro)	6/30/2007	12/31/2006	
Trade and miscellaneous payables and other current liabilities	26	20	These refer to contributions payable to pension funds of which euro 19 million for Telemaco (euro 15 million at 12/31/2006), euro 5 million for Fontedir (euro 4 million at 12/31/2006) and euro 2 million for other Italian and foreign pension funds (euro 1 million at 12/31/2006).

The following is a brief description of the contents of the main contracts between the Telecom Italia Group and associates, jointly controlled companies, companies controlled by associates, companies controlled by companies subject to joint control and related parties through Directors, Statutory Auditors and Managers with strategic responsibilities and the pension funds for employees of the Group companies.

Contracts with:

Aree Urbane S.r.l.

Revenue related

These refer to a medium/long-term loan made and regulated by the shareholders' agreements.

Baltea S.p.A

Expense related

The contracts refer to purchases of accessories and consumable stores for Olivetti S.p.A. photocopiers destined for resale.

ETECSA

Revenue related

The main contracts relate to:

- Telecom Italia Sparkle S.p.A. data traffic;
- technical assistance supplied by Telecom Italia S.p.A.;
- recovery of costs for off-site personnel.

Expense related

The main contracts relate to roaming traffic originated by Telecom Italia customers on the ETECSA network.

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, rendering online services available to all the regional health structures, by supplying:

- cards with microchips for all citizens and health operators in Lombardy;
- outsourcing services for the management of the Internet Data Center and hardware and software systems;
- professional and applications consulting for the implementation and management of the system.

Luna Rossa Challenge 2007 S.L.

Revenue related

The main contracts cover the supply of telephone, data transmission services and infrastructures.

Expense related
The main contracts refer to the sponsorship of the Luna Rossa sailboat during the XXXII America's Cup. According to these contracts, Telecom Italia Group has become the Main Sponsor of Luna Rossa and Partner and Official Sponsor of the race. It also acquired the sublicense rights on the "Luna Rossa" trademark for certain categories of goods.

NordCom S.p.A.

Revenue related
The main contracts refer to the supply of data network connections and software applications.
Expense related
The contract refers to the development of systems and computer solutions.

Shared Service Center S.c.a.r.l.

Revenue related
The main contracts refer to:
- the supply of telephone, data transmission services and information systems and computer services;
- the operation and maintenance of the client's software applications at the Telecom Italia S.p.A. data center;
- the recovery of costs of centralized expenses.

Expense related
The main contracts refer to:
- the supply of computer and information services relating to:
  - design, implementation, release, operation and management of portals, institutional sites, SAP and dedicated solutions;
  - SAP application maintenance and service management services;
- lease of a building.

Teleleasing S.p.A.

Revenue related
The contracts relate to the application of the cooperation agreement signed in 2000. By virtue of this agreement, Telecom Italia assigned Teleleasing the role of financial partner for its commercial offerings to customers purchasing by lease instead of by outright purchase. Telecom Italia sells the equipment to Teleleasing which, in turn, signs the lease contract with the customer; Telecom Italia sees to the collection of the lease payments after having acquired the rights.
Expense related
The main contracts refer both to the finance lease of telephone systems to Telecom Italia and its subsidiaries and the finance lease of a building.

Telbios S.p.A.

Revenue related
The main contracts cover the supply of telephone services, the sale of video-communication equipment and services rendered for activities directed towards specific projects.
Expense related
The main contracts refer to the supply of services, products and hardware systems and software for the remote medicine offering.

Tiglio I S.r.l.

Revenue related
The main contracts call for the supply of telephone services.
Expense related
The main contracts refer to:
- the lease of buildings (also premises housing telecommunications equipment) with an expiration date in 2021 and the possibility of tacit renewal, unless notice of termination is given by Telecom Italia S.p.A., for successive periods of six years, at the same terms and conditions as originally agreed;
- the lease of buildings solely for office use, for standard lease periods.

Tiglio II S.r.l.

Expense related

The main contracts refer to:

- the lease of buildings (also premises housing telecommunications equipment) with an expiration date in 2021 and the possibility of tacit renewal, unless notice of termination is given, by Telecom Italia for successive periods of six years, at the same terms and conditions as originally agreed;
- the lease of buildings solely for office use, for standard lease periods.

* * *

Telecom Argentina Group

Revenue related

The main contracts refer to technical assistance provided by Telecom Italia for broadband development and for the study and implementation of Value Added Services, as well as data transmission and voice services and the supply of "IRU" transmission capacity by Telecom Italia Sparkle S.p.A..

Expense related

The main contracts relate to international telecommunications services and roaming.

Italtel Group

Revenue related

The main contracts provide for the supply of telephone, data transmission services and sale of LAN and MAN networks.

Expense related

The main contracts provide for the supply and maintenance of traditional switching and innovative switching (VoIP) equipment and the relative services, as well as the supply of innovative devices and their maintenance for the data networks using CISCO technology.

* * *

Camfin S.p.A.

Revenue related

The main contracts refer to the supply of telephone and data transmission services.

Expense related

The contract refers to the supply of gas with the company Cam Gas S.p.A..

Edizione Holding Group

Revenue related

The main contracts provide for the supply of telephone and data transmission services that are operated by outsourcing with dedicated assistance.

Expense related

The main contracts refer to sponsorship of sports events, commissions paid to Autogrill S.p.A. for the sale of prepaid telephone cards, occupancy charges for the public telephones located at their structures.

Eni Group

Revenue related

The main contracts provide for the supply of telephone and data transmission services.

Expense related

The main contracts provide for the supply of gas for heating and fuel for motor vehicles.

F.C. Internazionale Milano S.p.A.

Revenue related

The main contracts call for the supply of telephone and data transmission services.

Expense related

The main contracts refer to costs for the sponsorship and the rights to diffuse content regarding the sports events of the soccer company F.C. Internazionale Milano (Inter) by Telecom Italia. The sponsorship contract particularly provides for the possibility of using the Inter brand and logo for all advertising activities and the sale of mobile telephone products, the participation of Inter in the Trofeo TIM and the visibility of the TIM brand during the Inter championship and Coppa Italia/TIM Cup games at home.

Generali Group
Revenue related
The main contracts provide for the supply of services for fixed and mobile telecommunications and data transmission among agencies and high-speed connections between offices and outsourcing of the relative services.
Expense related
The main contracts refer to:
- insurance polices to cover company risks;
- property leases through Società Generali Properties S.p.A..

Mediobanca Group
Revenue related
The main contracts refer to:
- bonds issued by Mediobanca subscribed to by companies of the Telecom Italia Group and fair value hedging derivatives relating to hedged items included in current assets of a financial nature;
- supply of telephone services, data network outsourcing, video-surveillance and data network expansion at the branches.

Expense related
The contracts refer to the following:
- Term Loan Facility and Revolving Credit Facility where Mediobanca is one of the Initial Mandated Lead Arrangers and Bookrunners;
- Fair value hedging derivatives relating to CCIRS on Telecom Italia Capital S.A. bonds for USD 1,000 million, 4%, maturing November 15, 2008.

Merloni Group
Revenue related
The main contracts provide for the supply of telephone, data transmission services and housing services.

Pirelli & C. S.p.A.
Revenue related
The contracts refer to:
- assistance and consulting services rendered for economic analyses and sector studies
  The purpose of this contract is the performance of assistance and consulting services for economic analyses and sector studies by Telecom Italia on behalf of Pirelli.
- supply of telecommunications services

Expense related
The main contracts with Pirelli & C. and its wholly-owned subsidiaries, Pirelli Broadband Solutions S.p.A. and Pirelli Labs S.p.A., refer to the following:
- Contract for consulting and services for patent rights
  The contract refers to:
  - consulting and end-to-end services regarding patent rights and trademarks;
  - defining strategies regarding patent rights;
  - litigation and analyses of patents of the competition;
  - management of a database for patent data and relative reports;
  - training of technicians.

  During the first quarter, a mutual resolution of the relationship was agreed starting from April 1, 2007 and continuing to the end of the year (natural expiration date of the contract) for certain initiatives.
- Contract for research and development
  The contract, signed in 2002, covers research projects and product development projects, but differently:
  - Research projects
    The contract provides:
    1. with regard to the results of research for which patents are not filed, three areas of competence which have been identified as follows:
       - simple and complex devices, competence of Pirelli;
       - networks and services, competence of Telecom Italia S.p.A.;
       - subsystems, joint competence of Telecom Italia S.p.A. - Pirelli.

2. with regard to patents resulting from research, ownership is joint, with the understanding that each party must give the other a license on the respective portion of ownership according to the following format:
   - Pirelli grants Telecom Italia S.p.A. an exclusive license which can be sublicensed for patents for use in the "Networks and Services" area;
   - Telecom Italia S.p.A. grants Pirelli an exclusive license which can be sublicensed for patents for use in the "Devices" area.

   Each of the parties is required to pay the other party 50% of the consideration from any sublicenses granted. Furthermore, Pirelli is obliged to sell to Telecom Italia and the companies it controls, under an exclusive arrangement, any optical devices for telecommunications that use patents deriving from the research projects, for a period of one year from the completion of the single project.
   However, the parties may agree upon alternative solutions which ensure a similar or substitute advantage to Telecom Italia.

- Product development projects
  The main points of the new contract are as follows:
  - at the start of every project, the activities are planned, the requisites of the anticipated product and the increase in value from the relative development are agreed, in addition to a target price for the product under development;
  - as the project progress, if the product under development is no longer of interest to Telecom Italia due to changes in market conditions or technology, Telecom Italia may discontinue the project at pre-set times;
  - Telecom Italia shall acquire exclusive ownership of the rights to the outcome of the projects and, should it decide to buy the product, will assign Pirelli the first lot supplied.

- <u>Contract for the supply of apparatus</u>
  These contracts call for the supply or user apparatus for network access and broadband services.
- <u>Cooperation contract concerning joint initiatives</u>
  Under this contract, Pirelli is working on two research projects for Telecom Italia: one relating to the "Photovoltaic and energy consumption measurement systems" and the second to "Third-generation poles for the fixed network". The agreements generally state that Telecom Italia S.p.A. is entitled to ownership of the rights to the intellectual properties deriving from the work established in the contracts where they are: a) exclusively applicable to telecommunications networks and/or telecommunications services or components of telecommunications networks which technical appendices of the projects identify as their specific objective and b) characterized by the inclusion of specific chemical compositions and/or treatments using specific chemical processes. The license granted to Telecom Italia, with regard to the results obtained during the course of the activities conducted under the above two projects mentioned, is at no charge.

Pirelli & C. Real Estate S.p.A.

Revenue related
The contracts provide for the supply of call center services, data transmission services, building leases and electrical energy.

Expense related
The contracts refer to project management (development of real estate projects), property management (administrative management of lease contracts) and agency services (commercial management of owned and leased buildings), supply of electrical/thermal energy and total facility management (maintenance and operation of plants, security and cleaning services).

Furthermore, Pirelli & C. Real Estate has a 35% stake in the capital of the companies which hold the closed-end real estate investment funds Raissa and Spazio Industriale (to which properties were contributed as part of the real estate transaction approved by the Board of Directors on December 21, 2005) and holds control of the management companies (Pirelli & C. Real Estate SGR and Pirelli & C. Real Estate SGR Opportunities) of the above real estate funds.

* * *

Pension funds

Transactions regarding supplementary pension funds refer to:

- payment of contributions both by the employer and the employee (including the portion of employee severance indemnities);
- supply of personal information records of the associated employees with the relative contribution details.

* * *

Compensation to managers with strategic responsibilities

Managers with strategic responsibilities, that is, those who have the power and responsibility, directly or indirectly, for the planning, direction and control of the operations of Telecom Italia, including directors, are the following:

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

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

The total compensation recorded for the period by Telecom Italia S.p.A. or by companies controlled by the Group in respect of managers with key responsibilities amounts to euro 13 million (euro 12 million in the first half of 2006) divided as follows:

(millions of euro)	1st Half 2007	1st Half 2006
Short-term compensation	10 (*)	9 (**)
Long-term compensation	3 (**)	3
	13	**12**

(*) of which euro 0.4 million accounted for by the subsidiary TI Media S.p.A.
(**) of which euro 0.2 million accounted for by the subsidiary TI Media S.p.A.

Note 26 - Stock Option Plans of the Telecom Italia Group

Telecom Italia S.p.A. Stock Option Plans

Variations in the Telecom Italia S.p.A. stock option plans during the period January 1, to June 30, 2007 are presented below.

- "Stock Option Plan 2000"
  At December 31, 2006 and at June 30, 2007, 5,349,998 options of the Stock Option Plan 2000 were outstanding and corresponded to 17,659,608 equivalent options, at an exercise price of euro 4.185259 per equivalent option.
  At December 31, 2006 and at June 30, 2007, the market price of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

- "Stock Option Plan 2001"
  At December 31, 2006, 31,847,500 options of the Stock Option Plan 2001 were outstanding and corresponded to 105,123,871 equivalent options, at an exercise price equal to euro 3.177343 per equivalent option. Between January 1, and April 15, 2007, the rights to 25,000 options lapsed due to the termination of employment.
  On April 15, 2007, the terms for exercising the first lot of the Stock Option Plan 2001 expired and, therefore, since the second lot was already forfeit because the performance target was not met, all the rights are forfeit.
  The plan is consequently expired.

- "Stock Option Plan 2002 Top"
  At December 31, 2006, 9,480,001.33 options of Stock Option Plan 2002 Top were outstanding and correspondeded to 31,292,243 equivalent options. During the first half of 2007, the rights to 1,600,000 options lapsed due to the termination of employment.
  At June 30, 2007, 7,880,001.33 options are outstanding and correspond to 26,010,852 equivalent options, at an exercise price equal to euro 2.788052 per equivalent option.
  At December 31, 2006 and at June 30, 2007, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

- "Stock Option Plan 2002"
  1. March 2002 grant
     At December 31, 2006, 15,801,053.50 options granted in March 2002 were outstanding and corresponded to 52,156,879 equivalent options. During the first half of 2007, 754,500 options lapsed due to the termination of employment. At June 30, 2007, 15,046,553.50 options are outstanding and correspond to 49,666,390 equivalent options, at an exercise price equal to euro 2.928015 per equivalent option.
     At December 31, 2006 and at June 30, 2007, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.
  2. August 2002 grant
     At December 31, 2006 and at June 30, 2007, 670,000.43 options granted in August 2002 were outstanding and corresponded to 2,211,577 equivalent options, at an exercise price equal to euro 2.409061 per equivalent option.
     At December 31, 2006 and at June 30, 2007, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

Variations in the stock option plans, at one time awarded by TIM (pre-merger with Telecom Italia S.p.A.), during the period December 31, 2006 to June 30, 2007 are described below.

- "Stock Option Plans 2000-2002"
  At December 31, 2006, 9,795,656 options of the Stock Option Plans 2000-2002 were outstanding and corresponded to 16,946,391 equivalent options. During the first half of 2007 the rights to 46,666 options lapsed due to the termination of employment.
  At June 30, 2007, 9,748,990 options are outstanding and correspond to 16,865,659 equivalent options, at an exercise price equal to euro 3.710983 per equivalent option.
  At December 31, 2006 and at June 30, 2007, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

- "Stock Option Plans 2002-2003"
  At December 31, 2006, 17,395,000 options of the Stock Option Plans 2002-2003 were outstanding and corresponded to 30,093,350 equivalent options. During the first half of 2007, the rights to 295,000 options lapsed due to the termination of employment.
  At June 30, 2007, 17,100,000 options are outstanding and correspond to 29,583,000 equivalent options, at an exercise price equal to euro 3.277457 per equivalent option.
  At December 31, 2006 and at June 30, 2007, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

- "Stock Option Plans 2003-2005"
  At December 31, 2006 and at June 30, 2007, 1,685,900 options of the Stock Option Plans 2003-2005 were outstanding and corresponded to 2,916,605 equivalent options, at an exercise price equal to euro 2.930636 per equivalent option.
  At December 31, 2006 and at June 30, 2007, the market value of Telecom Italia ordinary shares was lower than the exercise price per equivalent option.

Variations in all the Telecom Italia stock option plans during the period December 31, 2006 to June 30, 2007 are described below (including plans awarded by TIM S.p.A.).

	Number of equivalent options	**Weighted average price per equivalent option** (euro)
Options outstanding at December 31, 2006	**258,400,524**	**3.19**
Lapsed (1)	(8,445,483)	2.87
Expired and forfeited (2)	(105,041,350)	3.18
Options outstanding at June 30, 2007	**144,913,691**	**3.21**

(1) These equivalent options lapsed since they could no longer be exercised as a result of the termination of employment and/or other reasons (e.g. relinquished by the interested party).
(2) These equivalent options expired since they were not exercised during the stated period.

The following tables present, with reference to the Telecom Italia stock option plans outstanding at June 30, 2007 and at December 31, 2006, grouped by the range of exercise price, the residual weighted average life and the weighted average grant price of the equivalent options:

	Equivalent options outstanding at June 30, 2007			**Equivalent options exercisable at June 30, 2007**	
Range of grant price (euro)	**Equivalent options**	**Residual weighted average life** (years)	**Weighted average grant price** (euro)	**Equivalent options**	**Weighted average grant price** (euro)
2.41	2,211,577	1.78	2.41	2,211,577	2.41
2.78 - 2.94	78,593,847	1.83	2.88	78,593,847	2.88
3.28 - 3.72	46,448,659	1.51	3.43	46,448,659	3.43
4.18	17,659,608	0.01	4.18	17,659,608	4.18
	144,913,691			**144,913,691**	

	Equivalent options outstanding at December 31, 2006			**Equivalent options exercisable at December 31, 2006**	
Range of grant price (euro)	**Equivalent options**	**Residual weighted average life** (years)	**Weighted average grant price** (euro)	**Equivalent options**	**Weighted average grant price** (euro)
2.41	2,211,577	2.27	2.41	2,211,577	2.41
2.78 - 2.94	86,365,727	2.34	2.88	86,365,727	2.88
3.17 - 3.72	152,163,612	0.82	3.26	152,163,612	3.26
4.18 - 5.01	17,659,608	0.50	4.19	17,659,608	4.19
	258,400,524			**258,400,524**	

Telecom Italia Media S.p.A. Stock Option Plans

Variations in the Telecom Italia Media S.p.A. stock option plans during the period January 1, to June 30, 2007 are presented below.

- "Key People Plan"
  At December 31, 2006 and at June 30, 2007, 2,250,000 options were outstanding at an exercise price of euro 0.8532 per option.
  At December 31, 2006 and at June 30, 2007, the market price of Telecom Italia Media ordinary shares was lower than the exercise price.
- "Plan 2005"
  At December 31, 2006 and at June 30, 2007, 17,282,330 options were outstanding at an exercise price of euro 0.3826 per option.
  At December 31, 2006 and at June 30, 2007, the market price of Telecom Italia Media ordinary shares was lower than the exercise price.

Note 27 - Significant non-recurring events and transactions

Details of non-recurring items

The effect of non-recurring events and transactions on Equity and Net Financial Debt at June 30, 2007 and on Net Income and Cash Flows for the first half of 2007 of the Telecom Italia Group is set out below in accordance with Consob Communication DEM/6064293 dated July 28, 2006.

(millions of euro)		Equity	Net income for the period	Net financial debt	Cash flows (*)
Amount - interim financial statements	**(A)**	**26,101**	**1,502**	**39,175**	**(3,563)**
Antitrust fine accrual		(20)	(20)	–	–
Gains on properties		8	8	–	–
Other gains		1	1	(3)	3
Total effects - excluding effect of discontinued operations	**(B)**	**(11)**	**(11)**	**(3)**	**3**
Effect of discontinued operations/assets held for sale	**(C)**	**(4)**	**(4)**	**–**	**–**
Figurative amount - interim financial statements	**(A-B-C)**	**26,116**	**1,517**	**39,178**	**(3,566)**

(*) Cash flows refer to the increase (decrease) in cash and cash equivalents during the period.

The impact of non-recurring transactions on the individual lines of the statement of income is as follows:

(millions of euro)	1st Half 2007 (a)	1st Half 2006 (b)	Change (a - b)
Purchases of materials and external services, Other operating expenses:			
Corporate reorganization costs	–	(9)	9
Industrial reconversion costs	–	(5)	5
Provision for risk regarding Antitrust fine	(20)	–	(20)
Impact on EBITDA	**(20)**	**(14)**	**(6)**
Gains (losses) realized on disposals of non-current assets:			
Gains on sale of properties	10	123	(113)
Gain on sale of Ruf Gestion	–	27	(27)
Impairment reversals (losses) of non-current assets:			
Writedown of the investment in Telecom Italia Learning Services	–	(25)	25
Impact on EBIT	**(10)**	**111**	**(121)**
Financial income (expenses):			
Release of Avea I.H.A.S. provisions	–	17	(17)
Gain on sale of Neuf Télécom	–	110	(110)
Other gains	1	–	1
Impact on income from continuing operations before taxes	**(9)**	**238**	**(247)**
Income taxes	(2)	(43)	41
Discontinued operations	(4)	31	(35)
Impact on net income for the period	**(15)**	**226**	**(241)**

Note 28 - Positions or transactions deriving from atypical and/or unusual transactions

In accordance with Consob Communication dated July 28, 2006, a statement is made to the effect that in the first half of 2007 there were no atypical and/or unusual transactions, as defined by the Communication.

Note 29 - Other information

a) Exchange rates used to translate foreign currency financial statements (1)

		Period-end exchange rates (balance sheet)		Average exchange rates for the period (statement of income)	
(local currency units per euro 1)		6/30/2007	12/31/2006	1st Half 2007	1st Half 2006
Europe					
CHF	Swiss franc	1.65530	1.60690	1.63185	1.56121
GBP	Pound sterling	0.67400	0.67150	0.67478	0.68705
TRY	Turkish lira (*)	1.75850	1.85150	1.81830	1.70700
North America					
CAD	Canadian dollar	1.42450	1.52810	1.50842	1.39989
USD	U.S. dollar	1.35050	1.31700	1.32944	1.22966
Latin America					
VEB	Venezuelan bolivar	2,903.57500	2,831.55000	2,858.29600	2,643.76900
BOB	Bolivian boliviano	10.56091	10.45698	10.54273	9.77486
PEN	Peruvian nuevo sol	4.27703	4.20782	4.22759	4.07496
ARS	Argentinean peso	4.17710	4.03265	4.10782	3.77047
CLP	Chilean peso	711.57845	701.30250	709.05585	648.10767
COP	Colombian peso	2,646.98000	2,948.10450	2,818.13421	2,892.30484
MXN	Mexican peso	14.56919	14.26970	14.55307	13.38926
BRL	Brazilian real	2.60133	2.81575	2.71896	2.69628
Other countries					
HKD	Hong Kong dollar	10.55690	10.24090	10.38598	9.53982
SGD	Singapore dollar	2.06640	2.02020	2.03155	1.97692
ILS	Israeli shekel	5.73058	5.54786	5.51534	5.63718
JPY	Japanese yen	166.63000	156.93000	159.62760	142.16570

(1) Source: data processed by the Central European Bank, Reuters and major Central Banks.

Note 30 - Events subsequent to june 30, 2007

Capitalia

In July, August and September 2007, another 7,488,669 shares of Capitalia were sold with a consequent reduction in net financial debt of euro 55 million and a positive effect on the net income attributable to the equity holders of the Parent of euro 27 million, net of income taxes on the gain (euro 1 million).

Sale of Oger Telecom to Saudi Oger

On July 3, 2007, the sale to Saudi Oger of the stake in Oger Telecom (10.36%) held by the subsidiary TIM International was executed. The total price was USD 477 million.

Additional details are provided in the note “Discontinued operations/assets held for sale”.

Agreement for the sale of Solpart Participações

On July 18, 2007, an agreement was reached for the sale of Solpart Participações for consideration of USD 515 million.

The deal, using the exchange rates as of the date of the agreement, will give rise to a reduction in the net financial debt of euro 354 million and have a positive impact on the net income of the Group of euro 195 million.

Additional details are provided in the note “Discontinued operations/assets held for sale”.

Note 31 - List of companies of the Telecom Italia Group

In accordance with Consob Resolution 11971 dated May 14, 1999, as amended, and Consob Communication DEM/6064293 dated July 28, 2006, the list of companies and significant investments held by the Group is provided herein.

The list is divided by type of investment, consolidation method and business segment.

The following is indicated for each company: name, head office, country, the share capital in the original currency, in addition to the percentage holding of share capital, the percentage of voting rights in the ordinary shareholders' meeting if different than the percentage holding of share capital, and which companies hold the investment.

LIST OF COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS

Name		Currency	Share Capital	% Ownership	% of voting rights	Held by
Domestic						
ELETTRA TLC S.p.A. (services rendered in connectionwith submarine cable systems for telecommunications)	ROME (ITALY)	EUR	10,329,200	70.0000		TELECOM ITALIA SPARKLE LUXEMBOURG S.A.
I.T. TELECOM S.r.l. (other softwfare development and software consulting)	POMEZIA (ROME) (ITALY)	EUR	7,000,000	100.0000		TELECOM ITALIA S.p.A.
LATIN AMERICAN NAUTILUS ARGENTINA S.A. (installation and maintenance of submarine cable systems)	BUENOS AIRES (ARGENTINA)	ARS	9,998,000	95.0000 5.0000		LATIN AMERICAN NAUTILUS Ltd TELECOM ITALIA SPARKLE LUXEMBOURG S.A.
LATIN AMERICAN NAUTILUS BOLIVIA S.r.l. (installation and maintenance of submarine cable systems)	LA PAZ (BOLIVIA)	BOB	6,730,600	99.9985 0.0015		LATIN AMERICAN NAUTILUS Ltd LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS BRASIL Ltda (installation and maintenance of submarine cable systems)	RIO DE JANEIRO (BRAZIL)	BRL	6,850,598	99.9999 0.0001		LATIN AMERICAN NAUTILUS BRASIL PARTICIPACOES Ltda LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS BRASIL PARTICIPAÇÕES Ltda (holding di partecipazioni)	RIO DE JANEIRO (BRAZIL)	BRL	8,844,866	100.0000		LATIN AMERICAN NAUTILUS Ltd
LATIN AMERICAN NAUTILUS CHILE S.A. (installation and maintenance of submarine cable systems)	SANTIAGO (CHILE)	CLP	9,264,912,315	100.0000		LATIN AMERICAN NAUTILUS Ltd

(following) **List of companies consolidated on a line-by-line basis**

Name		Currency	Share Capital	% Ownership	% of voting rights	Held by
LATIN AMERICAN NAUTILUS COLOMBIA Ltda (installation and maintenance of submarine cable systems)	BOGOTÀ (COLOMBIA)	COP	240,225,000	99.9996		LATIN AMERICAN NAUTILUS Ltd
LATIN AMERICAN NAUTILUS Ltd (installation and maintenance of submarine cable systems)	DUBLINO (IRELAND)	USD	1,000,000	100.0000		TELECOM ITALIA SPARKLE LUXEMBOURG S.A.
LATIN AMERICAN NAUTILUS MEXICO S.A. (installation and maintenance of submarine cable systems)	MEXICO, D.F. (MEXICO)	MXN	100,000	99.9900 0.0100		LATIN AMERICAN NAUTILUS Ltd LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS PANAMA S.A. (installation and maintenance of submarine cable systems)	PANAMA	USD	10,000	100.0000		LATIN AMERICAN NAUTILUS Ltd
LATIN AMERICAN NAUTILUS PERÙ S.A. (installation and maintenance of submarine cable systems)	LIMA (PERÙ)	PEN	56,704,995	100.0000		LATIN AMERICAN NAUTILUS Ltd
LATIN AMERICAN NAUTILUS SERVICE Inc. (installation and maintenance of submarine cable systems)	FLORIDA (USA)	USD	10,000	100.0000		LATIN AMERICAN NAUTILUS USA Inc.
LATIN AMERICAN NAUTILUS St. Croix LLC (installation and maintenance of submarine cable systems)	VIRGIN ISLANDS (USA)	USD	10,000	100.0000		LATIN AMERICAN NAUTILUS Ltd
LATIN AMERICAN NAUTILUS USA Inc. (installation and maintenance of submarine cable systems)	FLORIDA (USA)	USD	20,000	100.0000		LATIN AMERICAN NAUTILUS Ltd
LATIN AMERICAN NAUTILUS VENEZUELA C.A. (installation and maintenance of submarine cable systems)	CARACAS (VENEZUELA)	VEB	51,709,000	100.0000		LATIN AMERICAN NAUTILUS Ltd
LOQUENDO SOCIETÀ PER AZIONI (research, development and marketing of technologies and	TURIN (ITALY)	EUR	3,573,741	99.9846		TELECOM ITALIA S.p.A.
MATRIX S.p.A. (Internet services)	MILAN (ITALY)	EUR	1,100,000	100.0000		TELECOM ITALIA S.p.A.
MED-1 (NETHERLANDS) B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	18,200	100.0000		MED-1 SUBMARINE CABLES Ltd
MED-1 ITALY S.r.l. (installation and management submarine cable systems in Italian seas)	ROME (ITALY)	EUR	548,477	100.0000		MED-1 (NETHERLANDS) B.V.
MED-1 SUBMARINE CABLES Ltd (installation and management of cable Lev)	RAMAT GAN (ISRAEL)	ILS	55,886,866	99.9123		TELECOM ITALIA SPARKLE S.p.A.
MEDITERRANEAN NAUTILUS B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	18,003	100.0000		MEDITERRANEAN NAUTILUS Ltd
MEDITERRANEAN NAUTILUS GREECE Ltd (installation and maintenance of submarine cable systems)	ATENE (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)	RAMAT GAN (ISRAEL)	ILS	1,000	100.0000		MEDITERRANEAN NAUTILUS B.V.
MEDITERRANEAN NAUTILUS ITALY S.p.A. (installation and maintenance of submarine cable systems)	ROME (ITALY)	EUR	3,100,000	100.0000		MEDITERRANEAN NAUTILUS B.V.
MEDITERRANEAN NAUTILUS Ltd (installation and management of submarine cable systems)	DUBLINO (IRELAND)	USD	153,259	100.0000		TELECOM ITALIA SPARKLE LUXEMBOURG S.A.
MEDITERRANEAN NAUTILUS TELEKOMÜNIKASYON HIZMETLERI TICARET ANONIM SIRKETI (telecommunications services)	ISTANBUL (TURCHIA)	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
OLIVETTI MULTISERVICES S.p.A. (real estate management)	MILAN (ITALY)	EUR	20,337,161	100.0000		TELECOM ITALIA S.p.A.
PATH.NET S.p.A. (networking systems and telecommunications)	ROME (ITALY)	EUR	25,800,000	100.0000		TELECOM ITALIA S.p.A.
PROGETTO ITALIA S.p.A. (development and improvement of the Telecom Italia brand)	MILAN (ITALY)	EUR	1,000,000	100.0000		TELECOM ITALIA S.p.A.
TECNOSERVIZI MOBILI S.r.l. (management of movable assets)	ROME (ITALY)	EUR	26,000	51.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA AUDIT AND COMPLIANCE SERVICES Scarl (internal auditing for the Telecom Italia Group)	MILAN (ITALY)	EUR	2,750,000	81.8182 18.1818		TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
TELECOM ITALIA NETHERLANDS B.V. (telecommunications services)	AMSTERDAM (HOLLAND)	EUR	18,200	100.0000		TELECOM ITALIA SPARKLE S.p.A.

(following) **List of companies consolidated on a line-by-line basis**

Name		Currency	Share Capital	% Ownership	% of voting rights	Held by
TELECOM ITALIA SAN MARINO S.p.A. (telecommunications services in San Marino)	FALCIANO (REP. OF S. MARINO)	EUR	1,808,000	99.9999 0.0001		TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA S.p.A.
TELECOM ITALIA SPAIN SL UNIPERSONAL (telecommunications services)	MADRID (SPAIN)	EUR	2,003,096	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE LUXEMBOURG S.A. (holding company)	LUXEMBOURG (LUXEMBOURG)	EUR	41,625,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE OF NORTH AMERICA, Inc. (telecommunications and promotional services)	NEW YORK (USA)	USD	15,550,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TELECOM ITALIA SPARKLE S.p.A. (public and private telecommunication services management)	ROME (ITALY)	EUR	200,000,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA SPARKLE SINGAPORE PTE Ltd (telecommunications services)	SINGAPORE	USD	500,000	99.9998 0.0002		TELECOM ITALIA SPARKLE S.p.A. TELECOM ITALIA SPARKLE OF NORTH AMERICA, Inc.
TELECONTACT CENTER S.p.A. (telemarketing services)	NAPOLI (ITALY)	EUR	770,000	100.0000		TELECOM ITALIA S.p.A.
TELEFONIA MOBILE SAMMARINESE S.p.A. (mobile telephony services)	SAN MARINO (REP. OF S. MARINO)	EUR	78,000	51.0000		TELECOM ITALIA SAN MARINO S.p.A.
TELEMEDIA INTERNATIONAL USA Inc. (telecommunications services)	NEW JERSEY (USA)	USD	154,022,889	100.0000		TMI - TELEMEDIA INTERNATIONAL Ltd
TELENERGIA S.r.l. (import, export, purchase, sale and exchange of electrical energy)	ROME (ITALY)	EUR	50,000	100.0000		TELECOM ITALIA S.p.A.
TELSY ELETTRONICA E TELECOMUNICAZIONI S.p.A. (manufacturing and sale of systems for encrypted telecommunications)	TURIN (ITALY)	EUR	390,000	100.0000		TELECOM ITALIA S.p.A.
THINX-SM TELEHOUSE INTERNET EXCHANGE S.r.l. (housing e hosting)	GUALDICCIOLO (REP. OF S. MARINO)	EUR	25,800	99.0000 1.0000		TELECOM ITALIA SAN MARINO S.p.A. TELECOM ITALIA SPARKLE S.p.A.
TI BELGIUM S.P.R.L. - B.V.B.A (telecommunications services)	BRUXELLES (BELGIUM)	EUR	3,000,000	99.9967		TELECOM ITALIA SPARKLE S.p.A.
TI GERMANY GmbH (telecommunications services)	FRANKFURT (GERMANY)	EUR	25,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TI SWITZERLAND GmbH (telecommunications services)	FRANKFURT (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. (installation and maintenance of telecommunications services for fixed network and relating activities)	PARIS (FRANCE)	EUR	3,295,000	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TMI - TELEMEDIA INTERNATIONAL Ltd (telecommunications services)	LONDON (UK)	EUR	3,983,254	100.0000		TELECOM ITALIA SPARKLE S.p.A.
TMI TELEMEDIA INTERNATIONAL DO BRASIL Ltda (telecommunications services)	SAO PAOLO (BRAZIL)	BRL	2,589,317	100.0000		TMI - TELEMEDIA INTERNATIONAL Ltd
European Broadband						
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.
HANSENET TELEKOMMUNIKATION GmbH (telecommunications services)	AMBURGO (GERMANY)	EUR	91,596,500	100.0000		TELECOM ITALIA DEUTSCHLAND HOLDING GmbH
INTERCALL S.A. (telecommunications services and sale of prepaid phone cards)	PARIS CEDEX 90 (FRANCE)	EUR	807,060	88.6342		LIBERTY SURF GROUP S.A.S.
LIBERTY SURF COMMUNICATIONS Ltd (in liquidation) (internet services)	LONDON (UK)	GBP	1,000	100.0000		LIBERTY SURF NETWORK B.V. (in liquidation)
LIBERTY SURF GROUP S.A.S. (holding company)	PARIS (FRANCE)	EUR	282,559,451	100.0000		TELECOM ITALIA S.p.A.
LIBERTY SURF NETWORK B.V. (in liquidation) (internet services)	AMSTERDAM (HOLLAND)	EUR	20,001	100.0000		LIBERTY SURF GROUP S.A.S.
TELECOM ITALIA DEUTSCHLAND HOLDING GmbH (holding company)	AMBURGO (GERMANY)	EUR	25,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA S.A.S. (Internet access provider)	PARIS CEDEX 90 (FRANCE)	EUR	3,478,234	100.0000		LIBERTY SURF GROUP S.A.S.

(following) **List of companies consolidated on a line-by-line basis**

Name		Currency	Share Capital	% Owner-ship	% of voting rights	Held by
Brazil Mobile						
TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A. (holding company)	RIO DE JANEIRO (BRAZIL)	BRL	6,273,221,437	100.0000		TIM INTERNATIONAL N.V.
TIM CELULAR S.A. (mobile telephony operator)	SAO PAOLO (BRAZIL)	BRL	7,813,899,822	100.0000		TIM PARTICIPAÇÕES S.A.
TIM NORDESTE S.A. (mobile telephony operator)	JABOATÃO DOS GUARARAPES (BRAZIL)	BRL	1,585,220,696	100.0000		TIM CELULAR S.A.
TIM PARTICIPAÇÕES S.A. (holding company)	RIO DE JANEIRO (BRAZIL)	BRL	7,512,709,900	69.6703	81.2059	TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
Media						
BEIGUA S.r.l. (purchase, sale, management and maintenance of installation for the repair and distribution of radio and TV broadcasting)	ROME (ITALY)	EUR	51,480	51.0004		TI MEDIA BROADCASTING S.r.l.
GIALLO VIAGGI. It S.r.l. (in liquidation) (research, design, development, production of information and telematic products for tourism)	MILAN (ITALY)	EUR	10,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
HOLDING MEDIA & COMUNICAZIONE PUBBLICITÀ S.r.l. (in liquidation) (purchase/sale of ad space and management of advertising on radio/TV stations)	ROME (ITALY)	EUR	10,000	100.0000		HOLDING MEDIA E COMUNICAZIONE H.M.C. S.p.A.
HOLDING MEDIA E COMUNICAZIONE H.M.C. S.p.A. (production, marketing on TV and press)	ROME (ITALY)	EUR	5,064,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
MTV ITALIA S.r.l. (services in the field of radio and TV broadcasting, production and sale of radio, TV and cinema programs)	ROME (ITALY)	EUR	12,151,928	51.0000		TELECOM ITALIA MEDIA S.p.A.
MTV PUBBLICITÀ S.r.l. (advertising agency)	MILAN (ITALY)	EUR	10,400	100.0000		MTV ITALIA S.r.l.
SCS COMUNICAZIONE INTEGRATA S.p.A. (in liquidation) (marketing and communication consulting)	ROME	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.
TI MEDIA BROADCASTING S.r.l. (purchase, sale, management and maintenance of installation for the repair and distribution of radio and TV broadcasting)	ROME (ITALY)	EUR	15,000,000	100.0000		TELECOM ITALIA MEDIA S.p.A.
Olivetti						
ADVALSO S.p.A. (planning, production and servicing of telecommunication services and product)	IVREA (TURIN) (ITALY)	EUR	500,000	100.0000		OLIVETTI S.p.A.
CONSORZIO MAEL S.r.l. (participation in bids and competitions held by public and private entities)	IVREA (TURIN) (ITALY)	EUR	20,000	90.0000 10.0000		OLIVETTI S.p.A. TIEMME SISTEMI S.r.l.
DIASPRON DO BRASIL S.A. (in liquidation) (manufacture and export of typewriters and printers)	SAO PAOLO (BRAZIL)	BRL	5,135,417	100.0000		OLIVETTI DO BRASIL S.A.
MULTIDATA S.A. ELETRONICA INDUSTRIA E COMERCIO (in liquidation) (manufacture and export of typewriters and printers)	MANAUS (BRAZIL)	BRL	5,583,350	100.0000		OLIVETTI DO BRASIL S.A.
OLIVETTI ARGENTINA S.A.C.e.I. (in liquidation) (sale and maintenance of office equipment)	BUENOS AIRES (ARGENTINA)	ARS	7,590,000	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI AUSTRIA GmbH (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.

(following) **List of companies consolidated on a line-by-line basis**

Name		Currency	Share Capital	% Owner-ship	% of voting rights	Held by
OLIVETTI COLOMBIANA S.A. (in liquidation) (sale of office and industrial equipment)	BOGOTÀ (COLOMBIA)	COP	2,500,000,000	90.5288 9.4700 0.0001		OLIVETTI INTERNATIONAL B.V. OLIVETTI S.p.A. OLIVETTI CHILE S.A. (in liquidation)
OLIVETTI DE PUERTO RICO, Inc. (office equipment in the United States and Central America)	SAN JUAN ((PUERTO RICO))	USD	1,000	100.0000		OLIVETTI INTERNATIONAL B.V.
OLIVETTI DEUTSCHLAND GmbH (sale of office equipment and holding company)	NURNBERG	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 MEXICANA S.A. (in liquidation)
OLIVETTI ENGINEERING S.A. (product research and development based on ink-jet technology)	YVERDON LES BAINS (SWITZERLAND)	CHF	100,000	100.0000		OLIVETTI I-JET S.p.A.
OLIVETTI ESPANA S.A. (sale and maintenance of office equipment, consulting and telematic network management)	BARCELLONA (SPAIN)	EUR	1,229,309	99.9863		OLIVETTI INTERNATIONAL B.V.
OLIVETTI FRANCE S.A. (sale of office equipment and software)	PUTEAUX (FRANCIA)	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 MEXICANA S.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 UK Ltd. (sale of office equipment)	MILTON KEYNES (UK)	GBP	6,295,712	100.0000		OLIVETTI INTERNATIONAL B.V.
TIEMME SISTEMI S.r.l. (electric, electromechanical, electronic equipment and related systems)	CARSOLI (L'AQUILA) (ITALY)	EUR	1,040,000	100.0000		OLIVETTI S.p.A.
TIESSE S.c.p.A. (installation and assistance for electronic, computer, telematic and telecommunication equipment)	ROME (ITALY)	EUR	103,292	42.0000 19.0000		OLIVETTI S.p.A. TIEMME SISTEMI S.r.l.
TOP SERVICE S.p.A. (electronic diagnostics and repairs of computer products)	MODUGNO (BARI) (ITALY)	EUR	293,618	91.2069		OLIVETTI S.p.A.
Other activities						
ASCAI SERVIZI S.r.l. (in liquidation) (insurance mediation)	ROME (ITALY)	EUR	73,337	64.9599		SAIAT SOCIETÀ ATTIVITÀ INTERMEDIE AUSILIARIE TLC P.A.
DATACOM S.A. (data transmission services)	LA PAZ (BOLIVIA)	BOB	66,938,200	99.9991		ENTEL BOLIVIA
EMSA SERVIZI S.p.A (in liquidation) (real estate services management)	ROME (ITALY)	EUR	5,000,000	100.0000		TELECOM ITALIA S.p.A.
ENTEL S.A. - EMPRESA NACIONAL DE TELECOMUNICACIONES S.A. - ENTEL BOLIVIA (national and international long distance, mobile, local telecommunications services and data trasmission)	LA PAZ (BOLIVIA)	BOB	1,280,898,800	50.0000		ETI - EURO TELECOM INTERNATIONAL N.V.
ETI - EURO TELECOM INTERNATIONAL N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	50,050	100.0000		ICH - INTERNATIONAL COMMUNICATION HOLDING N.V.
ICH - INTERNATIONAL COMMUNICATION HOLDING N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	50,000	100.0000		TELECOM ITALIA INTERNATIONAL N.V.
IRIDIUM ITALIA S.p.A. (in liquidation) (satellite telecommunications services)	ROME (ITALY)	EUR	2,575,000	65.0000		TELECOM ITALIA S.p.A.
NETESI S.p.A. (in liquidation) (telecommunications and multimedia services)	MILAN (ITALY)	EUR	434,715	100.0000		TELECOM ITALIA S.p.A.
O&B COSTRUZIONI GENERALI S.r.l. (in liquidation) (real estate purchases, exchanges and sales)	IVREA (TURIN) (ITALY)	EUR	100,000	50.1000		OLIVETTI MULTISERVICES S.p.A.

(following) **List of companies consolidated on a line-by-line basis**

Name		**Currency**	**Share Capital**	**% Owner-ship**	**% of voting rights**	**Held by**
OFI CONSULTING S.r.l. (administrative consulting)	IVREA (TURIN) (ITALY)	EUR	95,000	100.0000		TELECOM ITALIA S.p.A.
OLIVETTI GESTIONI IVREA S.r.l. (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.
SAIAT SOCIETÀ ATTIVITÀ INTERMEDIE AUSILIARIE TLC P.A. (financing)	TURIN (ITALY)	EUR	35,745,120	100.0000		TELECOM ITALIA S.p.A.
SATURN VENTURE PARTNERS Llc (financing)	DELAWARE (USA)	USD	25,135,647	56.9643 17.8482		TELECOM ITALIA LAB S.A. TELECOM ITALIA S.p.A.
TECO SOFT ARGENTINA S.A. (in liquidation) (design, development and sale of software)	BUENOS AIRES (ARGENTINA)	ARS	12,000	99.9917		TELECOM ITALIA S.p.A.
TELECOM ITALIA AMERICA LATINA S.A. (telecommunications and promotional services)	SAO PAOLO (BRAZIL)	BRL	43,614,072	99.9996		TELECOM ITALIA S.p.A.
TELECOM ITALIA CAPITAL S.A. (financing)	LUXEMBOURG (LUXEMBOURG)	EUR	2,336,000	99.9999 0.0001		TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.
TELECOM ITALIA FINANCE S.A. (financing)	LUXEMBOURG (LUXEMBOURG)	EUR	542,090,241	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA INTERNATIONAL N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	2,399,483,000	100.0000		TELECOM ITALIA S.p.A.
TELECOM ITALIA LAB S.A. (holding company)	LUXEMBOURG (LUXEMBOURG)	EUR	370,005	99.9939 0.0061		TELECOM ITALIA S.p.A. TELECOM ITALIA FINANCE S.A.
TELSI Unlimited (holding company)	LONDON (UK)	GBP	496,661,807	100.0000		TELECOM ITALIA FINANCE S.A.
TIAUDIT LATAM S.A. (internal auditing)	SAO PAOLO (BRAZIL)	BRL	1,500,000 30.0000	69.9996		TELECOM ITALIA AUDIT AND COMPLIANCE SERVICES Scarl TIM BRASIL SERVIÇOS E PARTICIPAÇÕES S.A.
TIM INTERNATIONAL N.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	555,431,000	100.0000		TELECOM ITALIA S.p.A.
TRAINET S.p.A. (in liquidation) (development, operation and sales of teleteaching systems)	ROME (ITALY)	EUR	674,446	100.0000		TELECOM ITALIA S.p.A.

LIST OF COMPANIES ACCOUNTED FOR BY THE EQUITY METHOD

Name		Currency	Share Capital	% Ownership	% of voting rights	Held by
ARCHEO S.p.A. (in liquidation) (services)	BARI (ITALY)	EUR	464,400	25.0000		OFI CONSULTING S.r.l.
AREE URBANE S.r.l. (real estate)	MILAN (ITALY)	EUR	307,717	31.6508 0.9720		TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
ASSCOM INSURANCE BROKERS S.r.l. (insurance mediation)	MILAN (ITALY)	EUR	100,000	20.0000		TELECOM ITALIA S.p.A.
BALTEA S.r.l. (manufacture and sale of office equipment and computer and telecommunications services)	IVREA (TURIN) (ITALY)	EUR	2,220,000	49.0000		OLIVETTI S.p.A.
BROAD BAND SERVICE S.A. (production and sales of multimedia services)	SERRAVALLE (REP. OF S. MARINO)	EUR	258,000	20.0000		TELECOM ITALIA SAN MARINO S.p.A.
CONSORZIO E O (in liquidation) (professional training)	ROMA (ITALY)	EUR	19,107	50.0000		TELECOM ITALIA S.p.A.
CONSORZIO NAUTILUS Scrl (professional training)	ROMA (ITALY)	EUR	30,000	20.0000		MEDITERRANEAN NAUTILUS Ltd
CONSORZIO S.I.A.R.C. (in liquidation) (supply of information products and services)	NAPOLI (ITALY)	EUR	25,821	30.0000		TELECOM ITALIA S.p.A.
CONSORZIO SCUOLA SUPERIORE ALTA FORMAZIONE UNIVERSITARIA FEDERICO II (in liquidation) (professional training)	NAPOLI (ITALY)	EUR	127,500	20.0000		TELECOM ITALIA S.p.A.
CONSORZIO TURISTEL (online tourism services)	ROMA (ITALY)	EUR	77,460	33.3333		TELECOM ITALIA S.p.A.
Empresa de Telecomunicaciones de Cuba S.A. ETEC-SA (telecommunications services)	HAVANA (CUBA)	USD	1,749,313,080	27.0030		TELECOM ITALIA INTERNATIONAL N.V.
IM.SER S.p.A. (real estate management)	TURIN (ITALY)	EUR	367,200	40.0000		TELECOM ITALIA S.p.A.
INTERCALL HELLAS S.A. (telecommunications services and sale of prepaid telephone cards)	ATENE (GREECE)	EUR	496,696	29.4099		INTERCALL S.A.
ITALTEL GROUP S.p.A. (holding company)	MILAN (ITALY)	EUR	115,459,344	19.3733		TELECOM ITALIA FINANCE S.A.
LI.SIT. - LOMBARDIA INTEGRATA SERVIZI INFOTELEMATICI PER IL TERRITORIO S.p.A. (information, TLC services and products for the local public administration)	MILAN (ITALY)	EUR	6,500,000	24.2000		TELECOM ITALIA S.p.A.
LUNA ROSSA CHALLENGE 2007 S.L. (promotion, organization of sailboat races include the America's Cup)	VALENCIA (SPAIN)	EUR	4,000,000	49.0000		TELECOM ITALIA S.p.A.
LUNA ROSSA TRADEMARK SARL (purchase, management, development of intellectual property rights)	LUXEMBOURG (LUXEMBOURG)	EUR	20,000,000	49.0000		TELECOM ITALIA S.p.A.
MIAECONOMIA S.r.l. (publishing in the field of personal finance)	ROMA (ITALY)	EUR	1,000,000	30.0000		MATRIX S.p.A.
MOVENDA S.p.A. (technological platforms for the development of mobile Internet services)	ROMA (ITALY)	EUR	133,333	24.9998		TELECOM ITALIA LAB S.A.
NORDCOM S.p.A. (application service provider)	MILAN (ITALY)	EUR	5,000,000	42.0000		TELECOM ITALIA S.p.A.
OCN-TRADING S.r.l. (in liquidation) (trading company)	IVREA (TURIN) (ITALY)	EUR	40,800	40.0000		TELECOM ITALIA S.p.A.
PERSEO S.r.l. (purchase, sale, exchange, rent, administration, maintenance of movable goods registered for any use and destination)	MILAN (ITALY)	EUR	20,000	50.0000		TELECOM ITALIA S.p.A.
RETAIL NETWORK SERVICES B.V. (holding company)	AMSTERDAM (HOLLAND)	EUR	15,129,484	37.2691		OLIVETTI S.p.A.
SHARED SERVICE CENTER Scarl (planning, design, installation running of computer services)	MILAN (ITALY)	EUR	1,756,612	45.4545 4.5455		TELECOM ITALIA S.p.A. OLIVETTI S.p.A.
SOFORA TELECOMUNICACIONES S.A. (holding company)	BUENOS AIRES (ARGENTINA)	ARS	439,702,000	32.5000 17.5000		TELECOM ITALIA S.p.A. TELECOM ITALIA INTERNATIONAL N.V.
TELBIOS S.p.A. (technological services supporting the health sector)	MILAN (ITALY)	EUR	2,458,330	31.0345		TELECOM ITALIA S.p.A.
TELEGONO S.r.l. (real estate management)	ROMA (ITALY)	EUR	200,000	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 SOCIETÀ ATTIVITÀ INTERMEDIE AUSILIARIE TLC P.A.
TIGLIO I S.r.l. (real estate management)	MILAN (ITALY)	EUR	5,255,704	45.6991 2.1027		TELECOM ITALIA S.p.A. TELECOM ITALIA MEDIA S.p.A.
TIGLIO II S.r.l. (real estate management)	MILAN (ITALY)	EUR	6,185,288	49.4700		TELECOM ITALIA S.p.A.
WEMACOM TELEKOMMUNIKATION GmbH (telecommunications services)	SCHWERIN (GERMANY)	EUR	60,000	25.0000		HANSENET TELEKOMMUNIKATION GmbH

OTHER SIGNIFICANT INVESTMENTS IN ACCORDANCE WITH CONSOB RESOLUTION NO. 11971 DATED MAY 14, 1999

Name		Currency	Share Capital	% Ownership	% of voting rights	Held by
ATESIA - Telemarketing Comunicazione Telefonica e Ricerche di Mercato S.p.A. (telemarketing)	ROME (ITALY)	EUR	3,150,406	19.9000		TELECOM ITALIA S.p.A.
CEFRIEL S.r.l. (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)	GENOVA (ITALY)	EUR	161,765	12.0000		TELECOM ITALIA LAB S.A.
INNOVIS S.p.A. (computer, online and telecommunications equipments and services)	IVREA (TURIN) (ITALY)	EUR	325,000	15.0000		OLIVETTI S.p.A.
ITALBIZ.COM Inc. (telecommunications services)	CALIFORNIA (USA)	USD	4,720	19.5000		TELECOM ITALIA MEDIA S.p.A.
LEGACY LLH Limited (ex Leisure Link Ltd) (manufacture of gaming and leisure-time machines)	STAFFORDSHIRE (UK)	GBP	7,809,179	11.4700		TELECOM ITALIA FINANCE S.A.
NEW SATELLITE RADIO S.r.l. (production and realization of radio-tv channel and program)	MILAN (ITALY)	EUR	10,000	12.7200		TELECOM ITALIA S.p.A.
OGER TELECOM LIMITED (investment holding company)	DUBAI (ARAB EMIRATES)	USD	4,343,436,360	10.3600		TIM INTERNATIONAL N.V.
PIEDMONT INTERNATIONAL S.A. (financing)	LUXEMBOURG (LUXEMBOURG)	USD	10,507,500	17.1300	10.3000	TELECOM ITALIA FINANCE S.A.
TWICE SIM S.p.A. (investment services)	MILAN (ITALY)	EUR	8,450,000	14.2300		TELECOM ITALIA MEDIA S.p.A.

Telecom Italia S.p.A.
Interim Accounting information at June 30, 2007

Contents

Balance sheets

Assets

(thousands of euro)	**6/30/2007**	*of which related parties*	**12/31/2006**	*of which related parties*
NON-CURRENT ASSETS				
Intangible assets				
Goodwill	40,013,045		40,013,045	
Intangible assets with a finite life	4,795,704		4,896,649	
	44,808,749		44,909,694	
Tangible assets				
Property, plant and equipment owned	12,360,235		12,475,639	
Assets held under finance leases	1,468,069		1,512,525	
	13,828,304		13,988,164	
Other non-current assets				
Investments	11,207,211		10,913,208	
Securities, financial receivables and other non-current financial assets	751,966	135,202	670,145	139,533
Miscellaneous receivables and other non-current assets	544,437	9,084	541,742	13,824
Deferred tax assets	–		714,163	
	12,503,614		12,839,258	
TOTAL NON-CURRENT ASSETS (A)	**71,140,667**		**71,737,116**	
CURRENT ASSETS				
Inventories	136,381		124,849	
Trade and miscellaneous receivables and other current assets	7,672,541	608,555	6,852,642	442,012
Current tax receivables	–		258,294	
Financial receivables and other current financial assets	212,927	7,603	265,704	12,050
Cash and cash equivalents	2,691,363	118,743	5,207,976	89,458
CURRENT ASSETS SUBTOTAL	**10,713,212**		**12,709,465**	
Discontinued operations/assets held for sale				
of a non - financial nature	328,277		–	
	328,277		–	
TOTAL CURRENT ASSETS (B)	**11,041,489**		**12,709,465**	
TOTAL ASSETS (A+B)	**82,182,156**		**84,446,581**	

Equity and liabilities

(thousands of euro)	6/30/2007	of which related parties	12/31/2006	of which related parties
EQUITY				
– Share capital issued	10,673,778		10,673,764	
- less: treasury shares	(700)		(700)	
– Share capital	10,673,078		10,673,064	
– Additional paid-in capital	1,689,081		1,689,040	
– Legal reserve	2,134,755		2,134,750	
– Other reserves				
- Reserve L.D.124/1993, ex art. 13	391		391	
- Reserve D.P.R. 917/1986, ex art. 74	5,750		5,750	
- Reserve for capital grants	602,259		602,259	
- Reserve for inflation adjustments - Law 413, 12/30/1991	1,129		1,129	
- Reserve Law 266/2005 ex art.1, para. 469, Law 342/2000	315,842		315,842	
- Other	3,309,037		3,185,918	
Total Other reserves	4,234,408		4,111,289	
– Retained earnings, including net income for the period	4,520,304		5,915,406	
TOTAL EQUITY (A)	**23,251,626**		**24,523,549**	
Non-current liabilities				
Non-current financial liabilities	37,678,341	20,074,204	40,069,092	21,441,053
Employee severance indemnities and other employee-related provisions	1,141,108		1,142,650	
Deferred tax liabilities	421,950		133,842	
Provisions for risks and charges	670,917		646,191	
Miscellaneous payables and other non-current liabilities	1,465,767	21,545	1,679,960	121,040
TOTAL NON-CURRENT LIABILITIES (B)	**41,378,083**		**43,671,735**	
Current liabilities				
Current financial liabilities	7,965,114	4,793,510	6,689,236	3,899,888
Trade and miscellaneous payables and other current liabilities	9,483,605	828,078	9,436,886	739,948
Current tax payables	103,728		125,175	
TOTAL CURRENT LIABILITIES (C)	**17,552,447**		**16,251,297**	
TOTAL LIABILITIES (D=B+C)	**58,930,530**		**59,923,032**	
TOTAL EQUITY AND LIABILITIES (A+D)	**82,182,156**		**84,446,581**	

Statements of income

(thousands of euro)	1st Half 2007	of which related parties	1st Half 2006	of which related parties
Revenues	11,415,922	329,196	10,710,051	483,540
Other income	123,926	17,745	203,490	14,398
Total operating revenues and other income	**11,539,848**		**10,913,541**	
Purchases of materials and external services	(4,451,837)	(620,458)	(4,156,614)	(755,933)
Personnel costs	(1,553,988)	(24,065)	(1,540,757)	(21,671)
Other operating expenses	(390,931)	(314)	(286,266)	(6,979)
Changes in inventories	11,230		44,425	
Capitalized internal construction costs	239,503		193,314	
OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS (EBITDA)	**5,393,825**		**5,167,643**	
of which net impact of non-recurring items	***(20,000)***		**–**	
Depreciation and amortization	(2,105,218)		(1,996,395)	
Gains (losses) on disposals of non-current assets	2,717		129,346	
Impairment reversals (losses) on non-current assets	–		(425)	
OPERATING INCOME (EBIT)	**3,291,324**		**3,300,169**	
of which net impact of non-recurring items	***(20,000)***		***128,036***	
Financial income	753,074	315,968	2,402,830	2,085,351
Financial expenses	(1,592,488)	(699,324)	(1,610,524)	(629,534)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	**2,451,910**		**4,092,475**	
of which net impact of non-recurring items	***(18,183)***		***128,036***	
Income taxes	(1,063,936)		(956,186)	
NET INCOME FOR THE PERIOD	**1,387,974**		**3,136,289**	
of which net impact of non-recurring items	***(18,279)***		***79,792***	

Statements of changes in equity

STATEMENT OF CHANGES IN EQUITY FOR THE FIRST HALF OF 2006

(thousands of euro)	Share capital	Additional paid-in capital	Other	Retained earnings, including net income for the period	Total
Balance at December 31, 2005 - Italian GAAP	**10,668,132**	**1,669,188**	**4,756,397**	**4,874,377**	**21,968,094**
Adoption of IFRS	(700)	4,795,540	(566,959)	(3,773,650)	559,628
Balance at December 31, 2005 - IFRS	**10,667,432**	**6,464,728**	**4,294,835**	**1,100,727**	**22,527,722**
Application of Legislative Decree 38/2005, art. 7		**(4,795,540)**	**1,021,890**	**3,773,650**	
Balance at January 1, 2006 - IFRS	**10,667,432**	**1,669,188**	**5,316,725**	**4,874,377**	**22,527,722**
Changes in equity during the first half of 2006:					
Fair value adjustments of available-for-sale financial assets:					
Unrealized gains (losses) on fair value adjustments			20,346		20,346
Fair value adjustments of hedging instruments:					
Unrealized gains (losses) from fair value adjustments of cash flow hedge derivatives			158,858		158,858
Gains (losses) transferred to the statement of income			218,186		218,186
Tax effect			(125,499)		(125,499)
Total income (expenses) for the period recognized directly in equity (a)			**271,891**		**271,891**
Net income for the period (b)				3,136,289	3,136,289
Total recognized net income the period (a+b)			**271,891**	**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
Tim Italia merger and tender offer			378,574		378,574
Other changes			318,609	(319,483)	(874)
Balance at June 30, 2006 - IFRS	**10,673,053**	**1,688,423**	**6,282,597**	**4,908,119**	**23,552,192**

STATEMENT OF CHANGES IN EQUITY FOR THE FIRST HALF OF 2007

(thousands of euro)	Share capital	Additional paid-in capital	Other	Retained earnings, including net income for the period	Total
alance at December 31, 2006 - IFRS	**10,673,064**	**1,689,040**	**6,246,039**	**5,915,406**	**24,523,549**
Changes in equity during the first half of 2007:					
Fair value adjustments of available-for-sale financial assets:					
Unrealized gains (losses) on fair value adjustments			(13,259)		(13,259)
Fair value adjustments of hedging instruments:					
Unrealized gains (losses) on fair value adjustments of cash flow hedge derivatives			184,043		184,043
Gains (losses) transferred to the statement of income			17,657		17,657
Other changes:			1,279		1,279
Tax effect			(66,589)		(66,589)
Total net income (expenses) for the period recognized directly in equity (a)			**123,131**		**123,131**
Net income for the period (b)				1,387,974	1,387,974
Total net income (expenses) for the period (a+b)			**123,131**	**1,387,974**	**1,511,105**
Dividends paid				(2,783,071)	(2,783,071)
Conversion of bonds	14	41	(8)		47
Other changes			1	(5)	(4)
Balance at June 30, 2007 - IFRS	**10,673,078**	**1,689,081**	**6,369,163**	**4,520,304**	**23,251,626**

Statements of cash flows

(thousands of euro)	1st Half 2007	1st Half 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	1,387,974	3,136,289
Adjustments to reconcile net income from continuing operations to cash flows generated by (used in) operating activities:		
Depreciation and amortization	2,105,218	1,996,395
Impairment (reversals) losses on non-current assets (including investments)	22,863	123,799
Net change in deferred tax assets and liabilities	935,140	838,727
Net (gains) losses realized on disposals of non-current assets (including investments)	(5,218)	(129,342)
Change in employee severance indemnities and other employee-related provisions	(18,121)	(10,211)
Change in other operating assets/liabilities:		
Change in inventories	(11,532)	(44,435)
Change in trade receivables and net receivables on construction contracts	(310,652)	(468,458)
Change in trade payables	(135,577)	(115,247)
Net change in miscellaneous receivables/payables and other assets/liabilities	(200,015)	(304,914)
CASH FLOWS GENERATED BY (USED IN) OPERATING ACTIVITIES (A)	**3,770,080**	**5,022,603**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of intangible assets on an accrual basis	*(707,479)*	*(679,221)*
Acquisitions of tangible assets on an accrual basis	*(1,146,453)*	*(1,015,985)*
Total acquisitions of intangible and tangible assets on an accrual basis (*)	(1,853,932)	(1,695,206)
Change in amounts due to fixed asset suppliers	*(76,007)*	*(82,516)*
Total acquisitions of intangible and tangible assets on a cash basis	(1,929,939)	(1,777,722)
Acquisitions of other non-current assets	(52)	(459)
Acquisitions of investments and businesses (I)	(665,015)	(90,441)
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	(29,044)	222,572
Proceeds on sale of investments (II)	2,811	12,378
Proceeds on the distribution of dividends by Telecom Italia Media	–	361,654
Proceeds on sale/repayments of intangible, tangible and other non-current assets (II)	27,004	302,380
CASH FLOWS GENERATED BY (USED IN) INVESTING ACTIVITIES (B)	**(2,594,235)**	**343,294**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in current financial liabilities and others liabilities	(406,366)	(4,371,179)
Proceeds from non-current financial liabilities (including current portion)	1,446,377	4,148,678
Repayments of non-current financial liabilities (including current portion)	(1,945,786)	(8,044,860)
Dividends paid (distribution of reserves included) (*)	(2,779,421)	(2,782,207)
CASH FLOWS GENERATED BY (USED IN) FINANCING ACTIVITIES (C)	**(3,685,196)**	**(11,049,568)**
AGGREGATE CASH FLOWS (D=A+B+C	**(2,509,351)**	**(5,683,671)**
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR (E)	**4,788,491**	**5,812,567**
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (F=D+E)	**2,279,140**	**128,896**

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

(*) OF WHICH RELATED PARTIES

(thousands of euro)	1st Half 2007	1st Half 2006
Total acquisitions of intangible and tangible assets on an accrual basis	216,902	285,375
Dividends paid (distribution of reserves included)	361,109	365,781

(thousands of euro)	1st Half 2007	1st Half 2006
ANALYSIS OF NET CASH AND CASH EQUIVALENTS:		
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE YEAR:		
Cash and cash equivalents	5,207,976	6,601,126
Bank overdrafts repayable on demand	(419,485)	(788,559)
	4,788,491	**5,812,567**
NET CASH AND CASH EQUIVALENTS AT THE END OF THE YEAR:		
Cash and cash equivalents	2,691,363	929,166
Bank overdrafts repayable on demand	(412,223)	(800,270)
	2,279,140	128,896

(thousands of euro)	1st Half 2007	1st Half 2006
ADDITIONAL CASH FLOW INFORMATION:		
Income taxes (paid) received	(93,415)	(351,509)
Interest expense paid	1,667,510	1,504,050
Interest income received	332,240	242,050
Dividends received	138,259	2,022,780

Note 1 - Form and content and other general information

Form and content

Telecom Italia S.p.A. is a corporation organized under the laws of the Republic of Italy, with its head office in Milan (Italy).

Telecom Italia S.p.A. operates in Italy in the communications sector, particularly with regard to: telephone and data services on the fixed network for final customers (retail) and other domestic providers (wholesale), the development of fiber optic networks for wholesale customers, innovative broadband services, Internet services and domestic mobile telecommunications.

Following the coming into force of European Union Regulation 1606/2002 and the national laws implementing that Regulation, starting from January 1, 2006, Telecom Italia S.p.A. adopted International Financial Reporting Standards issued by the International Accounting Standards Board and endorsed by the European Union (**IFRS**) in the preparation of its separate financial statements. IFRS also include all effective International Accounting Standards (**IAS**) as well as all interpretations issued by the International Financial Reporting Interpretations Committee (**IFRIC**), comprising those previously issued by the Standing Interpretations Committee (**SIC**).

Moreover, Telecom Italia S.p.A. did not elect the early adoption of any IFRS in the first half of 2007.

The interim separate financial statements for the first half ended June 30, 2007 have also been prepared in accordance with existing Italian legislation, Consob Resolution 15519 dated July 27, 2006, as well as Consob Communication DEM/6064293 dated July 28, 2006.

The interim separate financial statements for the first half ended June 30, 2007 should be read together with the annual separate financial statements of Telecom Italia S.p.A. prepared for the year 2006.

For purposes of comparison, the following are presented in accordance with IAS 1 (Presentation of financial statements): the balance sheet at December 31, 2006, the statement of income and statement of cash flows for the first half of 2006 as well as the statement of changes in equity for the first half of 2006.

The interim separate financial statements at June 30, 2007 have been prepared under the historical cost convention, except for available-for-sale financial assets, financial assets held for trading, financial assets held for sale classified under "Discontinued operations/assets held for sale" and derivative instruments at fair value through the statement of income. The carrying amounts of hedged assets and liabilities have been adjusted to reflect the changes in fair value of the hedged risks (fair value hedge).

The interim separate financial statements at June 30, 2007 of Telecom Italia S.p.A. are expressed in thousands of euro.

The preparation of the interim separate financial statements at June 30, 2007 of the Parent is envisaged by art. 81 of the Regulation on Issuers published by Consob under Resolution 11971 dated May 14, 1999, as amended and integrated.

Financial statement formats

The financial statement formats adopted are consistent with those used for the annual separate financial statements at December 31, 2006, to which reference should be made, except for the changes required for purposes of interim financial reporting.

Seasonal factors affecting revenues

- **Fixed telephony**
  The trend of revenues from basic subscription charges and traffic relating to fixed telecommunications was not significantly affected by seasonal factors in the comparison between the first half of 2006 and the first half of 2007.
- **Mobile telephony**
  The trend of voice traffic revenues relating to the mobile telephone business was not influenced by seasonal factors related to market campaigns. These campaigns, however, have an effect on the revenues from sales and marginally also on revenues from Value-Added Services (**VAS**). Nevertheless, there are seasonal phenomena relating to the number of holidays during the months or periods in the reporting period.

Discontinued operations/assets held for sale

At June 30, 2007, following decisions taken for their divestiture, the investments held in Capitalia and Mediobanca have been reclassified in the balance sheet to Discontinued operations/assets held for sale.

Note 2 - Accounting policies

The accounting policies adopted for the preparation of the interim separate financial statements at June 30, 2007 have been applied on a basis consistent with those used for the separate financial statements at December 31, 2006, to which reference should be made, except for the changes required for purposes of interim financial reporting.
Specifically, at June 30, 2007, current income taxes as well as the deferred taxes are conventionally classified in the "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.

Employee benefits - Provision for employee severance indemnities

As regards the "Provision for employee severance indemnities", reference should be made to the description contained in the preceding Note "Accounting policies" in the interim consolidated financial statements at June 30, 2007.

New Standards and Interpretations endorsed by the European Union effective beginning January 1, 2007

As regards new standards and Interpretations endorsed by the European Union effective beginning January 1, 2007, reference should be made to the description contained in the preceding Note "Accounting policies" in the interim consolidated financial statements at June 30, 2007.

New Standards and Interpretations endorsed by the European Union but not yet effective

As regards new standards and Interpretations endorsed by the European Union but not yet effective, reference should be made to the description contained in the preceding Note "Accounting policies" in the interim consolidated financial statements at June 30, 2007.

Note 3 - Net financial debt

Net financial debt amounts to euro 41,987,199 thousand at June 30, 2007, with an increase of euro 1,372,696 thousand compared to euro 40,614,503 thousand at the end of 2006.

"Net financial debt", as required by Consob Communication DEM/6064293 dated July 28, 2006, is presented herein together with a reconciliation to net financial debt calculated in accordance with the criteria of Telecom Italia S.p.A..

NET FINANCIAL DEBT

(thousands of euro)		6/30/2007 (a)	12/31/2006 (b)	Change (a-b)
Non-current financial liabilities (*):				
Financial payables		35,214,304	37,465,907	(2,251,603)
Finance lease liabilities		1,807,729	1,823,312	(15,583)
Non-current liabilities for hedging derivatives		656,308	779,873	(123,565)
	(1)	37,678,341	40,069,092	(2,390,751)
Less:				
Non-current financial receivables for lessors' net investments		*(251,294)*	*(222,077)*	*(29,217)*
Non-current assets for hedging derivatives		*(280,530)*	*(155,517)*	*(125,013)*
		(531,824)	*(377,594)*	*(154,230)*
TOTAL NON-CURRENT FINANCIAL LIABILITIES (*)	**(A)**	**37,146,517**	**39,691,498**	**(2,544,981)**
Current financial liabilities (*):				
Financial payables		7,627,302	6,304,983	1,322,319
Finance lease liabilities		243,827	257,581	(13,754)
Current liabilities for hedging and non-hedging derivatives		86,196	118,336	(32,140)
Other financial liabilities		7,789	8,336	(547)
	(2)	7,965,114	6,689,236	1,275,878
Less:				
Current financial receivables for lessors' net investments		*(129,639)*	*(141,015)*	*11,376*
Current assets for hedging derivatives		*(58,419)*	*(90,457)*	*32,038*
		(188,058)	*(231,472)*	*43,414*
TOTAL CURRENT FINANCIAL LIABILITIES (*)	**(B)**	**7,777,056**	**6,457,764**	**1,319,292**
TOTAL FINANCIAL DEBT (*)	**(C=A+B**	**44,923,573**	**46,149,262**	**(1,225,689)**
Current financial assets (*)				
Financial receivables and other current financial assets		(212,927)	(265,704)	52,777
Cash and cash equivalents		(2,691,363)	(5,207,976)	2,516,613
	(3)	(2,904,290)	(5,473,680)	2,569,390
Less:				
Current financial receivables for lessors' net investments		*129,639*	*141,015*	*(11,376)*
Current assets for hedging derivatives		*58,419*	*90,457*	*(32,038)*
		188,058	*231,472*	*(43,414)*
TOTAL CURRENT FINANCIAL ASSETS (*)	**(D)**	**(2,716,232)**	**(5,242,208)**	**2,525,976**
Net financial debt as per consob communication dem/6064293/2006	**(E=C+D)**	**42,207,341**	**40,907,054**	**1,300,287**
Non-current financial assets (*)				
Financial receivables and other non-current financial assets	(4)	(751,966)	(670,145)	(81,821)
Less:				
Non-current financial receivables for lessors' net investments		*251,294*	*222,077*	*29,217*
Non-current assets for hedging derivatives		*280,530*	*155,517*	*125,013*
		531,824	*377,594*	*154,230*
TOTAL NON-CURRENT FINANCIAL ASSETS (*)	**(F)**	**(220,142)**	**(292,551)**	**72,409**
NET FINANCIAL DEBT	**(G=E+F)**	**41,987,199**	**40,614,503**	**1,372,696**
Composition of net financial debt				
Total gross financial debt:				
Non-current financial liabilities	(1)	37,678,341	40,069,092	(2,390,751)
Current financial liabilities	(2)	7,965,114	6,689,236	1,275,878
		45,643,455	**46,758,328**	**(1,114,873)**
Total gross financial assets				-
Non-current financial assets	(4)	(751,966)	(670,145)	(81,821)
Current financial assets	(3)	(2,904,290)	(5,473,680)	2,569,390
		(3,656,256)	**(6,143,825)**	**2,487,569**
		41,987,199	**40,614,503**	**1,372,696**

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

At June 30, 2007, the difference between the two calculations of net financial debt, equal to euro 220,142 thousand, principally consists of the following:

- euro 63,806 thousand for the non-current portion of low-rate loans made to employees;
- euro 24,459 thousand for the non-current portion of loans made to the company Aree Urbane S.r.l. by Telecom Italia;
- euro 100,000 thousand for the non-current portion of the loan to Telecom Italia Media S.p.A. and euro 10,698 thousand for the loan to Telecom Italia Media Broadcasting S.r.l.;
- euro 20,834 thousand for medium/long-term prepaid financial expenses.

With reference to "Covenants" and "Negative Pledges" relating to outstanding positions at June 30, 2007, reference should be made to the Note "Net financial debt" in the interim consolidated financial statements at June 30, 2007.

Note 4 - Significant non-recurring events and transactions

Details of non-recurring items

The effect of non-recurring events and transactions on equity and net financial debt at June 30, 2007 and on net income and cash flows for the first half of 2007 of Telecom Italia S.p.A. is set out below in accordance with Consob Communication DEM/6064293 dated July 28, 2006.

(thousands of euro)	Equity	Net income for the period	Net financial debt	Cash flows (*)
Amount - interim financial statements (A)	**23,251,626**	**1,387,974**	**41,987,199**	**(2,509,351)**
Antitrust fine accrual	(20,000)	(20,000)	–	–
Gains (losses) on sale of investments	1,721	1,721	(2,860)	2,860
Collection on sale of investment in Atesia	–	–	(1,521)	1,521
Total effects (B)	**(18,279)**	**(18,279)**	**(4,381)**	**4,381**
Figurative amount - interim financial statements (A - B)	**23,269,905**	**1,406,253**	**41,991,580**	**(2,513,732)**

(*) Cash flows refer to the increase (decrease) in cash and cash equivalents during the period.

The impact of non-recurring transactions on the individual lines of the statement of income is as follows:

(thousands of euro)	1st Half 2007 (a)	1st Half 2006 (b)	Change (a - b)
Other operating expenses			
Antitrust fine accrual	(20,000)	–	(20,000)
Impact on EBITDA	**(20,000)**	**–**	**(20,000)**
Gains (losses) realized on non-current assets:			
Gains on property disposal transactions	–	128,036	(128,036)
Impact on EBIT	**(20,000)**	**128,036**	**(148,036)**
Financial income (expenses):			
Gains on sale of investments	1,817	–	1,817
Impact on income before income taxes	**(18,183)**	**128,036**	**(146,219)**
Effect of Income taxes	(96)	(48,244)	48,148
Impact on net income for the period	**(18,279)**	**79,792**	**(98,071)**

Note 5 - Positions or transactions deriving from atypical and/or unusual transactions

In accordance with Consob Communication DEM/6064293 dated July 28, 2006, a statement is made to the effect that during the first half of 2007 Telecom Italia S.p.A. had no atypical and/or unusual transactions, as defined in the Communication.

Other Information

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Auditors' review report on the First Half 2007 Report prepared in accordance with Article 81 of the Consob Regulation, adopted by 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 2007 Report of Telecom Italia S.p.A. as of and for the six months ended June 30, 2007. The First Half 2007 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. We conducted our review in accordance with the auditing standards for the review of interim financial statements recommended by Consob (the Italian Stock Exchange Regulatory Agency) in 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 accounting principles applied through discussions with appropriate members of management, and applying analytical procedures to the financial information presented in the Statements. The review did not include audit procedures such as tests of compliance of internal controls or substantive procedures on assets and liabilities, and the scope of our review is significantly less than an audit performed in accordance with generally accepted auditing standards. Accordingly, unlike the opinion issued in connection with our audit of the annual consolidated financial statements, we do not express an audit opinion on the First Half 2007 Report of Telecom Italia S.p.A. as of and for the six months ended June 30, 2007.

3. With respect to the consolidated comparative data as of and for the year ended December 31, 2006 and for the six month period ended June 30, 2006 presented in the Statements, reference should be made to our reports issued on March 26, 2007 and on September 12, 2006, respectively.

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 2007 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, 2007

Reconta Ernst & Young S.p.A.
Signed by Nadia Locati, Partner

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Board of Auditors' comments on the Half-Year Report as of June 30, 2007

The Board of Auditors of Telecom Italia S.p.A.
- having examined the Report of the Telecom Italia Group for the first half of 2007, as approved by the Company's Board of Directors on September 7, 2007;
- having recalled the investigative activity and inquiries carried out by the Board of Auditors (or individually by the members thereof) in the performance of its supervisory activity;
- having taken note of the Report issued on September 12, 2007 by the auditing firm Reconta Ernst & Young on the limited review of the Half-Year Report, which contained an unqualified opinion;

has no observations to make with respect to the Half-Year Report as of June 30, 2007.

* * *

In what follows our aim is to provide an update on the supervisory activity performed so far in 2007 with respect to the issues analyzed in the second part of the 2006 Report of the Board of Auditors to the shareholders' meeting of Telecom Italia S.p.A. drawn up pursuant to Article 153 of Legislative Decree 58/1998 (hereinafter the "Report to the Shareholders' Meeting").
It should be remembered in fact that the Report to the Shareholders' Meeting consisted of two parts; the first summarizing the activity performed by the Board of Auditors in 2006 and up to the date of the meeting called to approve the 2006 financial statements and the second describing the investigations carried out into the well-known judicial matters involving the former head of the Group's Security Function and issues pertaining to network security and the handling of traffic data.
In particular, in this second part the Board of Auditors described the organization and results of a series of meetings (some held jointly with the Internal Control Committee) with the Company's management and structures, to study the circumstances arising from the examination of the order issued by the Magistrate responsible for the preliminary investigations at the Milan Court (30382/03 R.G.N.R.; 4728/03 R.G. GIP) in application of precautionary measures taken, among others, against the former head of the Group's Security Function (filed with the registry on September 20, 2006 and temporarily published on the Internet at www.ilvelino.it). Upon completing these activities, we made a series of recommendations to management that the Company accepted, putting in place specific remedies aimed at eliminating the weaknesses found.

* * *

As noted in the Report to the Shareholders' Meeting, the Board of Auditors (jointly with the Internal Control Committee) recommended to management, and in particular to the Executive Deputy Chairman, that the organizational adequacy of the Security Function be verified, with special regard to the mechanisms for ensuring compliance with correct operational procedures and the effectiveness of controls. In the Report to the Shareholders' Meeting we also noted that the Internal Control Committee had suggested that management procure a due diligence report on the Security Function, entrusting the assignment to an independent advisor of undisputed standing.
During 2007 we found that these recommendations had led to an audit programme (initiated in May 2007 by Telecom Italia Audit & Compliance Services) designed to verify the functioning and effectiveness of the internal control system within the Security sphere. The programme focused on the individual structures of the Security Function and the person responsible for internal control informed us that, owing to the Function's organizational complexity, the activity had been divided into eleven separate interventions in order to permit the prompt identification of any weaknesses, to be addressed with immediate corrective measures.
In short, we have been informed that the audit work carried out to date has excluded the existence of structural "deviations" of the Security Function from the performance of its proper purposes. Moreover, on the basis of the analysis conducted, the person responsible for internal control has reported that appropriate improvements have been planned for the weaknesses found and that once they are completed it will be possible for an independent external advisor to prepare the due diligence report referred to above.

* * *

In addition to what has already been said with regard to verifying the organizational adequacy of the Security Function, during 2007 we have performed our supervisory activity in relation to

the analyses conducted on the other aspects of the matters involving the former head of the Security Function capable of having repercussions on the organizational structure of the Company.
In this connection we have received reports on the audits we (and the Internal Control Committee) had commissioned from Telecom Italia Audit & Compliance Services with the aim of verifying whether, apart from the specific advisory engagement awarded subsequent to the termination of his employment (already discussed in the Report to the Shareholders' Meeting), the former head of the Security Function had been awarded additional engagements and given access to corporate data. To this end the executive directors and the managers reporting to them were asked about the existence and characteristics of the tasks entrusted to the former head of the Security Function in the period from June 2005 to September 2006 and some inquiries were carried out through the distribution of questionnaires aimed at determining whether Company employees or Functions had allowed him to access corporate data. We were informed that the outcome of the checks had been negative.
In addition, we took note of the organizational changes made within the Security Function and do not consider that they call for any criticisms or observations.

* * *

As already set out in the Report to the Shareholders' Meeting, at our request management charged the auditing firm with the task of carrying out an audit procedure to assess the correct and precise application of the accounting procedures for the booking of the invoices for the services received by the Security Function in the period 2002-06 and to control the actual performance of the services, including for the purpose of assessing the possible impact of such invoices on the Company's individual and consolidated financial statements, with account also taken of any fiscal repercussions and any other important aspects. It was later deemed desirable, in agreement with us and the Internal Control Committee, to extend the checks of the auditing firm, initially restricted to the costs for "Professional services" and "Consultancy services", to include some "Investments" made by the Security Function.
The checks carried out by Reconta Ernst & Young involved invoices for a total of about €63 million (in the period 2002-06).
On the basis of the checks it carried out, the auditing firm: (i) excluded the necessity of revising the audit plan presented earlier to us and the Internal Control Committee; (ii) did not find evidence of an additional impact on the Company's individual and consolidated financial statements for the year ended December 31, 2006 with respect to the provisions for taxation made by the Company; and (iii) issued unqualified opinions on the financial statements referred to above and the attestation concerning management's assessment of the internal control structure and procedures for financial reporting (pursuant to Section 404 of the Sarbanes-Oxley Act), which was also unqualified.
We constantly monitored and received periodic information on the checks carried out by Reconta Ernst & Young and conducted inquiries aimed at obtaining clarifications and detailed information on some issues resulting from the verification procedures performed by the auditing firm. These procedures confirmed the weaknesses of the internal control system we had found in the Security sector of the Group from an operational viewpoint and already discussed in the Report to the Shareholders' Meeting, where it was also noted that the Company had put remedies in place to remove the weaknesses found. We also informed the Executive Deputy Chairman of these matters to permit any necessary measures to protect the Company's interest.
We now intend to focus our activity - as part of our general supervisory activity - on the ordinary and special procedures governing procurement within the Group.

* * *

As explained in the Report to the Shareholders' Meeting, a new Group policy on the selection and hiring of staff was adopted on January 15, 2007 in order to introduce, as also requested by us and the Internal Control Committee, an express ban on pre-employment inquiries, except for the evaluation of the competences requested for jobs and checks on any references provided by candidates.
In this field in June 2007 TI Audit & Compliance Services carried out an audit of the Human Resources, Organization and Security Function aimed at verifying, for the period 2004-06, the regularity of hirings by assessing the recruitment procedures used and examining the contents of a sample of the files kept by the Human Resources Development Function - Recruiting and Hiring (the reference unit for this activity). We have noted that the audit in question confirmed the correctness of the Company's conduct and led to a basically adequate evaluation of the

activity, although some areas susceptible of improvement were found, notably concerning procedural and systemic aspects.
In addition, we have received information from TI Audit & Compliance Services concerning the start in November 2007 of a further check that will initially cover the selection and hiring documentation for 50% of the approximately 6,000 candidates, with the analysis to be extended to all the candidates if these checks find irregularities (which, as just mentioned, the audit carried out on a sample basis did not find).

* * *

As noted in the Report to the Shareholders' Meeting the Company, at our instigation, has made a start on the measures needed to implement the procedure for the classification, management, retention and storage of documentation.
Earlier this year the person responsible for internal control reported to us on the policies adopted in this field since January 1 by the Security Function, attesting to their effectiveness and efficiency. In relation to our ordinary supervision of the adequacy of the internal control system adopted by the Company, the person responsible for internal control declared that he would inform us on a more general basis on the policies adopted by the Group for the management of corporate documentation upon completion of an ad hoc audit on which a start will be made by the end of this year.

* * *

As noted in the Report to the Shareholders' Meeting, the Company has informed us that it has undertaken a series of activities for the maintenance of the Organizational Model it had adopted under Legislative Decree 231/2001.
During 2007 we were also informed of the engagement awarded to a leading independent advisor to:
– identify the areas of the Model to be updated (Gap Analysis);
– draw up a detailed plan involving the structures of the Group for the implementation of the amendments and updates decided (Master Plan);
– participate in the performance of the implementation activities carried out by the structures of the Group.

We were informed by management that the activities involved in the first two stages of the consultancy engagement had been completed with the identification of some areas to be improved (mostly of minor importance) and the specification of a plan for implementing the recommendations put forward in relation to the areas to be improved. The first results of the measures suggested in the Master Plan are expected for the early months of 2008.

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As already noted in the Report to the Shareholders' Meeting, in the performance of our supervisory activity we had found an inadequate perception by management of the technical and organizational needs connected with the handling of compliance with the law on privacy and the consequent risks regarding network security, IT systems for the management of traffic data and procedures that handle the information flows concerning the mandatory services provided to the judicial authorities. Faced with this situation, in 2006 the Company had already taken corrective and upgrading action through the implementation of the IT Compliance project, aimed at observing and analyzing the security of the Company's IT processes and systems (with special reference to those handling traffic data) and at carrying out activities serving to forestall and cope adequately with risks associated with compliance with the law on privacy. During the same year the Company awarded a contract to an independent advisor (KPMG Advisory) to specify the most appropriate organizational structure for the governance of IT risks and security.
During 2007 we continued to perform our supervisory activity in this field and were informed that the Company continued with the activities started in the previous year and planned new ones.
In the first place, the IT Compliance Steering Committee was identified as the organizational unit for the constant monitoring and governance of the matters in question. This had the effect of strengthening the coordination role, at central level, of the IT Governance Function on the various IT structures and a consolidation of the organization of the Privacy Function (of Domestic Legal Affairs), which was made directly responsible for the compliance of business structures as well. We were also informed that, starting from these organizational interventions, aimed at clarifying responsibilities and competences, management had acted principally with regard to training, processes and controls. On the basis of the experience gained with the IT Compliance Steering Committee, the Company proceeded, with the support

of the independent advisor charged with specifying the most appropriate organizational structure for the governance of IT risks and security, with the project of reviewing the model for the governance of IT risks. The strengthening of the protection of IT security derives mainly from the adoption of solutions that are more clearly defined in organizational terms. To this end in October 2007 the Company redefined the organization of some Group committees, including the Group Risk Management Committee chaired and coordinated by the Executive Deputy Chairman. This committee is charged with identifying, assessing and governing Group risks, laying down policy in the fields of IT security and disclosure, coordinating the preventive action plans for ensuring business continuity and monitoring the effectiveness of the measures adopted.
There has also been a change in the composition and functions of the Group IT Governance Committee chaired and coordinated by the General Manager responsible for the Group Finance, Administration and Control Function. This committee is charged with establishing the guidelines for the Group's IT strategies, guiding IT technological choices and investments in a manner consistent with the needs of the business, and monitoring the progress of the main IT projects, the quality of solutions and the efficiency of costs. Lastly, the Company has set up the Group Security Committee chaired and coordinated by the head of the Human Resources, Organization and Security Group Function, with the objective of ensuring the integrated coordination of the Group's security and crisis management activities and monitoring the progress of the main projects and the effectiveness of the solutions adopted.
In the second place, we were informed by management that the training activity begun in the second half of 2006 involving the technical, marketing, sales, customer care, personnel and auditing functions had been continued with a view to increasing awareness of the correct application of the rules and achieving a heightened sense of responsibility in assessing and managing privacy risks. In parallel, action has been taken to improve the processes involved in the analysis of IT risks (to be used also for privacy purposes) and an examination of the process of self-assessment of the minimum security measures by the persons responsible for the treatment of personal data, in order to increase perception of the risks consequent on failure to apply the measures in question.
In the third place we received information from management on the programme of controls on compliance with privacy law for 2007 with special reference to monitoring initiatives. This programme provides for 57 checks by the Privacy Function on the formalities associated with the commercial activities of the internal and external sales network (such as consent, provision of information to clients, management of client lists and unrequested services), customer care (meeting clients' requests) and personnel management. In this respect we were told that following the 19 checks carried out to date at dealers, 8 invitations to perform were issued (of which one with the suspension of sales activity and the activation of prepaid cards) and 4 contracts were terminated.
In addition the Security Function is carrying out a programme of checks on the correct application of the minimum security measures at 90 suppliers and 55 internal units, for a total of 145 checks (38 in 2006). The checks are assisted by a member of the independent advisor, KPMG Advisory, and the criteria for drawing up the programme and the structures to be checked were chosen jointly by the Security Function, the Compliance Unit of TI Audit & Compliance Services and the Privacy Function, with the latter overseeing the entire process and providing operational support for the more complex checks.
Lastly, we have been informed by management that, in addition to the activities discussed below required by orders adopted by the Privacy Authority concerned with the systems for handling traffic data and those for the judicial authorities, a start has been made, in view of the particular delicacy from the point of view of the privacy rules, on some activities involving the datawarehouse and business intelligence systems in relation to the treatment of client data and the retention of traffic data. As part of our supervisory activity, we are carrying out specific inquiries in these fields.

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With reference to the order adopted by the Privacy Authority on June 1, 2006 and discussed in the Report to the Shareholders' Meeting, it should be remembered that the Authority, after assessing the steps taken by the Company, adopted a ruling on December 11, 2006 postponing the deadline for implementing the prescriptions of the June 1, 2006 order referred to above from September 29, 2006 to March 31, 2007. The Authority also ordered the Company to send it further progress reports (by January 31, February 28 and March 31, 2007) on the other adaptive measures adopted in the meantime and the completion of the measures implementing the aforementioned prescriptions.
We have ascertained, through an interview with management and the Executive Deputy

Chairman, that the reports requested by the Privacy Authority on the progress in adapting the systems handling traffic data were submitted in accordance with the provisions of the measure postponing the deadline.
Furthermore, in 2007, following the above-mentioned corrective interventions and the consulting services provided by KPMG Advisory, we received information from management on the conclusion within the prescribed time limits (as indicated to the Privacy Authority on March 30, 2007) of the technological interventions aimed at adapting the 132 systems that were the subject of the Authority's June 1, 2006 order, i.e. all the Company's systems involved in the treatment of traffic data surveyed in July 2006, to the requirements laid down in the above-mentioned order. These systems have been constantly monitored to overcome the technical and performance problems associated with the solutions implemented pursuant to the order; the Authority also received reports on this activity.
During 2007 we obtained information from the Company's management concerning the progress of the adaptation initiatives in relation to the updating of the scope of the application of the order, consequent on the normal evolution of information systems and the enlargement of the relevant boundary. In this latter respect we received information on the extension, with a view to a general improvement in the level of IT compliance, of the adaptation interventions referred to above to some subsidiaries with regard to the aspects impacting directly on the Company's core business, even though they did not fall within the scope of the Privacy Authority's order.
Management subsequently informed us that, in parallel with the steps referred to above, a start had been made on plans of an organizational and revision nature designed to improve the Company's processes related to IT compliance. In particular, as regards the original 132 systems surveyed in July 2006, a start has been made on: (i) a rationalization of the credentials for accessing IT systems and applications, with the total number reduced by more than half; and (ii) a reduction in the sensitiveness of some applications consisting in limiting the visibility of traffic data.
The extension of the scope of the activity has led to the inclusion of 136 relevant applications, net of the sensitiveness reductions already carried out; the latest update we have received in this field shows the following situation:
- a reduction in the number of credentials giving access to traffic data of about 45% compared with the survey carried out in July 2006;
- a reduction of one quarter in the number of individuals associated with these credentials;
- a reduction in the number of external companies and, more generally, in the number of non-employees having access to client traffic data.

Management also confirmed the undertaking to constantly monitor the credentials giving access to traffic data, both unencrypted and encrypted, in order to assess and pursue further rationalization opportunities.
Management considers the proposed scale to be consistent in view of the size of the Company's customer base and the utility pursued by the visibility of this type of data, needed not only for the proper performance of customer care (satisfaction of customers' requests regarding the traffic generated) but also for the efficient management of the network and field service activities. At all events, in management's opinion, apart from the scale of the accesses, the most effective protection of the confidentiality of traffic data is awareness of the traceability of all the transactions carried out and the rigorous policies adopted by the Company in this field. In fact management has informed us of the issue and/or updating of policies and procedures that regulate important activities for the protection of information and compliance with the rules on privacy.

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As regards services provided to the judicial authorities - i.e. the set of systems serving to deliver mandatory services pursuant to statutory provisions applying to all telecommunications operators - over and above what was described in the Report to the Shareholders' Meeting, in 2007 we received information on the start of initiatives aimed at adapting and improving the systems in question.
In this respect we have been informed by management that, considering the importance and delicacy of the services provided to the judicial authorities, the Company has launched ad hoc projects not only to adapt the systems in question to the prescriptions of the orders issued by the Privacy Authority but, more generally, to improve the protection of the data and systems used for the purposes of justice and to rationalize the systems themselves from the standpoint of risk (in view of the associated problems of legal impact) and operational efficiency. The project development organizational structure used for these improvement

interventions was the same as that of the 120 Day Project (an organizational structure on three levels, a transversal and integrated team, etc.). It has made it possible to tackle problems and develop solutions in a transversal and integrated manner with respect to the Company and identify intervention plans for the improvement of the platforms.
In particular, the plans drawn up include: the "Master Plan for Judicial Authority Systems", aimed at achieving an overall improvement in the systems used for mandatory services; the "Assessment of Judicial Authority Systems" (with the support of KPMG Advisory), aimed at obtaining an overall check on the Judicial Authority Systems with regard to the process, organizational, compliance and security aspects.
In this respect management has told us that, with the virtual completion of the activities provided for in the Master Plan, the risk of non-compliance with the orders regarding the Judicial Authority Systems has been substantially reduced, although the provisional results of the assessment made by KPMG Advisory on the systems in question showed some areas needing improvement for which the IT Functions have identified specific action plans.
At present the application receiving the most attention among those designed to provide the judicial authorities with services is that called Minerva , which was developed to meet requests for mandatory services from the judicial authorities in relation to fixed and mobile telephony and the Internet. For the sake of completeness, management has in fact pointed out a residual area of risk, to remedy which, in agreement with KPMG Advisory, additional technological solutions have been identified and are being implemented to overcome the remaining aspects of non-compliance.
In particular, given the impossibility of renouncing the services provided by the Minerva application and in order to maintain functionalities imposed by the orders issued by the Privacy Authority for the protection of personal data (such as traceability), the organizational structure of the operation of the system has been reviewed and the activity (entrusted to an external supplier) brought back within Telecom Italia. In addition, an action plan has been drawn up - and notified to the competent authorities - involving measures on three time horizons: urgent, short-to-medium term and medium and long-term.
Looking ahead, moreover, in order to combine efficiency, effectiveness, security and cost containment, the Company has planned a comprehensive review of the entire information system for the Judicial Authority Services, which it is estimated will take not less than 12-18 months to complete.

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In 2007 the Company carried out a programme to monitor some systems set up to protect the security of network and system infrastructure, systems that although they are legal defensive instruments could be dangerous if used for purposes other than their proper ones. The reference is to the activity begun in January 2007 of assessing probes, i.e. the hardware and software used for the analysis of traffic on the domestic network. It is expected that the assessment will be completed by the end of this year.
We have been informed in this respect that the Company has launched a programme, known as PARCO (Probe Assessment, Rationalization & Control), entrusted to the Security Engineering Function (Technology unit), which is coordinated by IT Risk & Security Governance and assisted by KPMG Advisory, to identify the different types and configurations of probes for the collection and analysis of traffic installed within the technological spheres that make up Telecom Italia's network infrastructure.
As regards the Radar application - developed for anti-fraud purposes in the mobile telephony field and already referred to in the Report to the Shareholders' Meeting - management informed us that, following its disactivation on June 12, 2006 and the consequent need for an alternative anti-fraud application, work had started on a project for the creation of a new system known as SAAF (Sistema Analisi Antifrode). This became operational on May 29, 2007 and is equipped with adequate protection mechanisms, as certified conclusively by KPMG Advisory. Management has also informed us that an assessment of the antifraud processes in the mobile telephony field is currently under way with the assistance of the same advisor.

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As noted in the Report to the Shareholders' Meeting, when we learnt that the Company had presented a complaint concerning payments for activities carried out in Brazil, we requested the person responsible for internal control to carry out an audit of these payments.
We now find that the problems and anomalies revealed by that audit do not differ significantly from those the Company reported to the judicial authorities in the complaint referred to above.

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In the Report to the Shareholders' Meeting we noted the start made, also at our request, by the person responsible for internal control on an audit of expenses for consultancy and professional services registered in the cost centre relative to the executive officers.
On October 29, 2007 we received a report on this audit, which still has to be completed, however. As things stand we therefore defer our considerations on this matter.

Milan, October 31, 2007

Chairman of the
Board of Auditors

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