



FIRST QUARTER 2006 REPORT

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■ CORPORATE BOARDS

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

The ordinary shareholders' meeting held on May 6, 2004 appointed the board of directors of the company for three years up to the approval of the financial statements for the year ended December 31, 2006, establishing that the board should be composed of 19 members. The shareholders' meeting held on April 7, 2005 has, among other things, revised the number of members of the board of directors from 19 to 21 and appointed Marco De Benedetti and Enzo Grilli as directors.

The shareholders' meeting held on April 13, 2006 appointed Diana Bracco and Vittorio Merloni as directors following the resignations of Marco De Benedetti (on October 5, 2005) and Giovanni Consorte (on January 23, 2006).

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

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

Remuneration Committee

Luigi Fausti (Chairman)
Paolo Baratta
Pasquale Pistorio

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

Committee for Internal Control and Corporate Governance

Guido Ferrarini (Chairman)
Domenico De Sole
Francesco Denozza
Marco Onado

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

Strategies Committee

Marco Tronchetti Provera
Carlo Orazio Buora
Domenico De Sole
Marco Onado
Pasquale Pistorio

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

Board of Statutory Auditors

Chairman Acting Auditors

Paolo Golia
Ferdinando Superti Furga
Stefano Meroi
Salvatore Spiniello
Gianfranco Zanda
Enrico Bignami
Enrico Laghi

Alternate Auditors

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

Common representatives

- savings shareholders

Carlo Pasteris

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

- "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium" Francesco Pensato
- "Telecom Italia 2002-2022 bonds at floating rates, open special series, reserved for subscription by employees of the Telecom Italia Group, in service or retired" Francesco Pensato
- "Telecom Italia S.p.A. Euro 750,000,000 notes 4.50% due 2011" Francesco Pensato
- "Telecom Italia S.p.A. Euro 1,250,000,000 notes 5.375% due 2019" Francesco Pensato

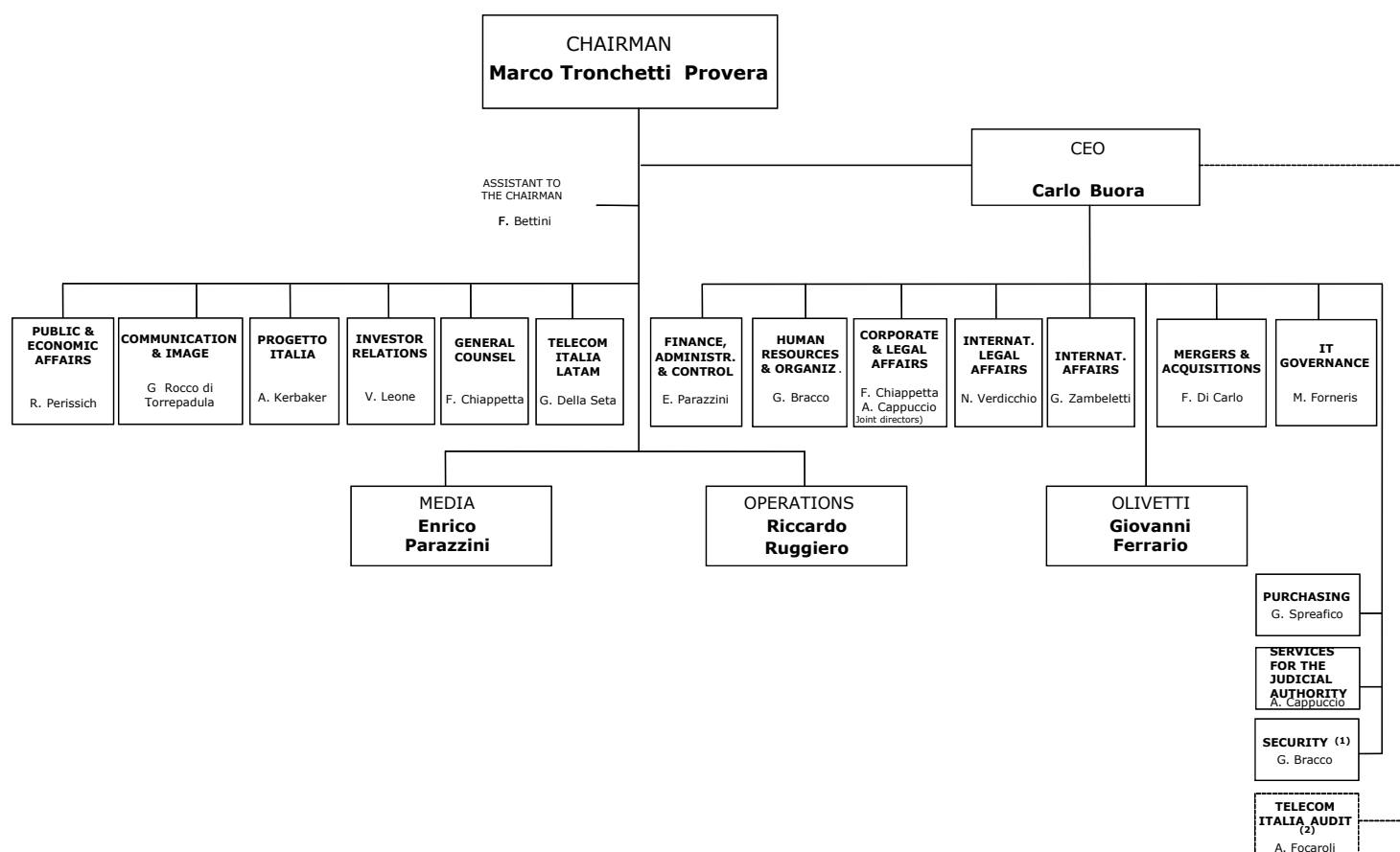
Following the impossibility of conducting the meetings of the bondholders for the aforesaid bonds, the Milan Court decreed the appointment of the common representative of the bondholders for each of the above bond and notes.

Independent Auditors

Reconta Ernst & Young S.p.A.

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

■ MACRO-ORGANIZATION CHART - TELECOM ITALIA GROUP AT MARCH 31, 2006



- (1) As from January 23, 2006, responsibility for the Security Service Unit has been entrusted to Gustavo Bracco, who is also head of the *Human Resources and Organization Group Function*.
- (2) This is the consortium company which is in charge of the internal auditing activities of the Group. Beginning on April 20, 2006, the consortium took the name of *Telecom Italia Audit and Compliance Services*.

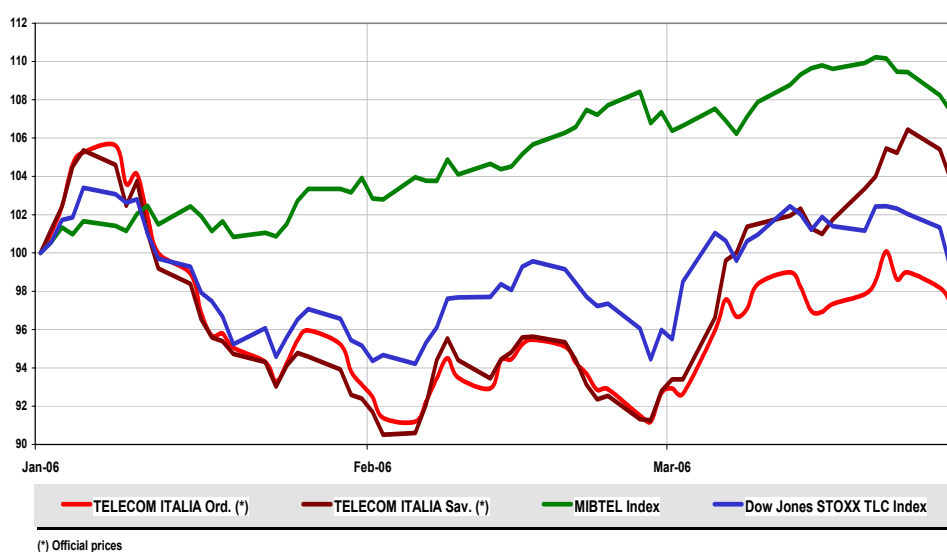
■ SHAREHOLDER INFORMATION

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

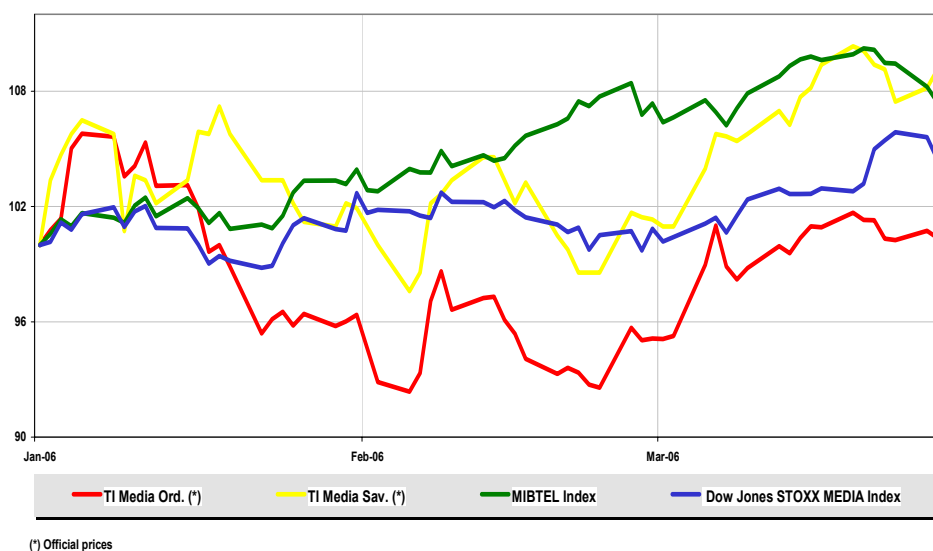
Share capital	euro 10,673,735,287.60
Number of ordinary shares (par value of euro 0.55 each)	13,380,670,771
Number of savings shares (par value of euro 0.55 each)	6,026,120,661
Number of Telecom Italia ordinary treasury stock	1,272,014
Number of Telecom Italia ordinary shares held by Telecom Italia Finance	124,544,373
Market capitalization (based on March 2006 average prices)	euro 45,063 million

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

Relative performance
TELECOM ITALIA S.p.A.
1/1/2006 – 3/31/2006
vs. MIBTEL and DJ Stoxx TLC Indexes
(Source: Reuters)



Relative performance
TELECOM ITALIA MEDIA S.p.A.
1/1/2006 – 3/31/2006
vs. MIBTEL and DJ Stoxx MEDIA Indexes
(ordinary shares)
(Source: Reuters)



■ MERGER BY INCORPORATION OF TIM ITALIA S.P.A. INTO TELECOM ITALIA S.P.A.

The merger of Tim Italia into Telecom Italia became effective as of March 1, 2006, as per the merger deed signed on February 22, 2006.

As of March 1, 2006, Telecom Italia therefore succeeded Tim Italia in all sales and purchases positions, as well as in all its rights and obligations acquiring, with no interruption, the entire patrimony and all the legal relationships that were held by the merged company. From an accounting standpoint, all the assets and liabilities of Tim Italia were summed with those of Telecom Italia, whereas the revenues and costs of the merged company will be included in the income statement of Telecom Italia as from March 1, 2006.

■ RATINGS

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

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

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

■ SELECTED OPERATING AND FINANCIAL DATA – TELECOM ITALIA GROUP

The First Quarter Report at March 31, 2006 of the Telecom Italia Group has been prepared in accordance with the format in Attachment 3D of the Regulation for Issuers, as provided by article 82 of the Regulation, and is unaudited.

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

Consistent with the requirements of IFRS, the statement of operations and balance sheet figures relating to discontinued operations or assets held for sale (Discontinued Operations) have been presented, for all periods under comparison, in two captions of the balance sheet "Discontinued operations/assets held for sale" and "Liabilities relating to discontinued operations/assets held for sale" and in one caption of the statement of operations "Net income (loss) from discontinued operations/assets held for sale".

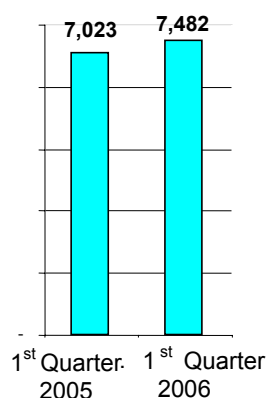
In particular:

- in the statement of operations and balance sheet data for the first quarter of 2006, discontinued operations only include Digitel Venezuela;
- in the statement of operations data for the first quarter of 2005, discontinued operations had included the following: the Entel Chile group, Tim Hellas, the Finsiel group, Tim Perù (sold during 2005), the Buffetti group (sold in January 2006) and Digitel Venezuela (held for sale);
- in the balance sheet at December 31, 2005, discontinued operations had included the data of Digitel Venezuela and the Buffetti group.

Excluding discontinued operations, during the first three months of 2006, the following changes took place in the scope of consolidation:

- compared to December 31, 2005: the exclusion of Wirelab from the end of February 2006, and the exclusion of Ruf Gestion from the end of March 2006;
- compared to March 31, 2005: the inclusion of the Liberty Surf group and the exclusion of Databank, Televoice, Innovis and Cell-Tell.

Revenues (euro/mln)

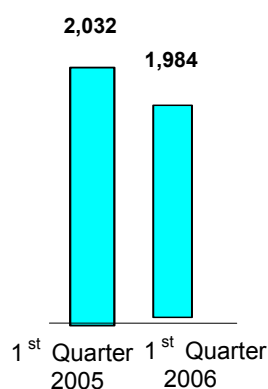


Operating and Financial Data (millions of euro)

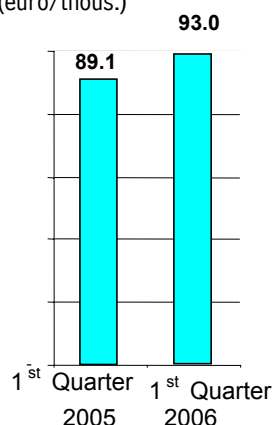
Revenues	
EBITDA	
EBIT	
Income from continuing operations before tax	
Net income from continuing operations	
Net income (loss) from discontinued operations/assets held for sale	
Net income attributable to the Parent and minority interests	
Net income attributable to the Parent	
Capital expenditures:	
- Industrial	
- Financial	

	1 st Quarter 2006	1 st Quarter 2005
Revenues	7,482	7,023
EBITDA	3,295	3,284
EBIT	1,984	2,032
Income from continuing operations before tax	1,417	1,484
Net income from continuing operations	761	820
Net income (loss) from discontinued operations/assets held for sale	11	7
Net income attributable to the Parent and minority interests	772	827
Net income attributable to the Parent	744	656
Capital expenditures:		
- Industrial	1,025	912
- Financial	-	13,870

EBIT (euro/mlin)



Revenues/Employees (euro/thous.)



Balance Sheet Data (millions of euro)

Total assets
Total shareholders' equity
- attributable to the Parent
- attributable to the minority interests
Net financial debt
Debt Ratio (Net financial debt/Net invested capital) (1)

Employees, number at period-end, (2)

Employees (excluding employees relating to discontinued operations/assets held for sale)
Employees relating to discontinued operations/assets held for sale

Employees, average number (2)

Employees (excluding employees relating to discontinued operations/assets held for sale)
Employees relating to discontinued operations/assets held for sale

Profit and Financial Ratios

EBITDA / Revenues
EBIT / Revenues (ROS)
Revenues/Employees (average number in Group, thousands of euros)

3/31/2006 12/31/2005

91,385	96,010
28,078	26,985
26,716	25,662
1,362	1,323
39,043	39,858
58.2	59.6

85,253	85,484
912	1,047

1st Quarter 2006 1st Quarter 2005

80,476	78,864
832	10,982

44.0	46.8
26.5	28.9
93.0	89.1

(1) Net invested capital = Total shareholders' equity + Net financial debt

(2) The number includes persons with temp work contracts

■ COMMENTS ON OPERATING AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP

CONSOLIDATED STATEMENTS OF OPERATIONS

(millions of euro)	1 st Quarter 2006 (a)	1 st Quarter 2005 (b)	Change	
			(a-b)	%
Revenue	7,482	7,023	459	6.5
Other income	111	77	34	44.2
Total operating revenue and other income	7,593	7,100	493	6.9
Purchases of materials and external services	(3,090)	(2,719)	(371)	13.6
Personnel costs	(1,018)	(957)	(61)	6.4
Other operating expense	(314)	(249)	(65)	26.1
Changes in inventories	12	16	(4)	(25.0)
Capitalized internal constructions costs	112	93	19	20.4
OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS/LOSSES REALIZED AND IMPAIRMENT REVERSALS/LOSSES OF NON-CURRENT ASSETS (EBITDA)	3,295	3,284	11	0.3
Depreciation and amortization	(1,428)	(1,242)	(186)	15.0
Capital gains/losses realized on non-current assets (1)	118	-	118	-
Impairment reversals/losses of non-current assets	(1)	(10)	9	(90.0)
OPERATING RESULT (EBIT)	1,984	2,032	(48)	(2.4)
Share of earnings (losses) of equity investments in associates accounted for using the equity method	12	12	-	-
Financial income	789	659	130	19.7
Financial expense	(1,368)	(1,219)	(149)	12.2
INCOME FROM CONTINUING OPERATIONS BEFORE TAX	1,417	1,484	(67)	(4.5)
Income taxes for the period	(656)	(664)	8	(1.2)
NET INCOME FROM CONTINUING OPERATIONS	761	820	(59)	(7.2)
Net income (loss) from discontinued operations/assets held for sale	11	7	4	57.1
NET INCOME FOR THE PERIOD	772	827	(55)	(6.7)
Net income attributable to:				
* Parent	744	656	88	13.4
* minority interests	28	171	(143)	(83.6)

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

Earnings per share:

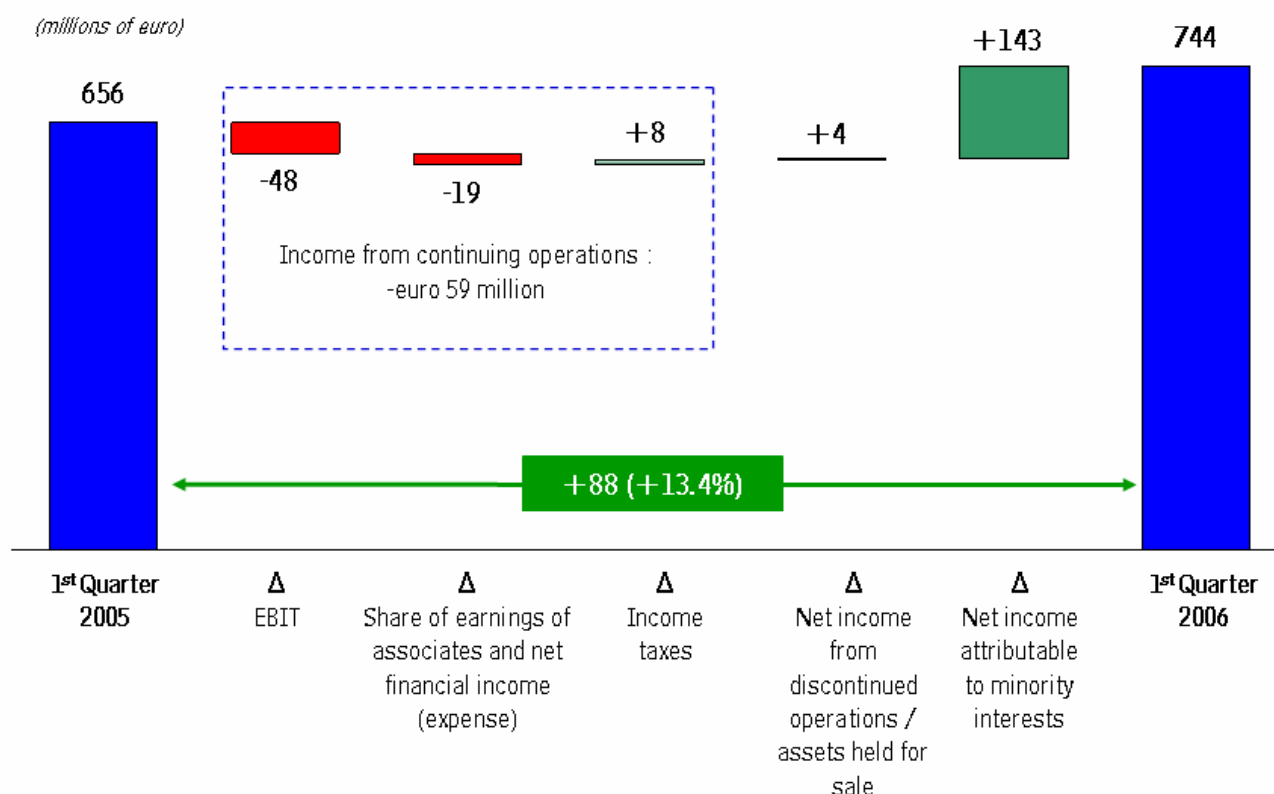
(euro)		
Earnings per share (basic=diluted)		
• ordinary shares	0.04	0.04
• savings shares	0.05	0.05
• from continuing operations		
• ordinary shares	0.04	0.04
• savings shares	0.05	0.05
• from discontinued operations/assets held for sale		
• ordinary shares	-	-
• savings shares	-	-

Consolidated net income of the Group in the first quarter of 2006 is euro 744 million (euro 772 million before minority interests). In the first quarter of 2005, the consolidated net income of the Group was euro 656 million (euro 827 million before minority interests).

The change in the consolidated net income of the Group (euro 88 million) is due to the following:

- *operating result*, -euro 48 million;
- *financial expense*, net of financial income, -euro 19 million;
- lower *income taxes*, euro 8 million;
- higher *net income (loss) from discontinued operations/assets held for sale*, euro 4 million;
- higher *net income attributable to the Parent* (+euro 143 million), mainly in connection with the merger of TIM (cash tender offer and merger). Complete control over Mobile activities had not been achieved in the first quarter of 2005 even though the cash tender offer was concluded at the end of January 2005 since the merger transaction became effective on July 1, 2005.

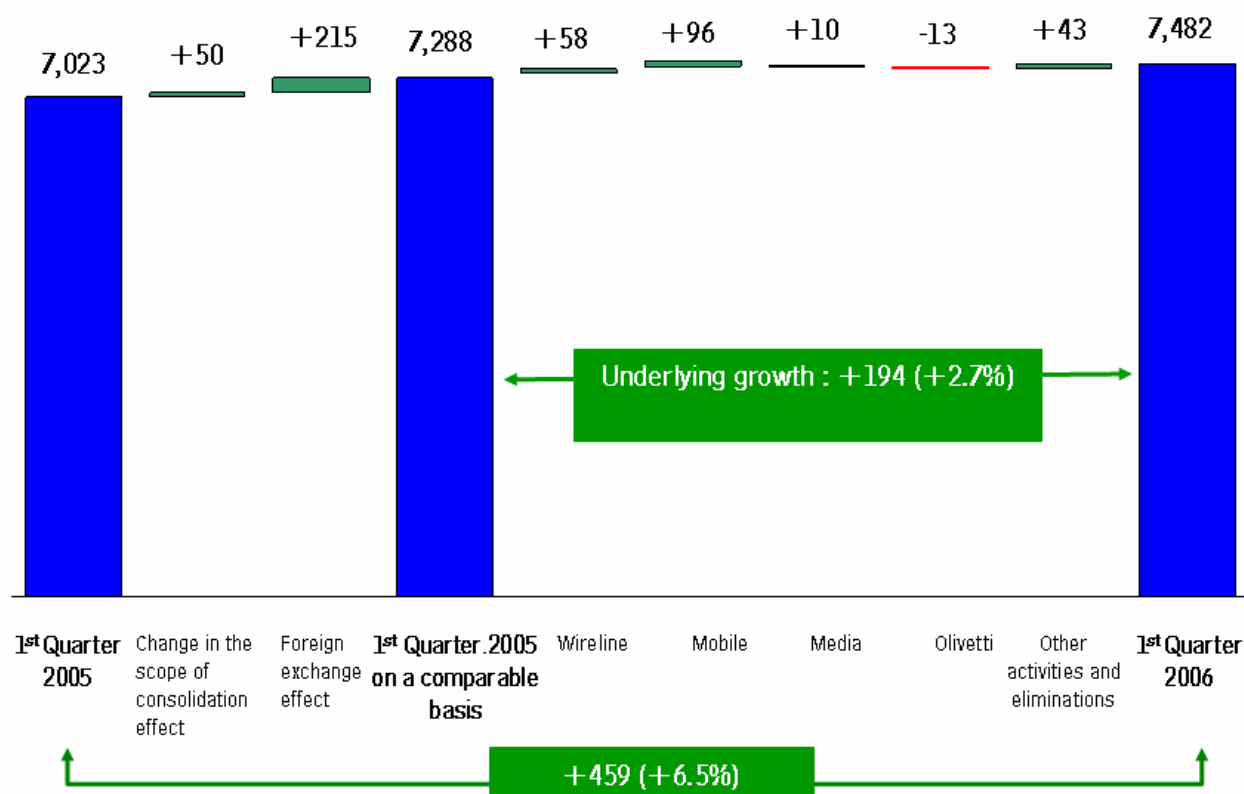
The following chart summarizes the major items which had an impact on the consolidated net income of the Group in the first quarter of 2006:



Revenue amounts to euro 7,482 million, with an increase of 6.5% compared to euro 7,023 million in the first quarter of 2005. Excluding the positive foreign exchange effect (+euro 215 million, mainly due to the South American companies of the Mobile Business Unit) and the positive effect of the change in scope of consolidation (+euro 50 million), underlying growth is equal to 2.7% (euro 194 million). Revenue in the first quarter of 2006, compared to the corresponding period of the prior year, was impacted by the cut in termination rates starting from September 2005.

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

(millions of euro)



The underlying growth of revenue particularly reflects:

- a significant contribution to revenue by the Mobile Business Unit (+euro 96 million), chiefly attributable to the activities of the Tim Brasil group (+euro 86 million) and, to a lesser degree, the domestic market (+euro 9 million) thanks to the positive trend of value-added services;
- an increase in the revenue of the Wireline Business Unit (+euro 58 million), achieved thanks to the expansion of the European broadband market and wholesale services, countered by a decline in the traditional telephony market which was also hurt by the impact of the reduction in fixed-mobile termination rates;
- an increase in the revenue of the Media Business Unit (+euro 10 million) which benefits from the growth of digital terrestrial technology and advertising;
- a reduction in the invoicing of the Olivetti Business Unit (-euro 13 million) as a result of a decline in the sales of specialized printers and printers using traditional Ink-jet technology which was partly compensated by the growth in Gaming and new Ink-jet products.

Revenue from telecommunications services is shown gross of the revenue amount due to third-party operators of euro 1,262 million (euro 1,102 million in the first quarter of 2005).

Foreign revenue amounts to euro 1,749 million (euro 1,234 million in the first quarter of 2005); 52% of the total is localized in the area of South America (49% in the first quarter of 2005).

Other income amounts to euro 111 million (euro 77 million in the first quarter of 2005) and refers to:

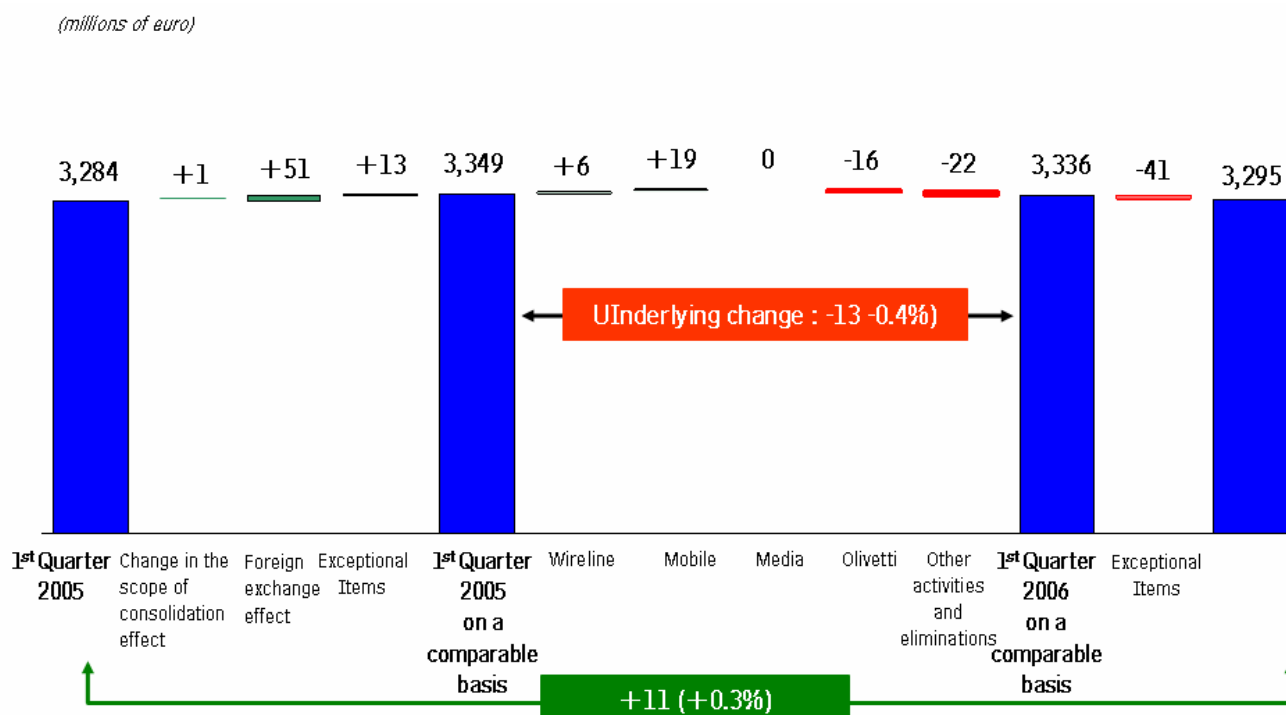
(millions of euro)	1 st Quarter 2006 (a)	1 st Quarter 2005 (b)	Change (a - b)
Late payment fees charged for regulated telephone services	25	15	10
Release of reserves and liability items	10	1	9
Recovery of costs of personnel and services rendered	6	9	(3)
Capital grants	9	10	(1)
Damage compensation	4	10	(6)
Operating grants	1	1	-
Sundry income	56	31	25
Total	111	77	34

EBITDA amounts to euro 3,295 million and grew compared to the first quarter of 2005 by euro 11 million (0.3%). The underlying change in EBITDA is a negative 0.4% (-euro 13 million) and is particularly due to the impact of the following:

- foreign exchange effect (euro 51 million);
- change in the scope of consolidation (euro 1 million);
- net negative effect of exceptional items (exceptional income and expenses) of euro 28 million, mainly in reference to, in the first quarter of 2006, corporate reorganization expenses (euro 25 million) and other exceptional expenses (euro 16 million); in the first quarter of 2005, exceptional items had referred to other expenses for a total of euro 13 million.

The percentage of EBITDA to revenues went from 46.8% in the first quarter of 2005 to 44.0% in the first quarter of 2006; the underlying percentage of EBITDA to revenues is equal to 44.6% in the first quarter of 2006 (46.0% in the first quarter of 2005).

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



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

- **purchases of materials and external services**, euro 3,090 million, with an increase of 13.6% compared to the first quarter of 2005 (euro 2,719 million). The percentage of purchases to revenues is 41.3% (38.7% in the first quarter of 2005);
- **personnel costs**, equal to euro 1,018 million, with an increase of 61 million (+6.4%) compared to the first quarter of 2005 (euro 957 million). The increase is largely due to the foreign component of personnel costs (+euro 36 million). For Italian companies, the increase of euro 26 million includes euro 12 million for voluntary termination incentives and the remaining euro 14 million is for personnel costs (principally for the effect of the renewal of the national collective bargaining agreement and a different impact caused by midweek public holidays).

Employees at March 31, 2006 number 86,165 and include 912 people relating to discontinued operations/assets held for sale. Excluding discontinued operations/assets held for sale, the number of employees of the Group is 85,253. Additional details are as follows:

	3/31/2006 (a)	12/31/2005 (b)	Change (a - b)
Italy	71,480	71,987	(507)
Abroad	13,773	13,497	276
Total (excluding discontinued operations/assets held for sale)	85,253	85,484	(231)
<i>Discontinued operations/assets held for sale :</i>			
<i>Italy</i>	-	184	(184)
<i>Abroad</i>	912	863	49
Total discontinued operations/assets held for sale	912	1,047	(135)
Total employees (1)	86,165	86,531	(366)

(1) Includes persons with temp work contracts: 3,055 at 3/31/2006 and 3,382 at 12/31/2005.

The reduction in employees of 366 compared to December 31, 2005 is due to:

- the sale of the Buffetti group (-183) and Wirelab (-54);
- the hiring of 1,662 employees, mainly abroad (80 of whom relating to discontinued operations), the termination of employment of 1,464 employees (31 of whom relating to discontinued operations) as well as a reduction in the number of people with temp work contracts of 327.

- **other operating expense**, equal to euro 314 million (euro 249 million in the first quarter of 2005), includes:

(millions of euro)	1 st Quarter 2006 (a)	1 st Quarter 2005 (b)	Change (a - b)
Impairments and expenses connected with receivables management	125	119	6
Provisions to reserves for future risks and charges	8	8	-
Telecommunications fees and charges	56	35	21
Taxes on revenues of South American companies	49	30	19
Indirect duties and taxes	38	31	7
Association dues and fees	4	4	-
Other expenses and prior period expenses	34	22	12
Total	314	249	65

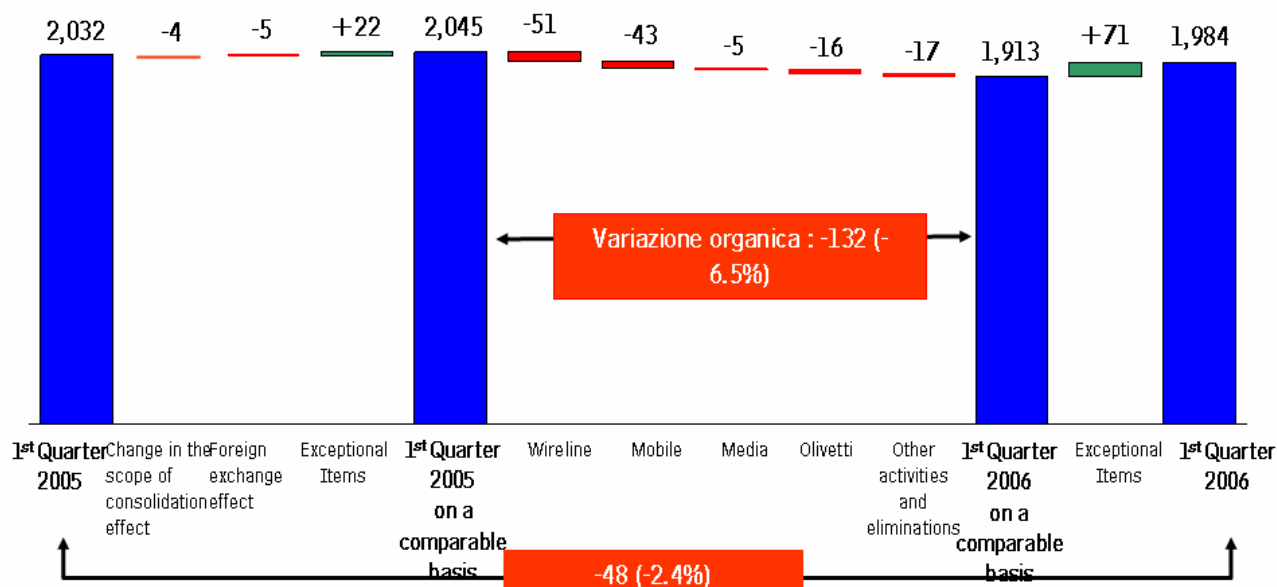
EBIT amounts to euro 1,984 million, with a decrease of euro 48 million compared to the first quarter of 2005 (- 2.4%). The underlying change in EBIT is negative and equal to 6.5% (-euro 132 million) and is particularly due to the impact of the following:

- foreign exchange effect (euro 5 million);
- effect of the change in the scope of consolidation (euro 4 million);
- net effect of exceptional items (exceptional income and expense) of euro 93 million, including, besides the comments on EBITDA in the first quarter of 2006, the gain on the second tranche of the disposal of properties (euro 85 million) and the gain on the disposal of the investment in Ruf Gestion (euro 27 million). In the first quarter of 2005, exceptional items had included, beside those already mentioned, writedowns and expenses on consolidated companies for euro 9 million.

The percentage of EBIT to revenues went from 28.9% in the first quarter of 2005 to 26.5% in the first quarter of 2006; the underlying percentage of EBIT to revenues is equal to 25.6% in the first quarter of 2006 (28.1% in the first quarter of 2005).

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

(millions of euro)



- development of network infrastructures and to support the business as well as the foreign exchange effect of the Brazilian companies in the Mobile Business Unit;
- **capital gains/losses realized on non-current assets** equal to euro 118 million. This amount includes euro 85 million of gains net of incidental charges, referring to additional transactions for the sale of real estate properties by the Group to the closed-end real estate investment funds Raissa and Spazio Industriale during the first quarter of 2006. The disposals took place as part of the property sales program approved by the board of directors' meeting on December 21, 2005. It also comprises euro 27 million for the disposal of the entire investment held in Ruf Gestion and other net gains equal to euro 6 million;
- **impairment reversals/losses of non-current assets** is a negative euro 1 million. In the first quarter of 2005, impairment losses had totaled euro 10 million and specifically included the impairments of property, plant and equipment of the company Maxitel.

The **share of earnings (losses) of equity investments in associates accounted for using the equity method** shows earnings of euro 12 million (unchanged compared to the first quarter of 2005). Details are as follows:

	1 st Quarter 2006 (a)	1 st Quarter 2005 (b)	Change (a – b)
(millions of euro)			
ETECSA	14	11	3
Solpart Participações	3	-	3
Sofora Telecomunicaciones	(3)	-	(3)
Other	(2)	1	(3)
Total	12	12	-

Financial income and expense shows a net expense balance of euro 579 million (-euro 560 million in the first quarter of 2005), with a change of euro 19 million compared to the first quarter of 2005. Details are as follows:

	1 st Quarter 2006 (a)	1 st Quarter 2005 (b)	Change (a – b)
(millions of euro)			
Investment management	-	66	(66)
Financial management balance	(579)	(626)	47
Total	(579)	(560)	(19)

The main changes are due to:

- the reduction of euro 66 million in investment management, which in the first quarter of 2005 had benefited, in particular, from the gains on the disposals of C-Mobil (euro 61 million) and the investment in Intelsat by Entel Bolivia (euro 2 million);
- the improvement of euro 47 million in the financial management balance mainly as a result of the reduction in the net average exposure during the first quarter of 2006 compared to the same period of the prior year.

Income taxes for the period amount to euro 656 million with a decrease of euro 8 million compared to the first quarter of 2005.

Net income (loss) from discontinued operations/assets held for sale amounts to euro 11 million and refers to Digital Venezuela. During the first quarter of 2005, the net income (loss) from discontinued operations/assets held for sale had totaled euro 7 million and included the loss by Digital Venezuela of euro 9 million, the net income by the Entel Chile group of euro 26 million, the loss by the Finsiel group of euro 7 million, the net income by Tim Hellas of euro 5 million, the net income by Tim Perù of euro 1 million, the net income by the Buffetti group of euro 2 million, as well as incidental charges relating to the disposal transactions and the loss on the disposal of Entel Chile, for a total of euro 11 million.

CONSOLIDATED BALANCE SHEETS

(millions of euro)	3/31/2006 (a)	12/31/2005 (b)	Change (a-b)
NON-CURRENT ASSETS			
Intangible assets			
- Goodwill and other intangible assets with an indefinite life	44,037	43,980	57
- Intangible assets with a finite life	6,787	6,810	(23)
	50,824	50,790	34
Tangible assets			
- Property, plant and equipment owned	16,101	16,443	(342)
- Assets held under finance leases	1,564	1,598	(34)
	17,665	18,041	(376)
Other non-current assets			
- Investments	1,385	1,342	43
- Securities and financial receivables	868	996	(128)
- Miscellaneous receivables and other non-current assets	853	825	28
	3,106	3,163	(57)
Deferred tax assets	2,397	2,793	(396)
TOTAL NON-CURRENT ASSETS (A)	73,992	74,787	(795)
CURRENT ASSETS			
Inventories	310	294	16
Trade receivables, miscellaneous receivables and other current assets	9,107	9,191	(84)
Securities other than investments	343	378	(35)
Financial receivables and other current financial asset	467	509	(42)
Cash and cash equivalents	6,734	10,323	(3,589)
Current assets subtotal	16,961	20,695	(3,734)
Discontinued operations/assets held for sale			
of a financial nature	43	37	6
of a non-financial nature	389	491	(102)
	432	528	(96)
TOTAL CURRENT ASSETS (B)	17,393	21,223	(3,830)
TOTAL ASSETS (A+B)	91,385	96,010	(4,625)
SHAREHOLDERS' EQUITY			
Shareholders' equity attributable to the Parent	26,716	25,662	1,054
Shareholders' equity attributable to the minority interests	1,362	1,323	39
TOTAL SHAREHOLDERS' EQUITY (C)	28,078	26,985	1,093
NON-CURRENT LIABILITIES			
Non-current financial liabilities	40,646	42,146	(1,500)
Employee severance indemnities and other employee-related reserves	1,345	1,351	(6)
Reserve for deferred taxes	57	137	(80)
Reserves for future risks and charges	807	797	10
Miscellaneous payables and other non-current liabilities	2,093	2,113	(20)
TOTAL NON-CURRENT LIABILITIES (D)	44,948	46,544	(1,596)
CURRENT LIABILITIES			
Current financial liabilities	6,734	9,812	(3,078)
Trade payables, current tax payables, miscellaneous payables and other current liabilities	11,390	12,384	(994)
Current liabilities subtotal	18,124	22,196	(4,072)
Liabilities relating to discontinued operations/assets held for sale			
of a financial nature	118	143	(25)
of a non-financial nature	117	142	(25)
	235	285	(50)
TOTAL CURRENT LIABILITIES (E)	18,359	22,481	(4,122)
TOTAL LIABILITIES (F=D+E)	63,307	69,025	(5,718)
TOTAL SHAREHOLDERS' EQUITY AND LIABILITIES (C+F)	91,385	96,010	(4,625)

Non-current assets total euro 73,992 million and decreased by euro 795 million compared to December 31, 2005.

Details are as follows:

- **intangible assets** increased by euro 34 million from euro 50,790 million at the end of 2005 to euro 50,824 million at March 31, 2006. This change is basically due to:
 - capital expenditures in other intangible assets with a finite life (euro 411 million);
 - amortization for the period (-euro 523 million);
 - foreign exchange differences, change in the scope of consolidation and other changes (for a total of euro 146 million);
- **tangible assets** decreased by euro 376 million from euro 18,041 million at the end of 2005 to euro 17,665 million at March 31, 2006, being the difference between:
 - capital expenditures (euro 614 million);
 - depreciation for the period (-euro 905 million);
 - disposals, change in the scope of consolidation, exchange differences and other changes (-euro 85 million);
- **other non-current assets** decreased by euro 57 million from euro 3,163 million at the end of 2005 to euro 3,106 million at March 31, 2006;
- **deferred tax assets** decreased by euro 396 million from euro 2,793 million at the end of 2005 to euro 2,397 million at March 31, 2006. The reduction is due to deferred tax assets offset against accruals during the quarter.

Current assets, equal to euro 16,961 million, decreased by euro 3,734 million compared to December 31, 2005. The reduction is mainly due to the decline in cash and cash equivalents of euro 3,589 million as a result of the repayment of non-current financial liabilities during the first quarter of 2006.

Discontinued operations/assets held for sale total euro 432 million (euro 528 million at December 31, 2005) in the first quarter of 2006 and consist of the assets of the company Digitel Venezuela and the goodwill of the same company for euro 158 million. At December 31, 2005, besides the assets and goodwill of Digitel Venezuela, this item had included the assets of the Buffetti group, sold in January 2006.

Shareholders' equity amounts to euro 28,078 million (euro 26,985 million at the end of 2005), of which euro 26,716 million is attributable to the Parent (euro 25,662 million at December 31, 2005) and euro 1,362 million to minority interests (euro 1,323 million at December 31, 2005).

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

(millions of euro)	1/1-3/31 2006	Year 2005
At beginning of period	26,985	20,798
Contribution by shareholders, conversion of bonds and stock options	25	1,842
Net income attributable to the Parent and the minority interests	772	3,690
Dividends by:	(37)	(2,342)
- <i>Telecom Italia S.p.A.</i>	-	(1,912)
- <i>TIM S.p.A.</i>	-	(376)
- <i>Other Group companies</i>	(37)	(54)
Tender offer for Tim and additional purchases of Tim shares	-	(2,124)
Telecom Italia/Tim merger	-	4,911
Tender offer for TI Media shares	-	(134)
Exchange differences, changes in the scope of consolidation and other changes	333	344
At end of period	28,078	26,985

Liabilities, equal to euro 63,307 million (euro 69,025 million at December 31, 2005), decreased by euro 5,718 million. Liabilities are composed as follows:

- **non-current liabilities** for euro 44,948 million (euro 46,544 million at December 31, 2005 with a decrease of euro 1,596 million);
- **current liabilities** for euro 18,124 million (euro 22,196 million at December 31, 2005 with a decrease of euro 4,072 million);
- **liabilities relating to discontinued operations/assets held for sale**, equal to euro 235 million (euro 285 million at December 31, 2005), corresponding to liabilities of the company Digitel Venezuela (euro 226 million at the end of 2005). The liabilities of the Buffetti group, included in discontinued operations at the end of 2005 had amounted to euro 59 million.

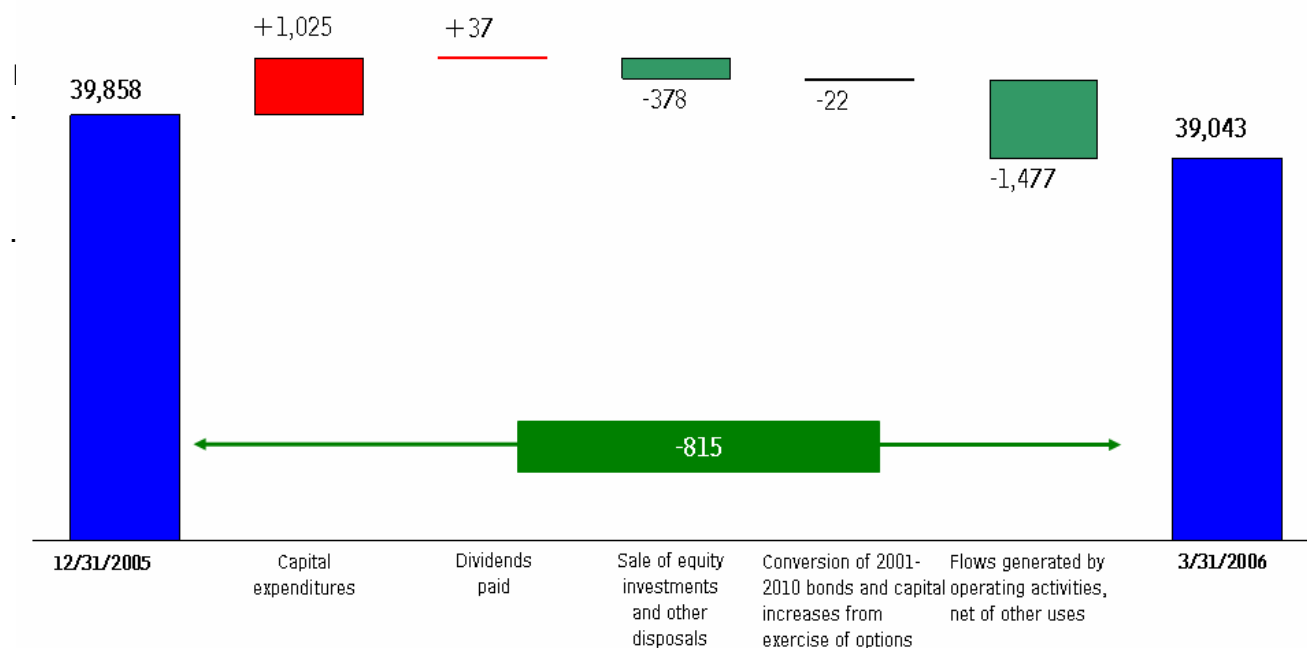
The **net financial debt** amounts to euro 39,043 million at March 31, 2006, with a decrease of euro 815 million compared to euro 39,858 million at the end of 2005. It includes the net financial debt of discontinued operations of euro 75 million (euro 106 million at December 31, 2005).

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

(millions of euro)	3/31/2006	12/31/2005	Change
	(a)	(b)	(a-b)
GROSS FINANCIAL DEBT			
Non-current financial liabilities			
- Financial payables	38,747	40,252	(1,505)
- Finance lease liabilities	1,899	1,894	5
Current financial liabilities			
- Financial payables	6,484	9,572	(3,088)
- Finance lease liabilities	243	234	9
- Other financial liabilities	7	6	1
Financial liabilities relating to discontinued operations/assets held for sale	118	143	(25)
TOTAL GROSS FINANCIAL DEBT (A)	47,498	52,101	(4,603)
FINANCIAL ASSETS			
Non-current financial assets			
- Securities other than equity investments	9	8	1
- Financial receivables and other non-current financial assets	859	988	(129)
Current financial assets			
- Securities other than equity investments	343	378	(35)
Financial receivables and other current financial assets	467	509	(42)
Cash and cash equivalents	6,734	10,323	(3,589)
Financial assets relating to discontinued operations/assets held for sale	43	37	6
TOTAL FINANCIAL ASSETS (B)	8,455	12,243	(3,788)
NET FINANCIAL DEBT (A-B)	39,043	39,858	(815)

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

(millions of euro)



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

(millions of euro)	3/31/2006	12/31/2005
Securitization	662	648
Factoring	60	615
	722	1,263

With reference to the financial debt of the Telecom Group, the following can be said:

The following transactions regarding **bonds and notes** took place in the first quarter of 2006:

1) NEW ISSUES

Telecom Italia 2002-2022 bonds, set aside for subscription by employees of the Group, increased during the first quarter of 2006 by euro 10 million as a result of bond purchases/subscriptions for euro 31 million and sales for euro 21 million by the bondholders. The amount subscribed at March 31, 2006 is equal to euro 259 million (the maximum amount of bonds that can be subscribed is equal to euro 400 million). According to the bond indenture, the Company is the sole counterpart for purchases and sales made by holders of this bond category.

2) REPURCHASE OF BONDS

Telecom Italia Finance S.A. repurchased a nominal amount of euro 48.4 million of its bonds out of the original amount of euro 3,000 million, maturing April 20, 2006; the residual nominal debt is therefore equal to euro 2,464.6 million.

The same Telecom Italia Finance S.A. repurchased a nominal amount of euro 25 million of bonds convertible into shares of Telecom Italia S.p.A. or SEAT Pagine Gialle S.p.A. and Telecom Italia Media S.p.A.; after these purchases the residual nominal debt is equal to euro 1,709.7 million.

Telecom Italia Finance S.A. also repurchased additional bonds out of the bond issue for euro 2,350 million, with 6.575% coupon interest, maturing July 30, 2009, for a nominal amount of euro 40 million; the residual nominal debt is now equal to euro 2,210 million.

3) REPAYMENTS AND CONVERSIONS

Repayment of "Telecom Italia Finance S.A. euro 1,100,000,000 floating rate notes due 2006"

On January 3, 2006, Telecom Italia Finance S.A. repaid its notes issued on May 29, 2002 (euro 1,045 million net of repurchases made in 2003 for euro 55 million).

Early repayment of "Telecom Italia S.p.A. euro 1,000,000,000 floating rate notes due 2007"

On December 2, 2005, the board of directors of Telecom Italia S.p.A. approved the early repayment of the floating-rate notes maturing October 29, 2007 denominated "Telecom Italia S.p.A. euro 1,000,000,000 Floating Rate Notes due 2007". The repayment took place on January 30, 2006, the earliest date possible under the bond indenture.

Repayment of "Telecom Italia Finance S.A. exchangeable notes 1% due 2006"

On March 15, 2006, Telecom Italia Finance S.A. repaid its exchangeable notes 1% at maturity for euro 2,012 million (inclusive of the repayment premium equal to 117.69%).

Conversion of "Telecom Italia S.p.A. 1.5% 2001-2010 convertible bonds with a repayment premium"

As a result of requests for the conversion of "Telecom Italia 1.5% 2001-2010 convertible bonds with a repayment premium", the nominal amount with a repayment premium referring to these bonds decreased during the first quarter of 2006 by euro 26 million (the accounting amount of the reduction is euro 19.6 million).

Bonds and notes, therefore, present the following situation at March 31, 2006:

Bonds are carried for an amount of euro 32,685 million (euro 35,462 million at December 31, 2005). Instead, in terms of the nominal repayment amount, bonds total euro 32,203 million, with a reduction of euro 2,374 million compared to December 31, 2005 (euro 34,577 million), with the following breakdown: Telecom Italia S.p.A. euro 8,777 million, Telecom Italia Finance S.A. euro 15,164 million and Telecom Italia Capital S.A. euro 8,262 million.

Convertible bonds are carried for an amount of euro 464 million (euro 2,519 million at December 31, 2005) and refer entirely to convertible bonds issued by Telecom Italia S.p.A.. In terms of the repayment amount, these bonds total euro 574 million with a reduction of euro 2,068 million compared to December 31, 2005 (euro 2,642 million).

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

The following table shows the maturities of non-current financial liabilities both in terms of the expected nominal repayable amount as contractually defined and the accounting amount (including measurements for fair value adjustments and amortized cost). The bonds repurchased, even if they have not yet been cancelled, are shown as a reduction of debt.

The average maturity of non-current financial liabilities is equal to 7.8 years.

The information presented in the following tables does not take into account the debt positions of Digital Venezuela with companies of the Group (non-current liabilities for euro 11 million) carried under "Liabilities relating to discontinued operations/assets held for sale".

MATURITIES OF NON-CURRENT FINANCIAL LIABILITIES (1)(2)						
(millions of euro)	Bonds		Loans and other debt		Total	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount	Nominal amount	Carrying amount
within March 2007	4,214	5,080	445	665	4,659	5,745
within March 2008	3,394	3,399	1,009	938	4,403	4,337
within March 2009	2,436	2,443	609	578	3,045	3,021
within March 2010	3,817	3,746	3,364	3,445	7,181	7,191
within March 2011	1,659	1,654	223	222	1,882	1,876
beyond March 2011	17,257	16,827	6,818	7,394	24,075	24,221
	32,777	33,149	12,468	13,242	45,245	46,391
Discontinued operations			116	118	116	118
TOTAL	32,777	33,149	12,584	13,360	45,361	46,509

(1) The carrying amount includes measurements for fair value adjustments and amortized cost.

(2) Including amounts due within March 31, 2007.

Financial commitments for maturities due within the 12 months after March 31, 2006 are as follows:

FINANCIAL LIABILITIES MATURING WITHIN 12 MONTHS (1)						
(millions of euro)	Non-current financial liabilities – portion due within 12 months		Current financial liabilities		Total	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount	Nominal amount	Carrying amount
Total	4,659	5,745	935	989	5,594	6,734
Discontinued operations	56	58	-	-	56	58
TOTAL	4,715	5,803	935	989	5,650	6,792

(1) The carrying amount includes measurements for fair value adjustments and amortized cost.

The above short-term financial commitments are financed by current financial assets, excluding discontinued operations, of euro 7,544 million (euro 7,255 million at nominal amounts) and provide coverage of maturities up to and including 2007.

Moreover, it should be pointed out that, at March 31, 2006, committed credit lines unused and expiring in March 2007 amount to euro 5 billion, following the cancellation of euro 1.5 billion of credit lines on October 20, 2005. This cancellation, however, made euro 1.5 billion available on the committed revolving credit line expiring August 2012, bringing the total committed unused and available credit lines to euro 6.5 billion.

Cash and cash equivalents at March 31, 2006 amount to euro 6,734 million (euro 10,323 million at December 31, 2005).

Cash and cash equivalents at March 31, 2006 have the following characteristics:

- Maturities: deposits have a maximum maturity date of two months;
- Counterpart risks: deposits are made at leading banking and financial institutions with a high credit standing generally rated at least A;
- Country risk: deposits are generally made on European financial markets.

Securities other than equity investment securities (with maturities of less than three months) include Euro Commercial Papers held by Telecom Italia Finance S.A., with maximum maturity of less than one month for euro 307 million (euro 327 million at December 31, 2005) . The issuers all have AAA and A ratings and are located in Europe.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of euro)	1 st Quarter 2006	1 st Quarter 2005
CASH FLOW ATTRIBUTABLE TO OPERATING ACTIVITIES		
Net income from continuing operations	761	820
<i>Adjustments to reconcile net income from continuing operations with cash flows generated (used) by operating activities:</i>		
Depreciation and amortization	1,428	1,242
Impairment reversals/losses of non-current assets (including investments)	4	(29)
Net change in deferred tax assets and liabilities	238	(53)
Capital gains/losses realized on disposal of non-current assets (including investments)	(118)	(65)
Share of earnings (losses) of investments in associates accounted for using the equity method	(12)	(12)
Change in employee severance indemnities and other employee-related reserves	(16)	38
Change in other operating assets and liabilities:		
Change in inventories	(16)	(32)
Change in trade receivables	(35)	(149)
Change in trade payables	(624)	(584)
Net change in miscellaneous receivables/payables and other assets/liabilities	187	772
CASH FLOW GENERATED BY OPERATING ACTIVITIES (A)	1,797	1,948
CASH FLOW ATTRIBUTABLE TO INVESTING ACTIVITIES		
<i>Acquisition of intangible assets on an accrual basis</i>	<i>(411)</i>	<i>(232)</i>
<i>Acquisition of tangible assets on an accrual basis</i>	<i>(614)</i>	<i>(680)</i>
<i>Total acquisition of intangible and tangible assets on accrual basis</i>	<i>(1,025)</i>	<i>(912)</i>
<i>Change in trade payables for investing activities</i>	<i>(370)</i>	<i>(378)</i>
Total acquisition of intangible and tangible assets on a cash basis	(1,395)	(1,290)
Acquisition of investments in subsidiaries and businesses, net of cash acquired (I)	-	(13,868)
Acquisition of other investments	-	(2)
Change in financial receivables and other financial assets	215	(363)
Consideration received on the sale of investments in subsidiaries, net of cash sold (II)	111	490
Consideration received on the sale of tangible, intangible and other non-current assets and capital reimbursements	256	90
CASH FLOW USED BY INVESTING ACTIVITIES (B)	(813)	(14,943)
CASH FLOW ATTRIBUTABLE TO FINANCING ACTIVITIES		
Net change in current financial liabilities	(343)	(403)
New non-current financial liabilities (including current portion)	89	10,189
Repayment of non-current financial liabilities (including current portion)	(4,218)	(631)
Consideration received for equity instruments	2	91
Share capital increases/repurchases, net of related costs	-	-
Dividends paid to minority shareholders (distribution of reserves included)	(37)	(15)
CASH FLOW GENERATED (USED) BY FINANCING ACTIVITIES (C)	(4,507)	9,231
Cash flows generated (used) by discontinued operations/assets held for sale (D)	9	(21)
AGGREGATE CASH FLOW (E=A+B+C+D)	(3,514)	(3,785)
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF PERIOD (F)	9,958	8,667
Net effect of foreign currency translation on cash and cash equivalents (G)	29	27
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (H=E+F+G)	6,473	4,909
OTHER INFORMATION		
Income tax paid	5	29
Interest expense paid	1,006	876
Interest income received	167	149
Dividends received	12	12

(I) Net of the change in payables as a result of the relative acquisitions.

(II) Net of the change in receivables as a result of the relative sales.

RECONCILIATION OF TOTAL NET CASH AND CASH EQUIVALENTS

(millions of euro)	1 st Quarter 2006	1 st Quarter 2005
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD		
Cash and cash equivalents – from continuing operations	10,323	8,746
Bank borrowings repayable on demand – from continuing operations	(383)	(248)
Cash and cash equivalents – included in discontinued operations/assets held for sale	37	210
Bank borrowings repayable on demand – included in discontinued operations/assets held for sale	(19)	(41)
	9,958	8,667
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD		
Cash and cash equivalents – from continuing operations	6,734	5,301
Bank borrowings repayable on demand – from continuing operations	(304)	(354)
Cash and cash equivalents – included in discontinued operations/assets held for sale	43	4
Bank borrowings repayable on demand – included in discontinued operations/assets held for sale	-	(42)
	6,473	4,909

BUSINESS OUTLOOK

With regard to the current year operating performance, revenues are expected to increase over the prior year with the operating margin remaining substantially stable, on a comparable consolidation, exchange rate and accounting standard basis.

Debt is expected to continue to decline consistently with the course of action outlined in the market communication on 2006-2008 targets, a course that has already been confirmed by the trend of debt seen during the first quarter of 2006.

KEY DATA - TELECOM ITALIA GROUP BUSINESS UNITS

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

(millions of euro)		Wireline (1)	Mobile	Media	Olivetti	Other activities (1)	Adjustments and eliminations	Total Group
Revenue	1 st Quarter 2006	4,471	3,206	44	94	355	(688)	7,482
	1 st Quarter 2005	4,356	2,905	35	108	314	(695)	7,023
EBITDA	1 st Quarter 2006	1,983	1,440	(28)	(12)	(81)	(7)	3,295
	1 st Quarter 2005	2,000	1,377	(27)	4	(68)	(2)	3,284
EBIT	1 st Quarter 2006	1,175	890	(41)	(17)	(31)	8	1,984
	1 st Quarter 2005	1,255	934	(36)	-	(130)	9	2,032
Capital expenditures	1 st Quarter 2006	756	235	45	2	18	(31)	1,025
	1 st Quarter 2005	689	188	15	4	17	(1)	912
Employees (2) (number at period-end)	3/31/2006	56,891	20,629	958	1,622	5,153	-	85,253
	12/31/2005	56,987	20,767	886	1,750	5,094	-	85,484

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

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

Key operating and financial data referring to discontinued operations:

		Discontinued Operations				Subtotal	Other, Adjustments and Eliminations (3)	Total
		Mobile (1)	Media (2)	Entel Chile Group	IT Market			
(millions of euro)								
Revenue	1 st Quarter 2006	95	-	-	-	95	(1)	94
	1 st Quarter 2005	277	37	238	148	701	(24)	676
EBITDA	1 st Quarter 2006	25	-	-	-	25	-	25
	1 st Quarter 2005	75	5	77	2	159	(9)	150
EBIT (3)	1 st Quarter 2006	12	-	-	-	12	-	12
	1 st Quarter 2005	22	4	36	(3)	59	(11)	48
Net income (loss) from discontinued operations / assets held for sale	1 st Quarter 2006	11	-	-	-	11	-	11
	1 st Quarter 2005	(3)	2	26	(7)	18	(11)	7
Capital expenditures	1 st Quarter 2006	8	-	-	-	8	-	8
	1 st Quarter 2005	14	-	27	1	42	-	42
Net financial debt (liquidity)	3/31/2006	75	-	-	-	75	-	75
	12/31/2005	90	16	-	-	106	-	106
Employees (number at period- end)	3/31/2006	912	-	-	-	912	-	912
	12/31/2005	863	184	-	-	1,047	-	1,047

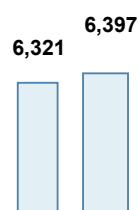
(1) Includes: Tim Hellas (sold at the beginning of June 2005), Tim Perù (sold in August 2005) and Digitel Venezuela (company held for sale).

(2) Buffetti group (sold in January 2006).

(3) The EBIT adjustments and eliminations in the first quarter of 2005 include incidental charges relating to disposal transactions and the loss on the sale of Entel Chile.

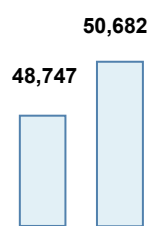
■ OPERATING HIGHLIGHTS - TELECOM ITALIA GROUP

Voice plans
(thousands)



12/31 2005 3/31 2006

Total mobile lines
(thousands)



12/31 2005 3/31 2006

WIRELINE

Fixed network connections in Italy (thousands)

- of which ISDN

Physical accesses (*Consumer + Business*)

Voice pricing plans (thousands)

Broadband access (thousands)

- domestic (thousands)

- European (thousands)

Alice Page views - ex-Virgilio (millions)

Alice average monthly single visitors - ex-Virgilio (millions)

Network infrastructure in Italy:

- access network in copper (millions of km - pair)

- access network and transport in fiber optics

(millions of km of fiber optics)

Network infrastructure abroad:

- European backbone (km of fiber optics)

3/31/2006 12/31/2005

24,867 25,049

5,404 5,459

21,580 21,725

6,397 6,321

7,453 7,020

5,982 5,707

1,471 1,313

3,184 9,842

19.2 15.7

105.2 105.2

3.7 3.7

51,000 51,000

MOBILE

Mobile lines - in Italy (at period-end, thousands)

Mobile lines - foreign (at period-end, thousands) (1)

Total lines (Italy + foreign, thousands) (1)

GSM penetration in Italy (% of population)

29,664 28,576

21,018 20,171

50,682 48,747

99,8 99,8

MEDIA

La 7 audience share Free to Air (analog mode)
(period average %)

La 7 audience share Free to Air (analog mode)
(month of March in %)

2.9 2.7

3.0 3.1

(1) Foreign lines exclude those of the consolidated companies considered discontinued operations.

■ DIVESTITURES OF INVESTMENTS

The following main investment divestiture transactions took place during the first quarter of 2006.

SALE OF GRUPPO BUFFETTI S.p.A.

On January 11, 2006, the contract signed on September 26, 2005 was finalized for the sale of the entire investment in Gruppo Buffetti S.p.A. to Dylog Italia S.p.A., realizing a gain of euro 66 million in the quarter.

SALE OF CORPORACIÒN DIGITEL C.A.

On January 19, 2006, Telecom Italia, through its subsidiary TIM International, signed the agreement for the sale of 100% of the capital of the Venezuelan mobile operator Corporaciòn Digitel C.A. (Digitel Venezuela) to the company Telvenco S.A., owned by Oswaldo Cisneros, for a price equal to USD 425 million (enterprise value). The execution of the agreement is subject to receiving the necessary authorizations from the relevant Venezuelan authorities.

■ SUBSEQUENT EVENTS

APPROVAL OF THE BOARD OF DIRECTORS' MOTION TO BUY BACK SHARES FOR A MAXIMUM OF EURO 1 BILLION BY THE SHAREHOLDERS' MEETING

On April 13, 2006, the Telecom Italia shareholders' meeting authorized, for a period of 18 months, the purchase of ordinary and/or savings shares of the company, within the limits of the law and, in any case, up to a maximum expenditure of euro 1 billion. The shareholders' meeting also vested the board of directors with the right to proceed to dispose of the ordinary or savings treasury stock purchased by the company, for which no cancellation is foreseen - at this time - during that same period.

REPAYMENT OF "TELECOM ITALIA FINANCE S.A. Euro 3,000,000,000 6.125 % Notes due 2006"

On April 20, 2006, the Telecom Italia Finance S.A. notes issued on April 20, 2001, annual coupon interest of 6.375% (after the coupon step-up), matured and were repaid for euro 2,464.6 million.

SALE OF NEUF TÉLÉCOM

On May 2006, the contract was signed for the sale of the entire holding of shares held by Telecom Italia International in Neuf Télécom (about 4.99% of the relative share capital) to Louis Dreyfus and Société Française du Radiotéléphone for a price of about euro 161 million. Telecom Italia International will also have the right to a price adjustment, if the price per share realized under an IPO of Neuf Télécom ordinary shares or the sale of the majority of the shares of the company eventually proves to be higher than the agreed price.

■ RELATED PARTY TRANSACTIONS

Related party transactions, including intragroup transactions, are neither unusual nor exceptional but fall under the normal business operations of the companies of the Group. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm's length.

The operating, balance sheet and financial effects of transactions with related parties on the consolidated data of the Telecom Italia Group at March 31, 2006 are presented in detail below. Furthermore, the income statement and capital expenditure data is compared with the first three months of 2005 while the balance sheet data is compared with the data at December 31, 2005.

The following table presents the major operating, balance sheet and financial transactions between companies consolidated line-by-line and associates and jointly controlled companies.

(millions of euro)	1 st Quarter 2006	1 st Quarter 2005	
Revenue	68	59	This refers mainly to revenues from Teleleasing SpA euro 50 million (euro 33 million in the first quarter of 2005), LI.SIT SpA euro 5 million (euro 14 million in the first quarter of 2005), Shared Service Center Scrl euro 6 million (euro 5 million in the first quarter of 2005), Telecom Argentina SA euro 4 million (euro 2 million in the first quarter of 2005) and EtecSA euro 2 million (euro 2 million in the first quarter of 2005)
Other income	1	1	This mainly refers to cost recoveries for personnel on loan to certain subsidiaries and associates
Purchases of materials and external services	30	65	These refer mainly to costs for Tlc equipment from Teleleasing SpA euro 6 million (euro 3 million in the first quarter of 2005), software and computer material costs, as well as for maintenance and assistance contracts from Siemens Informatica SpA euro 5 million (euro 17 million in the first quarter of 2005), for maintenance and assistance contracts from Shared Service Center Scrl euro 5 million (euro 7 million in the first quarter of 2005), sponsorship costs from Luna Rossa Challenge 2007 SL euro 4 million, for TLC services from Telecom Argentina SA euro 4 million (euro 1 million in the first quarter of 2005), costs for accessories and consumable stores from Baltea Srl euro 1 million, costs for remote medicine services from Telbios SpA euro 1 million, costs for rent from Tiglio I Srl euro 1 million (euro 2 million in the first quarter of 2005) e Tiglio II Srl euro 1 million (euro 5 million in the first quarter of 2005). The first quarter of 2005 had included costs for TLC services from EtecSA (euro 27 million)
Financial income	0	1	This includes accrued interest income on loans made to certain associates
Financial expense	6	8	These refer to interest expenses from Teleleasing SpA euro 6 million (euro 5 million in the first quarter of 2005) for finance leases. The first quarter of 2005 had included interest expense payable to Tiglio I Srl and Tiglio II Srl (for a total of euro 3 million) for sale and leaseback transactions
Capital expenditures in tangible and intangible assets	26	23	These refer to acquisitions of computer projects from Shared Service Center Scrl euro 19 million (euro 14 million in the first quarter of 2005), Siemens Informatica SpA euro 7 million (euro 8 million in the first quarter of 2005). The first quarter of 2005 had included acquisitions from Value Team (euro 1 million)

<i>(millions of euro)</i>	3/31/2006	12/31/2005	
Securities and non-current financial receivables	22	24	These refer mainly to medium/long term loans made to Aree Urbane Srl euro 22 million (euro 21 million at December 31, 2005). At December 31, 2005, they had also included loans receivable Tiglio II Srl (euro 3 million)
Miscellaneous receivables and other non-current assets	14	15	These refer to receivables from LI.SIT SpA for the residual additional paid-in capital paid
Trade receivables, miscellaneous receivables and other current assets	203	214	These refer mainly to receivables from LI.SIT. SpA euro 108 million (euro 102 million at December 31, 2005), Teleleasing SpA euro 57 million (euro 75 million at December 31, 2005), Telecom Argentina SA euro 8 million (euro 4 million at December 31, 2005), Luna Rossa Challenge 2007 SL euro 7 million, AVEA IHAS euro 6 million (euro 5 million at December 31, 2005), Shared Service Center Srl euro 4 million (euro 4 million at December 31, 2005) and EtecSA euro 3 million (euro 3 million at December 31, 2005). At December 31, 2005, they had also included receivable from Nord.com SpA euro 1 million and Tiglio I Srl euro 1 million
Cash and cash equivalents	1	14	These refer to treasury accounts with associates
Non-current financial liabilities	270	279	These refer to non-current financial payables for finance leases to Teleleasing SpA euro 215 million (euro 203 million at December 31, 2005), for sale and leaseback transactions to Tiglio I Srl euro 32 million (euro 43 million at December 31, 2005) and Tiglio II Srl euro 23 million (euro 33 million at December 31, 2005)
Miscellaneous payables and other non-current financial liabilities	10	10	These refer to the medium/long-term portion of deferred income on the sale of "IRU" transmission capacity to Telecom Argentina SA
Current financial liabilities	127	124	These refer to current financial payables for finance leases to Teleleasing SpA euro 116 million (euro 113 million at December 31, 2005), for sale and leaseback transactions to Tiglio I Srl euro 8 million (euro 8 million at December 31, 2005) and Tiglio II Srl euro 3 million (euro 3 million at December 31, 2005)
Trade payables, miscellaneous payables and other current liabilities	108	118	These mainly refer to payables for supply transactions connected with operations and investment activities with Siemens Informatica SpA euro 39 million (euro 56 million at December 31, 2005), Shared Service Center Srl euro 23 million (euro 18 million at December 31, 2005), Teleleasing SpA euro 11 million (euro 6 million at December 31, 2005), EtecSA euro 9 million (euro 11 million at December 31, 2005), Luna Rossa Challenge 2007 SL euro 4 million, Telbios SpA euro 2 million (euro 2 million at December 31, 2005), Telecom Argentina SA euro 2 million (euro 1 million at December 31, 2005), Baltea Srl euro 2 million (euro 1 million at December 31, 2005), AVEA IHAS euro 1 million (euro 1 million at December 31, 2005) and Tiglio I Srl euro 1 million (euro 2 million at December 31, 2005), and also deferred income from LI.SIT SpA of euro 12 million relating to the portion matured on investment income (euro 11 million at December 31, 2005)

The Telecom Italia Group has also provided guarantees on behalf of associates for a total of euro 248 million (euro 276 million at December 31, 2005) of which euro 115 million is on behalf of AVEA I.H.A.S. (euro 121 million at December 31, 2005), euro 54 million on behalf of Tiglio I S.r.l. (euro 54 million at December 31, 2005), euro 38 million on behalf of Aree Urbane S.r.l. (euro 44 million at December 31, 2005), euro 28 million on behalf of Italtel Holding S.p.A. (euro 31 million at December 31, 2005) and euro 13 million on behalf of other companies (euro 26 at December 31, 2005).

In addition to transactions with associates, the following table presents transactions with the subsidiaries of associates: the companies of the Italtel Group, related through the investment in the parent Italtel Holding S.p.A. and the companies of the Brasil Telecom Participações S.A. group, related through Solpart Participações S.A., with the latter starting from July 1, 2005.

<i>(millions of euro)</i>	1 st Quarter 2006	1 st Quarter 2005	
Revenue	51	0	These mainly refer to revenues for telecommunications services rendered to the Brasil Telecom Participações group euro 50 million
Purchases of materials and external services	9	3	These refer to costs for maintenance and assistance contracts from the Italtel group euro 4 million (euro 3 million in the first quarter of 2005) and TLC service costs from the Brasil Telecom Participações group euro 5 million
Capital expenditures in tangible and intangible assets	109	79	These refer to the purchase of telephone exchanges exclusively for the Italtel Group

<i>(millions of euro)</i>	3/31/2006	12/31/2005	
Trade receivables, miscellaneous receivables and other current assets	15	8	These refer to receivables from the Brasil Telecom Participações group connected with TLC operations and dividends to be collected euro 13 million (euro 4 million at December 31, 2005) and telephone services rendered to the Italtel group euro 2 million (euro 2 million at December 31, 2005)
Trade payables, miscellaneous payables and other current liabilities	97	101	These refer to supply transactions connected with investment and operating activities with the Italtel group

The following table presents the major operating, balance sheet and financial transactions between companies consolidated line-by-line and parties related to Telecom Italia through directors, statutory auditors and key managers of the Company.

<i>(millions of euro)</i>	1 st Quarter 2006	1 st Quarter 2005	
Revenue	3	7	These refer to revenues for information system and computer services and energy services supplied to the Pirelli group, euro 2 million (euro 2 million in the first quarter of 2005, to the Edizione Holding group, euro 1 million (euro 1 million in the first quarter of 2005). The first quarter of 2005 had included euro 3 million in revenues from the Unipol group and euro 1 million from ST Microelectronics group, which are no longer related parties
Purchases of materials and external services	32	25	These refer to R&D expenditures and matters regarding intellectual property rights and real estate activities from the Pirelli group, euro 25 million (euro 14 million in the first quarter of 2005), Document Management services from Telepost, euro 5 million (euro 5 million in the first quarter of 2005), commissions paid to Autogrill (Edizione Holding group) for the sale of prepaid telephone cards, euro 1 million (euro 1 million in the first quarter of 2005) and from Camfin and F.C. Internazionale Milano euro 1 million (euro 2 million in the first quarter of 2005). The first quarter of 2005 included euro 2 million relating to insurance services from the Unipol group and euro 1 million from ST Microelectronics, which are no longer related parties
Capital expenditures in tangible and intangible assets	19	31	These mainly refer to purchases of cables, modems and ADSL equipment from the Pirelli group

<i>(millions of euro)</i>	3/31/2006	12/31/2005	
Trade receivables, miscellaneous receivables and other current assets	3	6	These refer to the above-mentioned services under revenues rendered to the Edizione Holding group, euro 2 million (euro 2 million at December 31, 2005) and to the Pirelli group, euro 1 million (euro 2 million at December 31, 2005). At December 31, 2005, they included euro 2 million from the Unipol group which is no longer a related party
Trade payables, miscellaneous payables and other current liabilities	46	43	These mainly refer to supply transactions connected to the performance of services and investment activities with the Pirelli group, euro 39 million (euro 34 million at December 31, 2005), costs for Document Management services from Telepost, euro 4 million (euro 7 million at December 31, 2005), transactions with Edizione Holding Group, euro 1 million and transactions with F.C. Internazionale Milano euro 1 million

Description of the main contracts between the Telecom Italia Group and associates, subsidiaries of associates and related parties through directors and key managers

Transactions with:

Avea I.H.A.S.

Revenue related

The transactions refer to international telecommunications services, particularly roaming by Avea customers on the Telecom Italia network, technical assistance services rendered and the recovery of costs for Telecom Italia staff on loan to Avea.

Expense related

The transactions refer to interconnection fees for roaming traffic by Telecom Italia customers on the Avea network.

Baltea S.p.A

Expense related

The transactions refer to purchases of accessories and consumable stores for Olivetti S.p.A. photocopiers destined for resale.

EtecSA

Revenue related

The transactions refer to data transmission traffic of Telecom Italia Sparkle, as well as technical assistance contracts for services rendered by Telecom Italia.

Expense related

The transactions refer to roaming traffic originated by mobile customers on Cuba.

Eurofly Service S.p.A.

Expense related

The contract refers to the performance of non-scheduled air transport services to national and foreign destinations.

LI.SIT S.p.A.

Revenue related

The contract provides for developing and implementing the computer and information network for the social health system of the Lombardy Region, making services available online to all the regional health structures by supplying:

- cards with microchips for all citizens and health operators in Lombardy;
- outsourcing services for the management of the Internet Data Center and hardware and software systems;
- professional and applications consulting for the implementation and management of the system.

Luna Rossa Challenge 2007 SL

Expense related

The contracts refer to the sponsorship of the Luna Rossa sailboat during the XXXII America's Cup. According to these contracts, Telecom Italia Group became the Main Sponsor of Luna Rossa and Partner and Official Sponsor of the race. It also acquired the sublicense rights to the "Luna Rossa" trademark for certain categories of goods.

Nordcom S.p.A.

Revenue related

The transactions refer to the supply of data network connections and software applications.

Expense related

The contract refers to the development of systems and computer solutions.

Shared Service Center Scarl

Revenue related

The contracts provide for the supply of telephone and data transmission services as well as the operation of the client's software applications at the Telecom Italia data center.

Expense related

The contracts refer to the supply of computer and information services relating to:

- design, implementation, release, operation and management of portals, institutional sites, SAP and dedicated solutions;
- SAP application maintenance and service management services.

Siemens Informatica S.p.A.

Expense related

The contracts provide for the supply of software services to Group companies, as well as specific services, such as: applications management services, support services for the operation of Telecom Italia OSS systems, as well as support services for the computer technology distributed and applications software development and technical services for Telecom Italia.

Telecom Argentina group

Revenue related

The contracts refer to technical assistance provided by Telecom Italia for broadband development and for the study and implementation of Value Added Services, as well as data transmission and voice services and the supply of "IRU" transmission capacity by Telecom Italia Sparkle.

Expense related

Transactions relate to international telecommunications services and roaming.

Teleleasing S.p.A.

Revenue related

The transactions mainly arise from the application of the commercial cooperation agreement signed in 2000 between Telecom Italia and Teleleasing S.p.A., a company in the Mediobanca group. By virtue of this agreement, Telecom Italia offers customers the possibility of leasing telecommunications equipment. Teleleasing purchases the equipment from Telecom Italia and signs the leasing contract with the customer; Telecom Italia sees to the collection of lease payments after having acquired the rights.

Expense related

The contracts refer both to the lease of instrumental goods to Telecom Italia and its subsidiaries and the financial lease of a building.

Tiglio I S.r.l.

Expense related

The contracts refer to:

- the lease of buildings, premises also housing telecommunications equipment, with a term of 21 years and the possibility of tacit renewal, unless notice of termination is given by Telecom Italia S.p.A., for successive periods of six years, at the same terms and conditions as originally agreed;
- the lease of buildings solely for office use, for standard lease periods.

Tiglio II S.r.l.

Expense related

The contracts refer to:

- the lease of buildings, premises also housing telecommunications equipment, with a term of 19 years and the possibility of tacit renewal, unless notice of termination is given, by Telecom Italia S.p.A., for successive periods of six years, at the same terms and conditions as originally agreed;
- the lease of buildings solely for office use, for standard lease periods.

Telbios S.p.A.

Expense related

The contracts refer to the supply of services, products and hardware systems and software under remote medicine plans.

Telegono S.r.l.

Expense related

This refers to one contract for the lease of a building solely for office use, for standard lease periods.

* * *

Brasil Telecom Participações group

Revenue related

The transactions between the Tim Brasil group and the Brasil Telecom group refer exclusively to trading transactions which fall under the ordinary administration of the operations of the two operators, which are regulated by market conditions normally defined and approved by the market regulatory agency. The revenue-related contracts refer to telecommunications services, interconnection services in particular, and site sharing.

Expense related

These refer to telecommunications services, interconnection services in particular, site sharing and line leases.

Italtel group

Revenue related

The contracts provide for the supply of telephone and data transmission services.

Expense related

The contracts provide for the supply and maintenance of traditional switching and innovative switching (VoIP) 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.

Expense related

The contract refers to the supply of gas with the company Cam Gas S.p.A.

Edizione Holding group

Revenue related

The contracts provide for the supply of telephone and data transmission services that are operated by outsourcing with dedicated assistance.

Expense related

The transactions refer to commissions paid to Autogrill S.p.A. for the sale of prepaid telephone cards and occupancy charges for public telephones located at their structures.

F.C. Internazionale Milano S.p.A.

Expense related

The contracts refer to costs for the sponsorship and the rights to disperse content regarding the sports events of the company F.C Internazionale Milano by Telecom Italia. The sponsorship contract calls, in particular, for the possibility of using the Inter brand and logo in all advertising and in the sale of mobile telephone products, Inter's participation in the Trofeo TIM and the visibility of the TIM brand during all Inter home games and the Italy/TIM Cup.

Pirelli & C. S.p.A.

Revenue related

The contracts provide for the supply of telecommunications and computer and information services.

Expense related

The following contracts should be noted:

- consulting and services contract regarding patent rights

In May 2002, a contract was signed with Pirelli under which services and consulting were rendered for:

- identification of a patent rights policy;
- determination of the competitive positioning of the various businesses of the Telecom Italia Group in comparison with similar business of the competition;
- assistance in negotiations over partnerships, licenses and cooperation contracts;
- litigation and analyses of patents of the competition;
- obtaining patents during each single stage (drawing up documents, filings in Italy and outside Italy, continuation during the stages of examination, challenges and conflicts);
- control over costs by project and/or by business;
- training of technicians;
- insertion of patent data and relative reports using a database;
- control over results reached;
- patent research;
- filing and classification of important documents regarding patents;
- services and consulting regarding brands, including their management (research, filings in Italy and outside Italy, renewals, challenges, disputes, licenses inside and outside the Group).

- contract regarding research and development

The contract refers to technical cooperation between Telecom Italia and Pirelli in the areas of optical devices and advanced telecommunications networks.

The contract provides:

- with regard to the results of research for which patents are not filed, three areas of competence which have been identified as follows:
 - ✓ simple and complex devices, competence of Pirelli;
 - ✓ networks and services, competence of Telecom Italia;
 - ✓ subsystems, joint competence of Telecom Italia – Pirelli.
- with regard to patents resulting from research, ownership is joint, with the understanding that each party must give the other a license on the respective portion of ownership according to the following format:
 - ✓ Pirelli grants Telecom Italia an exclusive license which can be sublicensed for patents for use in the "Networks and Services" area,
 - ✓ Telecom Italia grants Pirelli an exclusive license which can be sublicensed for patents for use in the "Devices area".

Each of the parties is required to pay the other party 50% of the consideration from any sublicenses granted. Furthermore, Pirelli is obliged to sell, under an exclusive arrangement, to Telecom Italia and to companies which it controls, any optical devices for telecommunications that use patents deriving from the research

projects, for a period of one year from the completion of the single project. However, the parties may agree upon alternative solutions which ensure a similar or substitute advantage to Telecom Italia.

- contracts for the supply of apparatus and cables

These contracts provide for the supply of user apparatus for network access and broadband services, the supply of "POTS Splitter" (apparatus installed in the exchange which allow the combined transmission of voice and data on the same duplex cable) as well as supplying cables;

- cooperation agreement concerning joint initiatives

Under this contract, Pirelli has developed two research projects for Telecom Italia: one relating to the "Distributed Sensor Network" and the second to "Third-generation poles for the wireline network". The agreements state that Telecom Italia is entitled to ownership of the rights to the intellectual properties deriving from the work established in the contracts where they are: a) exclusively applicable to telecommunications networks and/or telecommunications services or components of telecommunications networks which technical appendices of the projects identify as their specific objective, such as cards of the SIM-card type or network poles, and b) characterized by the inclusion of specific chemical compositions and/or treatments using specific chemical processes.

Pirelli & C. Real Estate S.p.A.

Revenue related

The contracts provide for the supply of call center services, data transmission services and electrical energy.

Expense related

The contracts refer to project management (realization of real estate projects), property management (administrative management of lease contracts) and agency services (commercial management of owned and leased buildings).

Furthermore, Pirelli & C. Real Estate makes 35% investments in the capital of the companies which hold the closed-end real estate investment funds Raissa and Spazio Industriale to which the properties were contributed as part of the real estate transaction approved by the board of directors on December 21, 2005 and holds control of the management companies (Pirelli & C. Real Estate SGR and Pirelli & C. Real Estate SGR Opportunities) of the above real estate funds.

Telepost S.p.A.

Expense related

The contracts refer to the management of services connected with incoming and outgoing correspondence, outgoing correspondence generated on files with printing by a specialized center, management of the distribution of correspondence, management of the paper archives and management of all photocopy machines.

■ OPERATING AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP BUSINESS UNITS

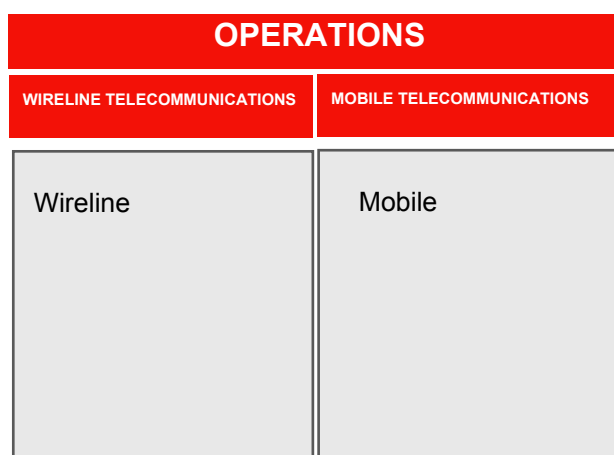
OPERATIONS

On October 5, 2005, the board of directors of Telecom Italia approved a completely integrated business model as part of the wireline and mobile convergence process begun in December 2004 and followed by the resolutions passed in May 2005 for the reorganization of internet area).

The "One Company Model" organizational structure consolidated the two Wireline and Mobile Business Units into one Business Unit (Operations) with responsibility for the business development of wireline telecommunications, mobile telecommunications and internet services.

■ STRUCTURE

The Operations Business Unit is organized as follows:

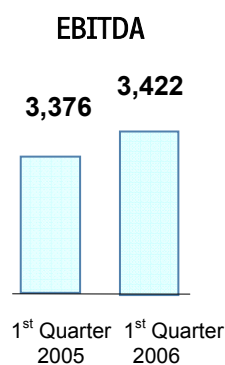


■ OPERATING AND FINANCIAL DATA

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

(millions of euro)	1 st Quarter 2006	1 st Quarter 2005 (1)	Change	
			amount	%
Revenues	7,274	6,833	441	6.5
EBITDA	3,422	3,376	46	1.4
<i>% of Revenues</i>	<i>47.0</i>	<i>49.4</i>		
EBIT	2,064	2,188	(124)	(5.7)
<i>% of Revenues</i>	<i>28.4</i>	<i>32.0</i>		
Capital expenditures	990	877	113	12.9
Employees (number)	77,520	77,754	(234)	(0.3)

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



Revenues, totaling euro 7,274 million, record an increase of 6.5% (+euro 441 million) compared to the first three months of 2005; underlying growth, on a comparable consolidation basis and excluding the foreign exchange effect, is 2.5% (+euro 179 million).

EBITDA, amounting to euro 3,422 million, shows an increase of 1.4% (+euro 46 million) compared to the first three months of 2005, with the percentage of EBITDA to revenues equal to 47.0% (49.4% in the first quarter of 2005). The underlying growth of EBITDA compared to 2005 is equal to 0.7%; the percentage of EBITDA to revenues is 47.5% (48.4% in first quarter of 2005).

EBIT, totaling euro 2,064 million, posts a decrease 5.7% (-euro 124 million) compared to the first three months 2005 and represents 28.4% of revenues (32.0% in the first quarter 2005). The underlying decrease in EBIT from 2005 is equal to 4.3%, representing 28.9% of revenues (30.9% in the first quarter of 2005).

The following is a commentary on the operating and financial performance and the principal activities carried out during the first quarter of 2006 by the components of Operations: Wireline and Mobile.

WIRELINE

- Confirmation of Telecom Italia's leadership in the Italian broadband market (about 6 million accesses reached, of which about 5 million Retail and about 1 million Wholesale, at March 2006) and continuous growth of the European broadband customer base (about 1.5 million broadband accesses reached at March 31, 2006 in Germany, France and Holland).
- Development of new flat-rate packages as an effective tool for combating the effects of the migration of traffic from the fixed to the mobile network

■ THE BUSINESS UNIT

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

■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:

Telecom Italia Wireline	National Subsidiaries	International Subsidiaries
Wireline TLC services: <ul style="list-style-type: none"> · Retail telephone · Internet · Data Business · National Wholesale 	Loquendo S.p.A. Matrix S.p.A. Nuova Tin IT S.r.l. Path.Net S.p.A. Telecontact Center S.p.A.	BBNED Group Liberty Surf Group <ul style="list-style-type: none"> - Liberty Surf Group S.A. - Intercall S.A. - Telecom Italia S.A. - Liberty Surf Network B.V. HanseNet Telekommunikation GmbH
	Telecom Italia Sparkle Group: <ul style="list-style-type: none"> - 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. - Telefonía Mobile Sammarinese S.p.A. - Thinx S.r.l. - TIS France S.A.S. 	

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

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

■ OPERATING AND FINANCIAL DATA

The following table shows the key results in the first quarter of 2006, compared to the first quarter of 2005. The data takes into account the acquisition of the Internet business as of January 1, 2005, the merger of IT Telecom activities and the inclusion of TILAB (R&D) in the scope of consolidation.

(millions of euro)	1 st Quarter 2006	1 st Quarter 2005 (1) (2)	Change	
			amount	%
Revenues	4,471	4,356	115	2.6
EBITDA	1,983	2,000	(17)	(0.9)
<i>% of Revenues</i>	<i>44.4</i>	<i>45.9</i>		
EBIT	1,175	1,255	(80)	(6.4)
<i>% of Revenues</i>	<i>26.3</i>	<i>28.8</i>		
Capital expenditures	756	689	67	9.7
Employees (number)	56,891	56,987	(96)	(0.2)

(1) Including the data of IT Telecom as well as Tin.it / Matrix and TILAB.

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

Revenues, totaling euro 4,471 million, show an increase of 2.6% (+euro 115 million) compared to the same period of 2005. On a comparable consolidation basis and excluding the foreign exchange effect, underlying growth is 1.3% (+euro 58 million). This change, although affected by the cut in the wireline-mobile termination rates, which took place starting from the second half of 2005, and the acceleration of the migration of voice traffic from wireline to mobile, is sustained by the success of the actions to expand the European and domestic broadband market. Excluding the negative effect of the cut in termination rates, the underlying growth would be 2.3%.

Revenues by strategic area of business are as follows:

Retail telephone

Revenues from the Telephone area, equal to euro 2,414 million, show a reduction of euro 162 million (-6.3%) compared to 2005. This area features a falloff in traffic revenues (-12.7%) which reflects the negative impact generated by the reduction in the prices of fixed-mobile terminations equal to euro 45 million and a contraction in the market of Wireline telephony to the benefit of Mobile telephony.

Retail Internet

Revenues from the Internet area, equal to euro 377 million, grew by 7.1% (+euro 25 million), compared to 2005, thanks to the continual growth of broadband revenues (+euro 33 million; +12.3% compared to 2005).

Wireline's portfolio of broadband retail customers in Italy at March 31, 2006 now totals 4,958,000 (+1,298,000 compared to the same period of 2005).

Data Business

Revenues from the Data Business area, equal to euro 443 million, show an overall growth of 6.0% (+euro 25 million) compared to the same period of 2005. This increase is especially driven by the good performance of ICT services which record a growth of 16.5% (+euro 19 million).

Wholesale

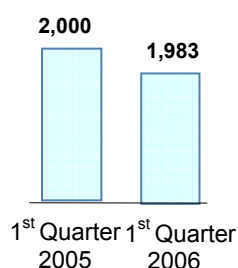
Revenues from wholesale services, equal to euro 945 million, grew by a total of euro 98 million (+11.6%), compared to the three months to the end of March 2005. National wholesale services account for euro 14 million of the increase and international wholesale services for euro 84 million.

European Broadband Project

Revenues from the European Broadband Project (France, Germany and Holland), equal to euro 204

million (+124.2% compared to 2005), show a sharp increase. On a comparable consolidation basis, taking into account the inclusion of Liberty Surf Group in the second quarter of 2005, underlying growth is 41.7%. The portfolio of customers acquired has now reached 1,471 thousand at March 31, 2006 (+158 thousand compared to the end of 2005).

EBITDA



EBITDA, equal to euro 1,983 million, shows a decrease of 0.9% (-euro 17 million) compared to the first quarter of 2005, with the percentage of EBITDA to revenues at 44.4% (45.9% in March 2005). The underlying growth of EBITDA compared to 2005 is equal to 0.3%, representing 44.7% of sales (45.2% in March 2005). It should be pointed out that EBITDA breakeven was reached (+euro 2 million) in the European broadband area.

EBIT is euro 1,175 million and shows a decrease of 6.4% (-euro 80 million) compared to the first quarter of 2005 and represents 26.3% of revenues (28.8% in March 2005). The underlying change in EBIT is a reduction of 4.1% compared to the same period of 2005 with EBIT to revenues at 26.7% (28.2% in March 2005).

Capital expenditures amount to euro 756 million and grew by euro 67 million (+9.7%) compared to the same period of 2005.

Employees number 56,891 and show a reduction of 96 compared to December 31, 2005. The change is due to the hiring of 819 people, of whom 321 are in Italy and 498 abroad (mainly in France), and intragroup mobility (+90), against 1,005 terminations of employment.

The following table shows the key results of the European Broadband Project in the first quarter of 2006 compared to the first quarter of 2005 .

(millions of euro)	1 st Quarter 2006	1 st Quarter 2005 (1)	Change	
			amount	%
Revenues	204	91	113	0
EBITDA	2	(13)	15	
<i>% of Revenues</i>	<i>1.0</i>	<i>(14.3)</i>		
EBIT	(38)	(34)	(4)	(11.8)
<i>% of Revenues</i>	<i>(18.6)</i>	<i>(37.4)</i>		
Capital expenditures	95	95		
Employees (number)	2,692	2,494	198	7.9

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

■ INFORMATION ON OPERATIONS

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

Operating highlights	3/31/2006	12/31/2005
Fixed network connections (thousands of equivalent lines)	24,867	25,049
- of which ISDN	5,404	5,459
Physical accesses (<i>Consumer + Business</i>)	21,580	21,725
Voice pricing plans (thousands)	6,397	6,321
Minutes of traffic on the fixed network (billions)	46.0	185.1
• domestic traffic	42.8	171.3
• international traffic	3.2	13.8
TP terminals using ISDN technology (thousands)	108.5	108.8
Internet users:		
- Dial-up users (Tin.it Free and Premium) (thousands)	895	950
- Broadband accesses (thousands):	7,453	7,020
- of which domestic (thousands)	5,982	5,707
- of which European (thousands)	1,471	1,313
Alice page views - ex-Virgilio (millions)	3,184	9,842
Alice average monthly single visitors - ex-Virgilio (millions)	19.2	15.7

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

• RETAIL

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

<i>Telephone</i>	Pricing (rate plans)	A free promotion until February offered all Telecom Italia customers the new video-call service from fixed phones towards TIM UMTS mobile phones. The <i>Teleconomy Dove Vuoi</i> package was launched for the consumer clientele, enabling customers to choose one international destination to call at advantageous rates. New rate plans were also launched which converge with mobile telephone services: <i>Team Business</i> for the Corporate/Small-/medium-size clientele, and <i>Teleconomy One Office</i> for the Microbusiness clientele, which offers cheaper rates for fixed-mobile traffic, particularly towards TIM numbers. Finally, since the end of March, the <i>One Office</i> has been available on VOIP for customers with <i>Alice Business Voce</i> .
	Products	Launch of the new <i>Fax Giotto Laser</i> and the new <i>My Way wireless</i> photo printer which can print photos directly from a mobile handset or a digital camera.
<i>Internet and VOIP</i>	Alice	New promotions were launched for high-speed flat-rate packages to encourage the use of broadband, and testing began of <i>ADSL2+</i> which reaches speeds of up to 20Mbps. The promotion of <i>Alice Mia</i> continued to increase the spread of the VOIP service and the <i>Voce Flat</i> package was repriced which enables customers to make unlimited VOIP calls.

	Alice Business	The process of transforming the old <i>Smart</i> rate plans into <i>Alice Business</i> and/or <i>Alice Business</i> packages continued. New additions to the rate plan portfolio included the <i>Thomson TIR (Terminazione Intelligente di Rete)</i> and WI-FI modules on <i>TIR autoinstallante</i> . Finally, the ISDN Backup service has also been extended to CPE (Customer Premises Equipment) owned by customers.
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<i>Public telephone Services</i>		Activities continued to focus on the ethnic clientele segment with the launch of a new pricing system for public telephones (using prepaid cards or coins) located in the railway stations of Milan, Turin, Rome and Naples) which offers considerable reductions for calls to the main destination countries compared to standard rates. In addition, the <i>TIM Welcome Home</i> rate profile offers cheaper rates for international calls towards pre-established foreign destinations and for national calls towards the <i>TIM Welcome Home community</i> .
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<i>IPTV</i>		Coverage of the service was extended from 4 to 21 cities and the optional <i>pacchetto Cinema di Sky</i> service was launched, in addition to the basic subscription content (films, sport, news, music and reality shows).
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<i>Alice Portal (ex-Virgilio)</i>		Editorial integration activities continued for Rosso Alice and the websites of Telecom Italia in the channels of the Portal. Some "live on line" initiatives were developed involving the main soccer games of the European Cups (commentators' comments and graphic reconstructions of the goals scored), and exclusive interviews with the leaders of the coalitions in the last political elections (with the text of the interviews updated on line in real time). During the first quarter of 2006, 3,184 million pages of the portal were visited, an increase of 41.3% compared to the first quarter of 2005. The average monthly number of one-time visitors was about 19.2 million, an increase of 27.9% compared to the same period of the prior year.
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<i>Data Business</i>	Lambda	New promotional initiatives were launched which led to a reduction in pricing of 10%. In addition, geographical coverage of the service was extended.
	Hyperway and Datawan	The process of activating ADSL accesses on existing RTG/ISDN lines was automated and the new Thomson TIR was introduced in the rate plan portfolio. Finally, the ISDN Backup service has also been extended to CPE (Customer Premises Equipment) owned by customers.
	Ethernity	Coverage was extended and the one-off contribution for the <i>Netcruise</i> and <i>Netsite</i> profiles was repriced.

<i>Telephone VAS</i>	Services	<p>The <i>Tutto 4 Star</i> plan was also launched on the additional lines of <i>Alice Voce</i>, enabling customers who have requested the service to benefit from the free offer for the first three months. The main existing promotions were extended on <i>Tutto 4 Star</i>, the MMS and Free Message services. The 400 by SMS service was launched for <i>Alice Voce</i> lines which enables customers to find out the number of the last missed call by receiving an SMS. The first convergent service to be launched, "<i>Supercasella Alice</i>" guarantees a 3-Gigabyte mail box and the option of receiving and sending e-mail using the @alice.it post box also through a TIM UMTS handset.</p> <p>The "<i>Tutto4Star Office incluso e gratis per 3 mesi</i>" promotion has been launched for the Business clientele, and is offered free for 3 months to anyone purchasing an <i>Aladino</i> cordless phone.</p>
<i>VAS ICT</i>	Application Management	Launch of the new <i>Alice Business Messaging & Collaboration</i> rate plan which offers centric network services on shared infrastructures located in Telecom Italia's Data Centers. Furthermore, highly evolved messaging services were introduced such as mobile access in the push mode, integration with fax, SMS and collaboration services such as instant messaging, presence, PC to PC A/V conferences and web collaboration portals.
	Data Center Services	Launch of the new <i>VDS</i> (Virtual Dedicated Server) service which makes it possible to operate a Dedicated Virtual Server system based on a shared HW/SW infrastructure with dedicated resources in terms of memory, disk space, CPU and network. Furthermore, the fact that the resources are shared ensures high reliability and performance at a low cost for each VDS.

- NATIONAL WHOLESALE**

In the first quarter of 2006, the national wholesale market continued the trend of the prior year. In fact, OLOs continued to step up their marketing activities for broadband access to their clientele, thus contributing to the growth of the national wholesale market. The most significant quantitative variations during the quarter are due to the following:

Local Loop Unbundling (LLU)	LLU Lines	The increase in the number of lines directly connected to the networks of other operators is more than 143,000, while the growth in Shared Access lines with which the other operators provide ADSL access to Telecom Italia's telephone clientele was equal to about 55,000.
Broadband access	XDSL	XDSL wholesale accesses acquired by other operators (both those with a license and Internet Service Providers) increased by more than 130,000 compared to December 31 2005, reaching a total of 1,024 thousand.
Carrier-PreSelection	CPS Lines	At March 31, 2006, the number of access lines configured totaled approximately 4,068,000.

- **INTERNATIONAL WHOLESALE**

During the first quarter of 2006, actions continued to support the growth of the profitability of Voice traffic, particularly for the transit component (gross invoicing of telephone services increased by 19.8% whereas net invoicing increased by 14.8%), partly by acquiring new customers, especially in Voice Over IP transport technology. New customers were acquired (33 new interconnections - 21 in Voice Over IP) of which three are new mobile customers. VOIP traffic volumes equaled 381 million minutes, an increase of 34% compared to the first quarter of 2005.

During the first quarter, the Data & IP market reported a substantial growth of the bandwidth sold, against a trend of lower prices. However, this phenomenon generated an increase in sales of innovative services of approximately 22.8% compared to the corresponding period of 2005.

- **DOMESTIC NETWORK**

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

National transmission backbone (fiber optic evolution)	Another Marconi latest-generation high-capacity electronic frame has been installed. Scheduled to become operational in the second quarter of 2006, it will bring the total restoration capabilities to 32 junctions. Work continued to strengthen the DWDM links already in operation, bringing the overall capacity to 151 systems.
Metro Regional network for IP TV services	The first quarter of 2006 saw the start of marketing of the IP TV-Alice Home TV service in all 21 towns involved, for a total of 360 exchanges. Work also continued to extend coverage of the service and, by the end of March, another 60 exchanges had been activated in 20 towns.
Gigabit Ethernet Access	Work continued to create a network to support the marketing of services based on Gigabit Ethernet technology (<i>Ethernity</i> , <i>Hyperway</i> and <i>Genius</i> services using GBE access). About 110 new GBE accesses were installed, bringing the total number at March 31, 2006 to approximately 1,800 accesses. In the first quarter, GBE coverage was extended to the town of Cuneo, bringing overall coverage to 25 towns across the country.
ADSL access	25 new ADSL exchanges were equipped and about 182,000 new ADSL accesses were acquired. At March 31, 2006, the exchanges capable of supplying ADSL access total 4,526, and ADSL total coverage nationwide is equal to about 86.5% of the population in Italy.

- **FOREIGN RETAIL NETWORKS**

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

FRANCE	The new company Telecom Italia S.A. resulting from the integration of Telecom Italia France with the Liberty Surf Group intends to extend coverage of the service to 419 new sites in 2006, bringing total coverage to 650 towns by the end of the year. At March 31, 2006, 12 new sites were ready to deliver in addition to the 231 opened at the end of 2005. The main achievements in terms of services in the first quarter of 2006 are the
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	<p>following:</p> <ul style="list-style-type: none"> • increase of the VoIP platform; • introduction of Business Voice services to the platform; • introduction of the highly evolved IAD “Media box” (triple play + STB).
GERMANY	<p>HanseNet’s main achievements during the first quarter of 2006 include activities aimed at extending LLU coverage to 100 more exchange areas by June of this year.</p> <p>At March 31, 6 more sites were ready to deliver in addition to the 493 open at the end of 2005.</p> <p>In particular, the following achievements in the first quarter of 2006 are worthy of note:</p> <ul style="list-style-type: none"> • introduction of VoIP • the IPTV rate plan • introduction of ISP services to the platform
HOLLAND	<p>The Dutch market has reached a high level of broadband penetration which limits the Group’s future development prospects in this area. Additionally, BBNET has a wholesale rate plan which appears to be inconsistent and lacking synergies with other European broadband activities focusing on the retail clientele.</p>

- **INTERNATIONAL NETWORK**

During the first quarter of 2006, work continued to integrate Telecom Italia Sparkle’s Pan-European Backbone (PEB) with the European network of Tiscali International Network SAS (TINet SAS) acquired at the end of 2005. In particular, interconnection of the two networks at Marseilles was completed, together with the migration of the operation and control functions to Telecom Italia Sparkle’s NOC (Network Operation Center).

Actions to support the growth and profitability of voice and signaling services include the introduction of the new support platform for optimal traffic routing, based on parameters of cost, volume and quality.

MOBILE

- Growth of consolidated revenues driven by Brazil
- Merger between Tim Italia and Telecom Italia completed

■ THE BUSINESS UNIT

The Mobile Business Unit operates in the sector of national and international mobile telecommunications. Its international presence is concentrated in South America, in particular, in Brazil.

■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:

MOBILE	
ITALY	BRAZIL
Tim Italia S.p.A. (*) Telecom Italia domestic mobile segment	. Tim Brasil S.A. - Tim Participações S.A. - Tim Nordeste Telecomunicações S.A. - Tim Sul S.A. - Tim Celular S.A. - Maxitel S.A.

(*) On March 1, 2006, the merger of Tim Italia S.p.A. into Telecom Italia S.p.A. became effective in keeping with the merger deed signed on February 22, 2006. This transaction concludes the industrial program for the integration of wireline and mobile telecommunications of the Group which led to the spin-off of the TIM S.p.A. domestic mobile business segment to Tim Italia S.p.A., with effect on March 1, 2005, as well as the merger of TIM S.p.A. into Telecom Italia S.p.A. , with effect on June 30, 2005.

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

- In addition to the above merger of Tim Italia into Telecom Italia, the following warrants mention:
- on January 19, 2006, Telecom Italia, through its subsidiary Tim International, signed the agreement for the sale of 100% of the capital of the Venezuelan mobile operator Corporación Digitel C.A. (Digitel) to the company Telvenco S.A. for a price equal to USD 425 million (enterprise value). The execution of the agreement is subject to receiving the necessary authorizations from the relevant Venezuelan authorities;
- During March 2006, the merger of Blah! and CRC – Centro de Relacionamento com Clientes into Tim Celular was executed and the project to contribute all the Tim Celular shares held by Tim Brasil to Tim Participações was approved. Both of these transactions are part of the process to streamline the corporate structure of the companies of the Telecom Italia Group which make up the mobile sector. This process will encompass all the companies that are currently 100 percent-controlled, directly or indirectly, by Tim Participações (namely, Tim Sul S.A., Tim Nordeste Telecomunicações S.A., Tim Celular S.A. and Maxitel S.A.), with the aim of (i) further uniting and rationalizing the operations of the activities relating to the mobile business, (ii) significantly reducing the costs associated with maintaining distinct and separate companies, (iii) developing synergies among the various companies and (iv) improving tax and financial efficiency.

■ OPERATING AND FINANCIAL DATA

The following table shows the key results in the first quarter of 2006, compared to the first quarter of 2005. The amounts are comparable since no account is taken of discontinued operations: Digitel Venezuela (held for sale) and Tim Hellas and Tim Perú, sold during 2005.

(millions of euro)	1 st Quarter 2006	1 st Quarter 2005 (1)	Change	
			amount	%
Revenues	3,206	2,905	301	10.4
EBITDA	1,440	1,377	63	4.6
<i>% of Revenues</i>	<i>44.9</i>	<i>47.4</i>		
EBIT	890	934	(44)	(4.7)
<i>% of Revenues</i>	<i>27.8</i>	<i>32.2</i>		
Capital expenditures	235	188	47	25.0
Employees (number)	20,629	20,767	(138)	(0.7)

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

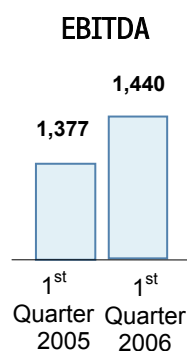
Revenues in the first quarter of 2006 amount to euro 3,206 million with an increase of 10.4% compared to the first quarter of 2005 (euro 2.905 million). Excluding the positive foreign exchange effect (euro 205 million), the underlying growth of revenues is equal to 3.1% (euro 96 million). Contributing to this growth is the positive expansion of operations in Brazil (+euro 86 million).

EBITDA is equal to euro 1,440 million, an increase of euro 63 million (+4.6%) compared to the first quarter of 2005. EBITDA as a percentage of revenues is 44.9% (47.4% in the first quarter of 2005). At comparable exchange rates and net of exceptional items (exceptional income and expense) overall underlying growth is equal to euro 19 million, with an increase of 1.3%.

EBIT amounts to euro 890 million compared to euro 934 million in the first quarter of 2005 (-4.7%). EBIT to revenues is equal to 27.8% (32.2% in the first quarter of the prior year). Excluding the foreign exchange effect (a negative amount of euro 7 million) and exceptional items, the change is -euro 43 million or -4.5 %.

Capital expenditures total euro 235 million (euro 188 million in the first quarter of 2005).

Employees at March 31, 2006 number 20,629 (20,767 at December 31, 2005). The breakdown is the following:



Compared to December 31, 2005, total employees show a reduction of 138. The number at March 31, 2006 includes 1,344 people with temp work contracts.

ITALY

The following table presents the key operating and financial data for the first quarter of 2006 relating to Tim Italia S.p.A. for operations managed until the date of the merger (March 1, 2006) and the mobile business segment of Telecom Italia S.p.A. for the month of March 2006. The amounts referring to 2005 relate to ex-TIM S.p.A. for operations managed until the date of the spin-off (March 1, 2005) and to Tim Italia S.p.A. for the subsequent period.

(millions of euro)	1 st Quarter 2006	1 st Quarter 2005 (1)	Change	
			amount	%
Revenues	2,370	2,361	9	0.4
EBITDA	1,260	1,293	(33)	(2.6)
<i>% of Revenues</i>	<i>53.2</i>	<i>54.8</i>		
EBIT	925	984	(59)	(6.0)
<i>% of Revenues</i>	<i>39.0</i>	<i>41.7</i>		
Capital expenditures	173	110	63	57.3
Employees (number)	11,473	11,720	(247)	(2.1)

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

Revenues in the first quarter of 2006 total euro 2,370 million, with an increase of 0.4% compared to the first quarter of 2005 (euro 2,361 million). The change is due to the negative impact of the new termination price list which came into effect, euro 116 million; net of this item, the change compared to the same period of 2005 would be 5.3%.

In particular, the strong increase of value-added services (VAS) of euro 406 million (+11.5% compared to the first quarter of 2005) contributed to this growth thanks to the continuous innovation of services and the portfolio of offerings. VAS as a percentage of total revenues reached 17.1% (15.4% in the first quarter of 2005). "Voice" revenues (outgoing and incoming), equal to euro 1,757 million, with a reduction of euro 73 million (-4.0%) compared to the corresponding quarter of 2005, were hurt by the new termination price list; net of this item, the change compared to the same quarter of 2005 would be positive and equal to 2.3%. A large increase, instead, was reported in the sale of handsets, equal to euro 107 million (+48.6%).

EBITDA in the first quarter of 2006 is equal to euro 1,260 million, with a decrease compared to the corresponding three months of 2005 of euro 33 million (-2.6%). EBITDA as a percentage of revenues is 53.2% (54.8% in the first quarter of 2005). Net of exceptional items, EBITDA is equal to euro 1,269 million, with a decrease of 2.8% compared to the first quarter of 2005 (euro 1,306 million).

The termination price list also produced a negative effect totaling euro 56 million. Net of this item, the change from the first quarter of 2005 would be a positive amount of euro 19 million (+1.5%).

With regard to costs:

- purchases of materials and external services of euro 1,035 million increased by 9.6% over the first quarter of 2005 (euro 944 million). This increase (euro +91 million) is entirely the result of the added push given to sales and higher traffic volumes managed and handsets sold. As a percentage of revenues, these purchases represent 43.7% (40% in the first quarter of 2005);
- personnel costs, equal to euro 131 million, decreased by euro 5 million compared to the first quarter of 2005 (-3.7%). Personnel costs as a percentage of revenues are 5.5% (5.8% in the first quarter of 2005);

- other operating expenses amount to euro 29 million (euro 21 million in the first quarter of 2005).

EBIT in the first quarter of 2006 amounts to euro 925 million, down by euro 59 million (-6.0%) compared to the first quarter of 2005. EBIT as a percentage of revenues is 39% (41.7% in the first quarter of 2005). Excluding exceptional items, EBIT is euro 934 million, a decrease of euro 62 million compared to the first quarter of 2005 (-6.2%).

In greater detail, the operating result was affected by:

- amortization and depreciation charges, equal to euro 334 million (euro 309 million in the first quarter of 2005), which increased by euro 25 million due to higher capital expenditures for innovative equipment and platforms featuring components (software) with a shorter useful life. Amortization and depreciation charges as a percentage of revenues are equal to 14.1% (13.1% in the first quarter of 2005).

Capital expenditures total euro 173 million (euro 110 million in the first quarter of 2005) and are directed towards the building of new network platforms and infrastructures. The increase over the first quarter of 2005 is particularly attributable to the development of solutions to support new services.

■ INFORMATION ON OPERATIONS

The main operating highlights at March 31, 2006 compared to December 31, 2005 and the principal activities carried out during the quarter are presented below:

Operating highlights	3/31/2006	12/31/2005
Mobile lines (thousands)	29,664	28,576
Mobile traffic (millions of minutes) (*)	10,853	42,597

(*) Including traffic referring to customers of foreign operators.

There are about 3 million UMTS customers; the increase as a percentage of total customers is from just under 6% to more than 10% in six months.

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

Agreement for testing Wireless Broadband	Thanks to an agreement signed with Samsung Electronics, testing began on the first European wireless WI-BRO (WIreless BROadband) network, using WI-MAX mobile technology developed by Samsung. The new technology is capable of bringing broadband to mobile handsets at a capacity of 20/30 Megabit per second. Telecom Italia will begin to market the WI-BRO handsets in the first months of 2007.
Super UMTS	In May 2006, Telecom Italia will begin marketing its new super UMTS handsets, which access mobile broadband with surfing speeds of up to 20/30 Megabit, thanks partly to the introduction of new technologies such as WI-BRO and HSDPA (High Speed Downlink Packet Access). In 2006, the latter technology will be applied to about 5,000 UMTS exchanges, making it possible to access mobile broadband with speeds of up to 4 Megabits, ensuring a better quality of service than with standard UMTS.

DVB-H (Digital Video Broadcast - Handheld) Service	During the 2006 Turin Winter Olympics, testing began of the DVB-H service in the areas where the athletes were competing. The experimental broadcasting of the Olympic events on "mobile digital TV" was possible thanks to an agreement with the RAI (the Italian national broadcasting network) which held the television broadcasting rights for the event. At the same time, testing was also conducted on international DVB-H roaming. Marketing is scheduled to begin next June, as soon as the new dual mode handsets, which can use both the new application and UMTS, are available.
Agreement with the soccer league	The agreement with the soccer league has been renewed until June 30, 2010 for all the games of the National Professional League. In this way, Telecom Italia is confirming its commitment to a sport associated with the values of the TIM brand, because it is able to combine social intercourse, mobility, technology and competition.

BRAZIL

Tim Brasil Group

Held by: TIM International N.V. 100%

The TIM Brasil group offers mobile telephone services using TDMA and GSM technologies.

The table shows the key results:

	1 st Quarter 2006 (millions of euro) (a)	1 st Quarter 2005 (millions of euro) (1) (b)	1 st Quarter 2006 (millions of BRL) (c)	1 st Quarter 2005 (millions of BRL) (1) (d)	Change in BRL % (c-d)/d
Revenues	837	546	2,213	1,910	15.9
EBITDA	181	88	478	309	54.7
<i>% of Revenues</i>	<i>21.6</i>	<i>16.2</i>	<i>21.6</i>	<i>16.2</i>	
EBIT	(36)	(45)	(94)	(157)	40.1
<i>% of Revenues</i>	<i>(4.2)</i>	<i>(8.2)</i>	<i>(4.2)</i>	<i>(8.2)</i>	
Capital expenditures	63	77	166	271	(38.7)
Employees (number)	9,152	9,043	9,152	9,043	1.2

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

The TIM Brasil group is the sole operator in Brazil to have nationwide GSM coverage with 17.8 million lines at March 31, 2006, +75% compared to March 31, 2005.

Total lines at March 31, 2006 are 21 million with an increase of 6.4 million lines compared to March 31, 2005 (+43.5%). The TIM Brasil group, with a market share of 23.5%, is confirmed as the second largest operator nationally in terms of the number of customers.

Consolidated *revenues* in the first quarter of 2006 total BRL 2,213 million and grew by 15.9% compared to the first quarter of 2005. The increase is due to the expansion of the customer base, the growth in voice traffic revenues and the contribution by valued-added services, which, as a percentage of revenues went from 4.8% to 6.1%.

Consolidated *EBITDA* in the first quarter of 2006 of BRL 478 million grew by BRL 169 million compared to the first quarter of 2005 (+54.7%, +62.1% net of exceptional items). As a percentage of revenues, EBITDA is 21.6% and shows an improvement of 5.4% compared to the first quarter of 2005.

As for costs:

- purchases of materials and external services of BRL 1,144 million decreased by 1.5% compared to the first quarter of 2005 (BRL 1,162 million). Such purchases as a percentage of revenues are 51.7% (60.8% in the first quarter of 2005);
- personnel costs, equal to BRL 141 million, increased by BRL 28 million compared to the first quarter of 2005 (+24.8%). Personnel costs as a percentage of revenues are 6.4% (5.9% in the first quarter of 2005);
- other operating expenses of BRL 394 million (BRL 305 million in the first quarter of 2005) include sundry expenses (BRL 295 million), principally made up of indirect taxes and duties, writedowns and bad debts expense (BRL 90 million) and other items (BRL 9 million).

Consolidated *EBIT* for the first quarter of 2006 is a loss of BRL 94 million (a loss of BRL 157 million in the first quarter of 2005). This result is still affected by higher depreciation and amortization charges as a result of technical investments supporting the development of network infrastructures and information systems.

In particular, the operating result was affected by amortization and depreciation charges of BRL 573 million (BRL 438 million in the first quarter of 2005).

Amortization and depreciation charges as a percentage of revenues are 25.9% (22.9% in the first quarter 2005).

Capital expenditures amount to BRL 166 million (BRL 271 million in the first quarter of 2005), with a decrease of BRL 105 million. Such reduction is connected with the progressive completion of the territorial coverage plan.

■ INFORMATION ON OPERATIONS

The main operating highlights at March 31, 2006 compared to December 31, 2005 are reported in the following table:

Operating highlights	3/31/2006	12/31/2005
Mobile lines (thousands)	21,018	20,171
Traffic managed (millions of minutes) (*)	5,109	18,354

(*) Including traffic referring to customers of foreign operators.

OTHER AREAS

TURKEY

AVEA İLETİŞİM HİZMETLERİ A.Ş.

Held by: TIM International N.V. 40.5647%

AVEA offers mobile telephone services using GSM technology on Turkish territory and is the third most important mobile network in the country in terms of the number of customers.

At March 31, 2006, customers number more than 6.4 million, with an increase of about 0.3 million lines compared to December 31, 2005. The market share is about 14%.

MEDIA

- Improvement in revenues compared to the first quarter of 2005 (+25.7%)
- La7 Free to Air (analog mode): 15% higher audience share, from 2.5% in the first quarter of 2005 to 2.9% in the first quarter of 2006
- 7.8% jump in terrestrial and satellite Free to Air MTV revenues for an amount of euro 17 million during the first quarter of 2006
- Increase in digital terrestrial TV revenues to euro 5 million (euro 1 million in the first quarter of 2005) driven by growth of Pay-per-View

■ THE BUSINESS UNIT

The Media Business Unit operates in the following segments:

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

■ THE STRUCTURE OF THE BUSINESS UNIT

The Business Unit is organized as follows:



■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

The following corporate events took place during the first quarter of 2006:

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

- on March 31, 2006, the board of directors of Telecom Italia Media S.p.A. approved the contribution of the "Digitale Multiplex" business segment to Telecom Italia Media Broadcasting S.r.l. (a wholly-owned subsidiary of Telecom Italia Media S.p.A.) against a capital increase of euro 27 million. The transaction answers to the need to comply with existing law which requires companies to maintain a corporate distinction between radio and television network broadcasting operators and content suppliers (Law No. 177/2005, Consolidated Law on Radio and Television).

■ OPERATING AND FINANCIAL DATA

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

(millions of euro)	1 st Quarter 2006	1 st Quarter 2005 (1)	Change	
			amount	%
Revenues	44	35	9	25.7%
EBITDA	(28)	(27)	(1)	(3.7%)
% of Revenues	(63.6%)	(77.1%)		
EBIT	(41)	(36)	(5)	(13.9%)
% of Revenues	(93.2%)	(102.9%)		
Capital expenditures	45	15	30	°
Employees (number)	958	886	72	8.1%

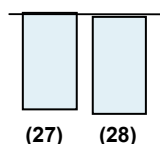
(1) The number of employees is as of the date of December 31, 2005.

Revenues for the first quarter of 2006 total euro 44 million, with an increase of 25.7% compared to euro 35 million for the first quarter of 2005. Excluding the change in the scope of consolidation, underlying growth is equal to 28.1% (euro 10 million), confirming the reputation for editorial content in the programming of the two TV networks and the positive start of the new digital terrestrial initiatives.

In particular:

EBITDA

1st Quarter 2005 1st Quarter 2006



- revenues in the first quarter of 2006 from Free to Air satellite programming using analog signals amount to euro 37 million, an increase of 13.4%;
- revenues from Digital Terrestrial TV (mainly consisting of events using pay-per-view and smart cards) amount to euro 5 million, compared to euro 1 million in the first quarter of 2005;
- revenues from the News area amount to euro 2 million and are double the revenues of the first quarter of 2005.

EBITDA in the first quarter of 2006 is a negative euro 28 million (a negative euro 27 million in the first quarter of 2005). Net of the effects due to the change in the scope of consolidation and exceptional items, EBITDA in the first quarter of 2006 is a negative euro 27 million and is substantially unchanged compared to the first quarter of 2005.

In particular, operating profitability during the first quarter of 2006 showed an improvement in analog and satellite Free To Air of euro 2 million, driven by the growth of the national advertising business (+12.1%). The improvement is also a reflection of La7 actions to concentrate its

resources on adding more programs to its schedule with a higher audience/advertising return and MTV's actions of developing new multichannel/multiplatform strategies, which enabled it to improve EBITDA during the period by euro 1 million. Digital Terrestrial TV, in the presence of an improvement in pay-per-view margins, which are still negative, reported higher operating costs associated with the start-up of the new "free" channels on which advertising is still being built up, since it is closely linked to the penetration of decoders and the consolidation of audience share. Furthermore, in "other activities", there was a marked improvement in the costs of the Central Functions, with an impact of euro 2 million on EBITDA. This was the result of measures taken to reduce costs, begun in 2005, and greater efficiency of the staff structures following the merger of La7 into Telecom Italia Media S.p.A..

EBIT in the first quarter of 2006 is a negative euro 41 million. This is a loss that is euro 5 million higher than the loss reported in the first quarter of 2005 following the above-mentioned reduction in *EBITDA* and higher amortization and depreciation charges in the Television area. On a comparable basis (excluding the change in the scope of consolidation and exceptional items), the difference is equal to -euro 5 million.

Capital expenditures amount to euro 45 million (euro 15 million in the first quarter of 2005) and mainly refer to investments in the Television area in connection with digital terrestrial television for euro 38 million and the acquisition of television rights of euro 6 million.

Employees at March 31, 2006 number 958 (886 at December 31, 2005) and include 58 people with temp work contracts (49 at December 31, 2005). Compared to December 31, 2005, the total number of employees shows an overall increase of 72, due mainly to people hired in the Television area for new TV productions, and the operation of the new satellite channels and pay-per-view services.

■ EVENTS SUBSEQUENT TO MARCH 31, 2006

Subsequent events refer to the following:

- on April 7, 2006, the new analog channel FLUX was officially launched. Flux is a container of events, programs and videos lasting a maximum of 5 minutes, broadcasting 24 hours a day. It may be accessed not only through television but also through internet and mobile phones. Flux will give voice and space to the new, more credible and interesting audiovisual proposals from the international scenario, which run in a fluid yet intermittent programming schedule compared to traditional television programs.

■ INFORMATION ON OPERATIONS

The following initiatives regarding operations took place during the first quarter of 2006:

DIGITAL TERRESTRIAL TELEVISION

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

To make the task of acquiring the Smartcards simpler and more convenient, the network of points of sale has been extended to include other channels such as tobacconists and newsagents, in addition to electronic consumer goods shops. During the period about 1 million prepaid cards were distributed for soccer on Digital Terrestrial television, with more than a 60% level of activation.

La7

As far as new shows during the period are concerned, in the area of so-called "realtainment", the *SOS Tata* average audience reached 3.5% in March, whereas that of *Chef per un giorno* reached almost 5% (4.82%)

Another new show, *Le Relazioni Pericolose*, a talk show conducted by Camilla Raznovich and broadcast from March 2006 in the later part of Sunday evening, has an average audience share of 2.4%.

With regard to sporting events, once again, 15 rugby matches of the *Six Nations Cup* between Europe's best national teams were broadcast between February 15 and March 19 with an average media share of 3.0% and almost 13 million viewers.

MTV

The success of TRL (Total Request Live), School in Action and Very Victoria continues. With regard to events, on March 25, 2006, the TRL Awards were presented to the TRL actors in Piazza Duomo in Milan in front of an audience of 100,000 kids.

MTV's satellite network (MTV+Hits), which responds to the needs of an ever-more selective and diversified audience, continues to maintain its leadership in the Sky music/youth sector.

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

OLIVETTI

■ INTRODUCTION

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

The reference market of the Business Unit is focused mainly in Europe and Asia.

■ THE STRUCTURE OF THE BUSINESS UNIT

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



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

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

On February 28, 2006, 60% of the share capital of Wirelab was sold to the shareholder Urmet. Following the sale, stakes are held in Wirelab S.p.A. as follows: 90% Urmet S.p.A. and 10% Olivetti S.p.A.

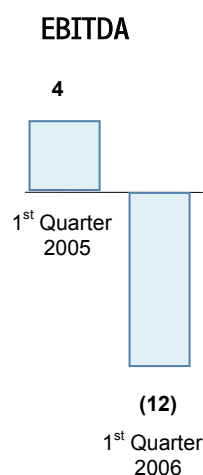
■ OPERATING AND FINANCIAL DATA

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

(millions of euro)	1 st Quarter 2006	1 st Quarter 2005 (1)	Change	
			amount	%
Revenues	94	108	(14)	(13.0)
EBITDA	(12)	4	(16)	°
<i>% of Revenues</i>	<i>(12.8)</i>	<i>3.7</i>		
EBIT	(17)	-	(17)	
<i>% of Revenues</i>	<i>(18.1)</i>			
Capital expenditures	2	4	(2)	(50.0)
Employees (number)	1,622	1,750	(128)	(7.3)

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

Revenues in the first quarter of 2006 amount to euro 94 million of which euro 10 million relates to the sale of intellectual properties to Telecom Italia S.p.A.



Compared to the same period of 2005, revenues show a reduction of euro 14 million (13.0%). Excluding the foreign exchange effect and the impact of the change in the scope of consolidation, for a total of euro 1 million, the change is a decrease of euro 13 million especially as a result of the reduction in the revenues of traditional Ink-jet products and specialized printers.

EBITDA in the first quarter of 2006 is a negative euro 12 million. This is an increase of euro 16 million in the loss compared to the loss reported in the first quarter of 2005. The difference is due to lower margins on ink-jet products and specialized printers and the decrease in receipts from the gaming area originating from technical assistance services rendered to Lottomatica.

EBIT in the first quarter is a negative euro 17 million; in the first quarter of 2005, EBIT was a breakeven. Excluding exceptional items, the change is a negative euro 16 million. The higher loss is due to the aforementioned reduction in the margins on Ink-jet products, specialized printers and Gaming.

Capital expenditures amount to euro 2 million and decreased by 50% compared to the first quarter of 2005.

Employees at March 31, 2006 number 1,622, of whom 1,466 are in Italy and 156 abroad. The reduction of 128 people, compared to December 31, 2005, is mainly attributable to the termination of employment (74) and the exclusion of Wirelab from the scope of consolidation (54).

■ INFORMATION ON OPERATIONS

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

BUSINESS & MARKET DEVELOPMENT

During the first quarter of 2006, actions already taken in 2005 continued with a view to renewing and rationalizing the product portfolio.

The most significant reductions in sales volumes, compared to the first quarter of 2005, were in accessories of ink-jet fax machines (-410,000 printheads), in specialized printers particularly for the Chinese market, in the fax line and in other office hardware. These reductions were partially offset by the Gaming area owing to the completion of the Lottomatica supply contracts and the sales of

multifunctional products launched in the last quarter of 2005. Mention should also be made of an order acquired from a large-scale distribution channel for approximately 80,000 fax machines (worth euro 5 million) to be delivered in June of this year.

PRODUCT/TECHNOLOGY DEVELOPMENT & INDUSTRIAL OPERATION

The main activities of the first quarter of 2006 in the “consumer” product segment were as follows:

- restyling/extension of the range of multifunctional products launched in 2005, scheduled for completion in the first half of 2006;
- development of a new multifunctional “entry-level” product to be marketed in the summer of 2006;
- development of a new platform of multifunctional products and associated printheads to be marketed in the first half of 2007.

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

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

During the first quarter of 2006, the process of moving specialized printer production to China was begun.

Finally, the supply of gaming terminals to the customer Lottomatica was completed on March 31, 2006, with the installation of approximately 33,000 terminals.

OTHER ACTIVITIES

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

■ CENTRAL FUNCTIONS

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

OPERATING COSTS				
	1 st quarter 2006	1 st quarter 2005 Proforma	Change	
			amount	%
Group Functions	(110)	(118)	8	(6.8)
Service Units	(248)	(245)	(3)	1.2
<i>Eliminations</i>	<i>16</i>	<i>15</i>	1	6.7
SUBTOTAL	(342)	(348)	6	(1.7)

(*) See tables on the following page.

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

The table excludes the effects of certain nonrecurring extraordinary items (such as, for example, the OTE closing in 2005) in order to show a more meaningful and comparative representation of the operating trend of the Central Functions.

Costs decreased by euro 9 million, principally in the Group Functions as a result of the Corporate Costs Reduction Project begun during 2005, which led to savings on professional fees, consulting fees, communication costs and other discretionary costs.

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

■ GROUP FUNCTIONS

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

OPERATING COSTS				
	1 st Quarter 2006	1 st Quarter 2005 Proforma	Change	
			amount	%
Staff Functions	(95)	(95)		
Group Communication	(9)	(15)	6	(40.0)
Corporate LATAM + TI Int'l	(6)	(8)	2	(25.0)
Group Functions	(110)	(118)	8	(6.8)

The data presented includes costs received and recharged for the activities performed by the Service Units.

■ SERVICE UNITS

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

OPERATING COSTS				
	1 st Quarter 2006	1 st Quarter 2005 Proforma	Change	
			amount	%
Real Estate Activities and Services	(194)	(192)	(2)	1.0
CSA	(12)	(13)	1	(7.7)
Security	(14)	(13)	(1)	7.7
Purchasing	(9)	(8)	(1)	12.5
Welfare	(5)	(5)		
Other & Eliminations (1)	(14)	(14)		
Service Units	(248)	(245)	(3)	1.2

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

The costs show a slight increase (+euro 3 million) mainly in Real Estate Activities and Services due to the effect of inflation on the building leases and on the costs for fuel and electrical energy which is partly offset by the efficiencies achieved.

REAL ESTATE ACTIVITIES AND SERVICES

Tiglio Project (Real Estate Funds)

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

During the period, the companies Tiglio I and Tiglio II also distributed share capital to Telecom Italia S.p.A. in the form of additional paid-in capital. In particular, Tiglio I approved a distribution, for Telecom Italia's share, of euro 18 million, of which euro 14 million was received in March 2006. Tiglio II, instead, approved a distribution, which for Telecom Italia amounted to euro 7 million and was entirely collected in March 2006. Telecom Italia was also paid euro 2.5 million for its share of the distribution approved in 2005 which had not yet been paid out.

Tiglio II, moreover, approved a distribution of dividends to Telecom Italia of euro 2 million, which was fully collected in March 2006.

Sale of properties

As part of the activities to reorganize the physical space occupied by network equipment to gradually free part of the buildings used for such equipment, the board of directors of Telecom Italia S.p.A. approved during 2005 the transaction for the sale of more than 1,300 properties for a total amount of about euro 1 billion. After a first group of 867 properties was sold during 2005, on March 1, 2006, Telecom Italia S.p.A. transferred a second group of 248 properties to the subsidiary Olivetti Multiservices (OMS) and, at the same time, signed the relative lease contracts.

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

- on March 29, 2006, OMS contributed 201 properties to the Raissa Fund with a transfer value of about euro 158 million and at the same time took over the financial debt of about euro 97 million assumed beforehand by OMS and transferred to the fund itself. The majority of the shares that came from the Raissa Fund as a result was sold to institutional investors headed by The Morgan Stanley Real Estate Funds. Pirelli & C. Real Estate has a 35% stake in the Raissa Fund under a joint venture with the same funds.
Two of the buildings conferred to the Raissa Fund are subject to a suspensive condition for the transfer of the buildings in favor of the State. For these two properties, OMS will receive the sales price after the pre-emptive period (60 days). The Group realized a gross consolidated gain on the transaction of euro 57 million and a positive impact on the consolidated financial debt equal to euro 125 million before taxes;
- on March 30, 2006, OMS contributed 120 buildings to the Spazio Industriale Fund with a transfer value of about euro 71 million and at the same time took over the financial debt of about euro 60 million assumed beforehand by OMS and transferred to the fund itself. The majority of the shares that came from the Spazio Industriale Fund as a result was sold to institutional investors headed by Cypress Grove International Funds. Pirelli & C. Real Estate has a 35% stake in the Spazio Industriale Fund under a joint venture with the same funds. The Group realized a gross consolidated gain on the transaction of euro 34 million and a positive impact on the consolidated financial debt equal to euro 70 million before taxes.

With reference to the properties which came under OMS' control following the transfer from Telecom Italia on December 1, 2005 and March 1, 2006, OMS has 87 properties still to be monetized which are currently leased to Telecom Italia S.p.A..

■ INTERNATIONAL HOLDINGS

Entel Bolivia Group

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

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

During the first quarter of 2006, the wireline business again focused on consolidating the WI-FI and internet services in major cities. In particular, among other incentive campaigns, "Multicontact", a messaging service using the internet, was launched, and at Concepción, the first "Telecentro Mixto", a point of sale which supplies the internet service free to students, was opened. There are plans to open similar points of sale, as a social initiative on the part of the Group, in the poorer, rural areas of the country.

At March 31, 2006, land lines number 60 thousand and represent an increase of 5.3% compared to December 31, 2005 (57 thousand).

In the mobile business, the criterion for calculating the length of a call has been changed, by introducing a rounding-off "per second", and a virtual recharging system based on credit or debit cards has been activated. To combat the negative advertising of a local competitor against the rate policy applied by the Group, the rates for calls between Entel mobile phones have been reduced and the campaign emphasized that, nationwide, eight out of every ten mobile phones are Entel phones.

The Group's mobile clientele number 1,430 thousand at March 31, 2006, compared to 1,447 thousand at December 31, 2005.

Finally, significant investments were made during the period, geared to maintaining and optimizing the fixed and mobile networks.

Telecom Argentina Group

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

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

Land lines in service (including public telephones) number 3,966 thousand at March 31, 2006, an increase of 0.4% compared to December 31, 2005 (3,950 thousand).

In the mobile business, the customer base increased by 3.5% compared to December 31, 2005, reaching 7,042 thousand customers (of which 9.8% is in Paraguay).

The number of postpaid customers increased by +8.7% compared to December 31, 2005 and represents 34.5% of the total customer base (against 32.8% at December 31, 2005). Customers who use GSM services reached 71% of the total customer base.

Brasil Telecom Group

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

The company operates fixed telephone services in Region II (Paraná, Santa Caterina, Distrito Federal, Tocantins, Mato Grosso, Mato Grosso do Sul, Rondonia, Rio Grande do Sul, Acre and Goias) covering about 2.8 million square kilometers (33% of the total area of the country), a population estimated at approximately

43 million (23% of the total population) with three metropolitan areas of more than one million inhabitants including Brasilia, the capital of the nation.

Brasil Telecom has one of the largest telecommunications networks in Brazil with a vast offering of services for telecommunications, fixed telephony, broadband and narrow band, free internet, data transmission and mobile telephony launched at the end of 2004, using GSM technology.

The land line customer base at December 31, 2006 reached 9,543 thousand, with an increase of 31 thousand compared to March 31, 2005. The Broadband service shows a sharp increase, with 1,084 thousand accesses at March 31, 2006, corresponding to growth of more than 73% compared to March 31, 2005 and about 7% compared to December 31, 2005.

The mobile business has 2,460 thousand customers at March 31, 2006. This is an increase of more than 145% over the 12-month period. During the first quarter of 2006, the number of fixed lines increased by about 247 thousand, equal to 11.2%.

Brasil Telecom's market share of mobile telephony at March 31, 2006 is 9.4% of the total region.

■ OTHER INFORMATION

DISPUTES, LITIGATION AND LEGAL PROCEEDINGS PENDING

The information given in the 2005 Annual Report on the main disputes involving the Telecom Italia Group is updated below. Unless expressly indicated, 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.

FASTWEB

On March 13, 2006 Telecom Italia filed an urgent petition with the Milan Court of Appeal to restrain Fastweb from:

- ✓ engaging in conduct in the market for the wholesale supply of call termination services on its fixed network in violation of antitrust rules;
- ✓ engaging, by means of the above-mentioned illicit conduct, in initiatives for the award of the Consip contract;
- ✓ submitting tenders for future public contracts that involve the same illicit conduct in violation of antitrust rules.

In particular, Telecom Italia accused Fastweb of abusing its dominant position in the market for the wholesale supply of call termination services on its fixed network by charging other operators (and notably Telecom Italia) excessively high and unfair prices in order to earn monopoly profits with which to illegally subsidize offers made to final users in the private and public sectors. The Company claimed that the unfair priced charged by Fastweb was a particularly serious abuse insofar as the illegal monopoly profit was to be used to prevail in contiguous markets.

On April 10, 2006 Fastweb submitted an urgent petition to the Milan Court of Appeal, after the Rome Court of Appeal had ruled in February that it did not have jurisdiction, to counter what the plaintiff alleged to be the exclusionary strategy adopted by Telecom Italia in the broadband market.

Telecom Italia is accused of asymmetrically exploiting information on final customers, creating a system of incentives for its sales network aimed at excluding Fastweb from the above-mentioned market and conducting a campaign of soliciting Fastweb customers with a view to convincing them to withdraw from contracts already signed with that company, including by means of denigrating statements and personalized, discriminatory offers reserved to such customers.

TELEXTRA S.r.l.

On April 6, 2006 Telecom Italia received notice of an urgent petition by Telextra S.r.l. (operator in the fields of direct marketing and telecommunications) to obtain an injunction requiring the Company to supplement the Single Database of subscribers (i.e. the complete list in electronic form of all the customers of the operators authorized to provide fixed and mobile telephony services in Italy) by including not just the basic data (consisting of customers' names and addresses) but all the information on customers published in the White Pages telephone directory (e.g. their profession or commercial activity).

According to the plaintiff, Telecom Italia was abusing its dominant position in the market for the collection of data and the publication of directories by hindering the entry of new firms to the market for information on subscribers and thereby obtaining a significant competitive advantage.

EUTELIA

On April 11, 2006 the telecommunications operator Eutelia S.p.A. gave notice of an urgent petition in relation to alleged abusive conduct by Telecom Italia in the market for wideband data access, with reference in particular to “data only” ADSL, that is ADSL using telephone lines on which voice telephony has not been activated.

In particular, Eutelia applied to the Court of Appeal for an injunction against the application by Telecom Italia to wholesale ADSL (i.e. to the supply of the intermediate good that allows alternative operators to provide their final customers with retail ADSL) of the new prices it had unilaterally introduced with retroactive effect, including the application of such prices to wholesale ADSL links that were already in operation at 10 July 2005 and not associated with a Telecom Italia line. In short, Eutelia claimed that the prices in question served exclusively to offset the lack of revenues from the basic telephone line and to hinder competitors from entering the emerging market for services based on VOIP technology (i.e. xDSL telephony services).

Telecom Italia is of the opinion that the new prices (explicitly accepted by some operators, which have recognized the cost of providing so-called “naked” ADSL services and altered their contracts) apply to all the existing contracts in virtue of the presentation of the prices for the service to the Communications Authority in June 2005 (and their consequent entry into force in July 2005). Legally speaking, Telecom Italia’s action was not a unilateral alteration of the contract but recognition of a price for a service that it provides and which is currently not remunerated, contrary to the Communications Authority’s ruling in the resolution it adopted in February concerning the analysis of the wholesale market for wideband access, in which the Authority provided for the remuneration of wholesale ADSL unrelated to a Telecom Italia telephone line.

TELE2

In April 2006 the Milan Court of Appeal dismissed Tele2’s appeal against the order issued on November 22, 2005 dismissing Tele2’s urgent petition for a preliminary injunction restraining Telecom Italia from continuing the “Alice Free” offer of retail metered ADSL, which gave new customers subscribing to the offer by 30 November 2005 the possibility to navigate free of charge until December 31, 2005 without having to pay either the one-time-only fee or the activation fee.

Tele2 had asserted that the economic terms of the offer constituted an abuse of dominant position in the market for broadband data access in the form of a violation of the principle of equal treatment inasmuch as the retail offer had not been preceded by an adjustment of the wholesale offer permitting the other OLOs to replicate these terms. In this regard, the Court of Appeal – without pronouncing on the merits of the case (*fumus boni juris*) and limiting its action at this stage to verifying the absence of *periculum in mora* – stated, *inter alia*, that price competition was normal at the level of retail offers and therefore permissible conduct for the dominant operator to engage in with a view to protecting its own business interests.

CECCHI GORI

The Milan Court of Appeal has dismissed the appeal by the Cecchi Gori Group from the ruling issued by the Milan court of first instance rejecting the petition for annulment or cancellation of the contract under which, in August 2000, the Cecchi Gori Group had pledged the 11,500 shares that at the time represented its interest in Cecchi Gori Communications (now HMC S.p.A.) as security to Seat (now Telecom Italia Media). At the same time the Court of Appeal ordered the Cecchi Gori Group to reimburse the trial costs paid by Telecom Italia Media.

The following cases remain pending in the ordinary courts:

- before the Rome Court of Appeal: an appeal by the Cecchi Gori Group from the ruling that rejected the petition for annulment of the resolutions approved on August 11, 2000 by the extraordinary shareholders' meeting of Cecchi Gori Communications (now Holding Media Communications) concerning some amendments to the company's bylaws;
- before the Milan Court: an action brought by the Cecchi Gori Group for damages for a tort resulting in injury from the conduct of Seat and of the directors it designated to the board of Cecchi Gori Communications having the alleged aim of ousting the majority shareholder, Cecchi Gori Media Holding;

BRAZIL

As regards the various disputes in which the Telecom Italia Group is involved in Brazil, it should be noted that on March 15, 2006 Brasil Telecom ("BT") and Brasil Telecom Celular ("BTC") instigated arbitration proceedings at the International Chamber of Commerce of Paris (ICC) against Tim International and Tim Brasil, contesting the validity of the Merger Agreement signed on April 28, 2005 between BT, BTC, Tim International and Tim Brasil, which provided, among other things, for the merger of Tim Brasil and BTC. The agreement, which also complied with some indications of the sector's regulatory authority, ANATEL, was intended to overcome the problem of the overlapping of licenses between Tim and BT/BTC in some parts of Brazil.

REGULATORY FRAMEWORK

The regulatory framework for the sector is now consolidated with the coming into force of both the “Electronic Communication Code” and the “Consolidated Law on Radio and Television” which, amongst other things, contains the principles of convergence between radio, television and other sectors of interpersonal communications.

There follows a brief description of the main laws regarding the standards and regulations adopted in the first quarter of 2006.

2006 National Regulatory Agency Contribution

Sub-sections 65 and 66 of Law No. 266 of December 23, 2005 (the 2006 Finance Bill) established that, with effect from 2007, the operating expenses of some authorities, including the National Regulatory Agency (AGCOM), must be financed by the market in which they operate, to cover those expenses not covered by government budget. For the year 2006, it has been established that those operating in the communications sector must pay a contribution equal to 1.5 per thousand of revenues reported in the last approved financial statements. Furthermore, in the years to come, it has also been established that the National Regulatory Agency may make any changes to the amount of the contribution, up to a maximum of 2 per thousand.

In Resolution No. 110/06/CONS of March 2, 2006 the National Regulatory Agency approved the amount and method of payment of the contribution concerned, adding innovations in terms of those exempt from payment, previously established in the Ministerial Decree of May 17, 2002. By the end of April 2006, the Telecom Italia Group will pay the National Regulatory Agency an amount equal to approximately euro 24 million, compared to euro 10.4 million paid in 2005.

Subscriber Information Services

In resolution No. 8/06/CIR of February 9, 2006, the National Regulatory Agency established the maximum prices both for direct calls to numbers of subscriber information services made from the fixed network, and for information given at the end of the call with the explicit acceptance of the customer.

Universal Service

In Resolution No. 31/06/CSP of February 21, 2006, the National Regulatory Agency established the aims in terms of the quality of the universal service for the year 2006, which Telecom Italia is expected to observe.

Furthermore, the preliminary investigation is now in progress with regard to the valuation of the net cost sustained by Telecom Italia in 2004 for supplying the universal service which is expected to be concluded by May 31, 2006.

Services at extra cost

In the Ministerial Decree No. 145 of March 2, 2006, the Ministry of Communications issued regulations governing the area of services at extra cost, that is, information services or national and international services for which there is an extra charge, including those delivered through internet connections, those offered on the interactive digital television platform and those sent with text messages such as SMS or MMS. Furthermore, the decree has established a price ceiling for services destined for minors (euro 2.75 including VAT), and a maximum amount which can be charged for each communication (euro 12.50 excluding VAT).

Regulation regarding sanctions

Following the changes to the organization of the National Regulatory Agency, in Resolution No. 136/06/CONS of March 15, 2006, the National Regulatory Agency approved a new regulation and established the sanctions to be applied if any company should fail to comply with the rules contained therein or should fail to send any information requested or transmit false data.

Supply of VoIP Services

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

Market analysis with regard to electronic communications

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

The National Regulatory Agency has published final measures for the following markets:

- Resolution No. 46/06/CONS of January 25, 2006, with regard to market access and call origination on mobile public telephone networks (market No. 15);
- Resolution No. 45/06/CONS of January 25, 2006, with regard to the markets of the terminal segments of rented lines and of segments of rented lines on long-distance circuits (markets No. 13 and No. 14);
- Resolution No. 34/06/CONS of January 19, 2006, with regard to the wholesale broadband access market (market No. 12);
- Resolution No. 33/06/CONS of January 19, 2006, with regard to the retail access markets to the public telephone network at a fixed location for residential and non-residential customers (markets No. 1 and No. 2);
- Resolution No. 4/06/CONS of January 12, 2006, with regard to the market of wholesale unbundled access (including shared access) to metallic loops and subloops, with the aim of supplying broadband and voice services (market No. 11);
- Resolution No. 3/06/CONS of January 12, 2006, with regard to the market of vocal call terminations on individual mobile networks (market No. 16).

The National Regulatory Agency has published its public consultations on the following markets:

- Resolution No. 162/06/CONS of March 22, 2006, with regard to the market of call origination from mobile networks towards non-geographical numbers in compliance with article 19 of the Electronic Communication Code;
- Resolution No. 87/06/CONS of February 22, 2006, with regard to the markets of local, national and fixed-mobile telephone services available to the public and supplied at a fixed location for residential and non-residential customers (markets No. 3 and No. 5);
- Resolution No. 78/06/CONS of February 15, 2006, with regard to the wholesale national market for international roaming services for public mobile telephone networks (market No. 17).

The next phases of the above-mentioned proceedings will involve the sending of new draft measures, which have been changed on the basis of the outcome of the public consultations, to the Antitrust Authority, for a non-binding advisory opinion, and to the European Commission for a binding opinion with regard to the matter of defining significant markets and identifying the dominant operators in those markets.

At the end of these two phases, the National Regulatory Agency will publish the definitive versions of the measures.

Digital Terrestrial TV to mobile handsets

In Resolution No. 191/06/CONS of April 4, 2006, the National Regulatory Agency published and submitted for public consultation the outline of a measure for regulating the start-up of digital terrestrial broadcasting to mobile handsets which incorporate the DVB-H (*Digital Video broadcasting: Transmission System for Handheld terminals*) standard.

RESEARCH, DEVELOPMENT AND INNOVATION

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

For this reason, technological innovation is regarded as an essential and distinguishing factor for augmenting the Telecom Italia Group's competitive advantage and maintaining its leadership in a market which is becoming increasingly competitive.

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

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

Moreover, the technological innovation of the Telecom Italia Group is also the result of strategic partnerships with leading manufacturers of TLC equipment and systems and with top research institutes at the most highly respected academic institutions in Italy and abroad.

Technological innovation activities range from reviewing basic technologies with the aim of increasing efficiency in the operation of networks and systems, to complex activities which involve an in-depth review of the platforms, services and architectures of the Group. The profound commitment of the Operating Functions and Business Units in the field is, therefore, essential to ensure that the new services meet the clientele's requirements and in order to generate a continuous improvement in standards of quality.

During the first quarter of 2006, the overall innovative investments of the Telecom Italia Group in tangible and intangible assets amount to approximately euro 700 million. Approximately 5,700 internal resources are devoted to these activities and research activities, in Italy and Brazil, with an overall commitment of approximately euro 90 million (of which about euro 31 million is already included under investments).

In particular, during the first quarter of 2006, the R&D centers of the Telecom Italia Group conducted the following activities.

INNOVATION & ENGINEERING SERVICES

"Innovation & Engineering Services" has inherited the experience, resources and know-how of the Group's former research center TILAB, which have now been joined by resources and experts in the field of network development engineering for fixed and mobile networks.

Its technical experts work with a view to developing innovative products and systems (innovation), applying engineering to these and making the new products available to the Group's customers rapidly and economically.

Innovative products and systems are conceived, created and tested in the laboratories in Turin and Rome, by studying the fixed and mobile access networks, working to develop the transport network, and developing

services and platforms. All this is done having made a careful analysis of the requirements of the final customer and companies that see the TLC network as the factor which, in the future, will enable them to compete on the market at a global level.

In close collaboration with Pirelli Labs, universities and industrial research centers, the "Innovation & Engineering Services" function is bringing the future closer by supplying hi-tech services in many sectors, from mobile telephony to multimedia, for homes and businesses alike, ensuring quality and safety.

The main achievements during the first quarter of 2006 are summarized below.

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

With reference to the **new network infrastructures/control platform**, various initiatives were launched which will result in an offering of new services during 2006. In particular:

- in connection with the HSDPA infrastructure, the overall geographical coverage plan has been defined which will lead to the creation of about 5,000 sites by the year-end;
- with regard to the DVB-H infrastructure, the two Head-Ends of Turin and Rome which will host the content that will be offered to the clientele are being prepared, and the new terminals on which the service will be based are in the process of being qualified;
- with regard to the ADSL2+ infrastructure, coverage has been completed in the 21 towns initially planned for the Alice Home TV service and work has begun both to extend coverage to the other exchanges involved in the plan and the preparation of Access Gateways which are capable of managing the new access;
- with regard to the advanced IMS (IP Multimedia Subsystem) platform, since the beginning of 2006, a new release has been installed in Milan, Rome and Palermo, which is capable of enabling the Alice Mia service nationwide.

With reference to the contribution given by Innovation & Engineering Services **to the launch of new services and terminals** or to the extension of those already in place, the following events are worthy of note:

- joint trials with Mediaset on the DVB-H service during the 2006 Winter Olympics in Turin, involving about 600 customers and various technical experts, and providing without payment about ten channels of different quality;
- start of the Alice Home TV service, which is being marketed in the 21 towns covered by ADSL2+, with the release of innovative services and content, and the extension of the available services to the clientele (for example Alice Oggi, content research and basketball);
- activation of the Push over Cellular service for the residential clientele (marketed with the Tim Talk brand), which permits an innovative way of communication as part of a package within a customer community;
- completion of functional specifications and feasibility studies on UMA terminals and on the associated service model, with commitment to terminal suppliers and with the start of pre-certification and interoperability tests on the terminals.

Innovation & Engineering Services has also contributed from the technical standpoint to the **holding of important bids** which Purchasing activated at the beginning of the year within the sphere of Network Transport and the Optical Packet Metro, thus contributing to the policies of reducing costs at Group level.

OLIVETTI S.p.A.

The Olivetti Business Unit devotes a significant amount of its resources to the technological R&D sector. In its five research centers (located at Agliè, Arnad, Carsoli and Scarmagno in Italy; and at Yverdon in Switzerland) it employs more than 300 people, corresponding to 20% of its total workforce.

In particular, ink-jet technology, which Olivetti is the only company in Europe to own, together with five other companies worldwide, was conceived and developed at the center in Arnad (Aosta), where more than 200 employees are engaged in the entire production cycle of thermal ink-jet technology: from the processing of silicon to the assembly of printer cartridges. During the first three months of 2006, Olivetti's research centers were extremely busy developing and perfecting the new generations of multifunctional printers, which were launched in 2005.