



TELECOM ITALIA GROUP
THIRD QUARTER 2006 REPORT

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■ CORPORATE BOARDS AT SEPTEMBER 30, 2006

Board of Directors

Chairman	Guido Rossi (Executive Director)
Deputy Chairman	Gilberto Benetton
Executive Deputy Chairman	Carlo Orazio Buora (Executive Director)
Chief Executive Officer	Riccardo Ruggiero (Executive Director)
Directors	Paolo Baratta (Independent Director)
	Diana Bracco (Independent Director)
	John Robert Sotheby Boas (Independent Director)
	Domenico De Sole (Independent Director)
	Francesco Denozza (Independent Director)
	Luigi Fausti (Independent Director)
	Guido Ferrarini (Independent Director)
	Jean Paul Fitoussi (Independent Director)
	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 shareholders' meeting held on May 6, 2004 appointed the board of directors of the company for three years up to the approval of the financial statements for the year ended December 31, 2006, establishing that the board should be composed of 19 members. The shareholders' meeting held on April 7, 2005 had, among other things, revised the number of members of the board of directors from 19 to 21 and appointed Marco De Benedetti and Enzo Grilli as directors.

The shareholders' meeting held on April 13, 2006 appointed Diana Bracco and Vittorio Merloni as directors following the resignations of Marco De Benedetti (on October 5, 2005) and Giovanni Consorte (on January 23, 2006). The director Enzo Grilli passed away on October 29, 2006.

Top management was appointed by the board of directors in its meetings held on May 6, 2004 (Chairman Marco Tronchetti Provera, Deputy Chairman Gilberto Benetton, Chief Executive Officers Carlo Buora and Riccardo Ruggiero) and on July 26, 2005 (Chief Executive Officer Marco De Benedetti, who subsequently tendered his resignation from the post of director of the company). On September 15, 2006, the Chairman of the board of directors, Marco Tronchetti Provera, tendered his resignation from the post of director of the company; the board then co-opted Guido Rossi, appointing him as Chairman. The board also appointed Carlo Buora as Executive Deputy Chairman.

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

Remuneration Committee

Luigi Fausti (Chairman)
Paolo Baratta
Pasquale Pistorio

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

Guido Rossi
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. On October 20, 2006, the statutory auditor, Stefano Meroi, tendered his resignation. As established in the bylaws, his post was taken over by the alternative auditor on the minority slate, Enrico Bignami.

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"
- "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"
- "Telecom Italia S.p.A. Euro 750,000,000 notes 4.50% due 2011"
- "Telecom Italia S.p.A. Euro 1,250,000,000 notes 5.375% due 2019"

Francesco Pensato

Francesco Pensato

Francesco Pensato

Francesco Pensato

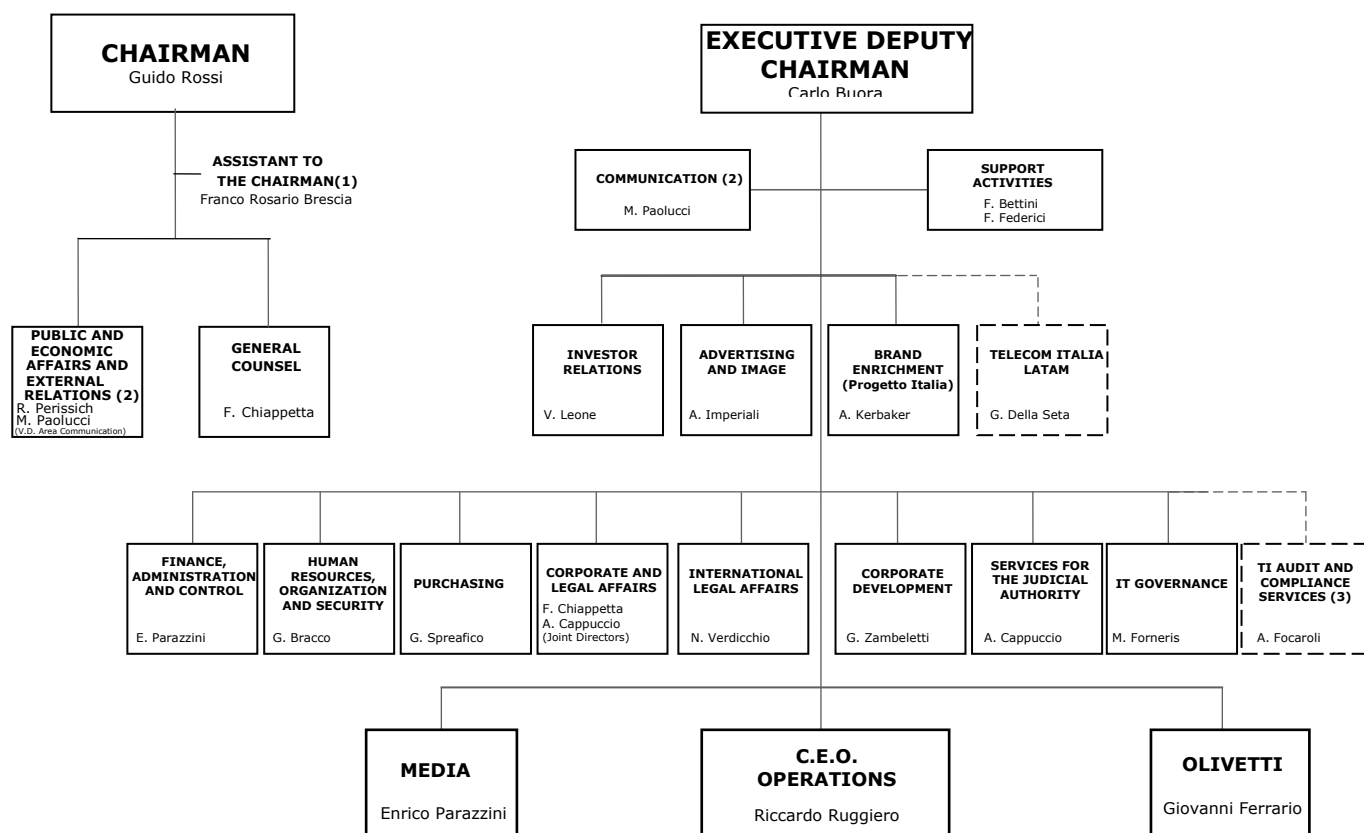
The Milan Court decreed the appointment of the common representative of the bondholders for each of the above bond issues, following the impossibility to conduct the respective meetings of the bondholders.

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 SEPTEMBER 30, 2006



- (1) Beginning from October 1, 2006, Franco Rosario Brescia was appointed assistant to the Chairman.
- (2) On November 2, 2006, the *External Relations* Group function, reporting directly to the Executive Deputy Chairman, was set up and is headed by Antonio Concina, with Massimiliano Paolucci as Deputy Director. At the same time, the Public and Economic Affairs and External Relations Group function took the name of Public and Economic Affairs and the Communication area ceased to exist.
- (3) This is the consortium company entrusted with the internal auditing activities of the Group.

On September 15, 2006, the board of directors of Telecom Italia S.p.A. took note of the resignation of Mr. Marco Tronchetti Provera and appointed Prof. Guido Rossi as Chairman of the board and Mr. Carlo Buora as Executive Deputy Chairman.

As a result, the Telecom Italia Group's organization structure is as follows:
the following report to the Chairman, Guido Rossi:

- the Group function of *Public and Economic Affairs and External Relations*;
- *General Counsel*;

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

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

The Communication and Support Activities area also report directly to the Executive Deputy Chairman.

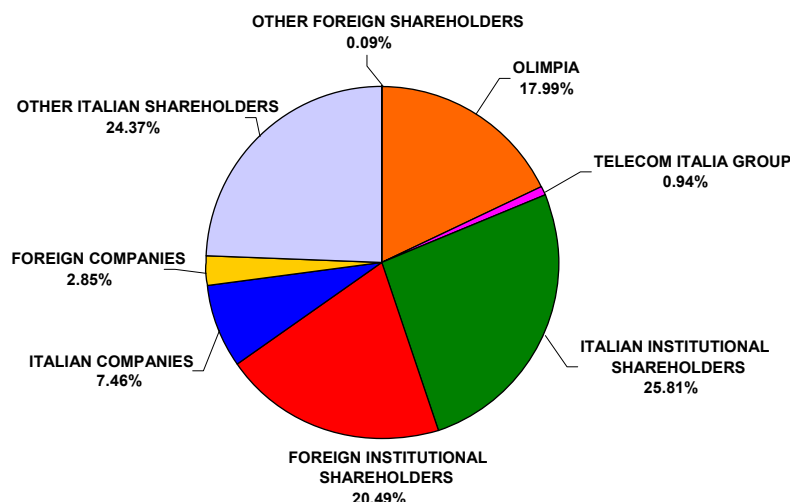
■ SHAREHOLDER INFORMATION

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

Share capital (issued)	euro 10,673,756,447.75
Number of ordinary shares (par value of euro 0.55 each)	13,380,709,244
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 September 2006 average prices)	euro 41,379 million

■ SHAREHOLDERS

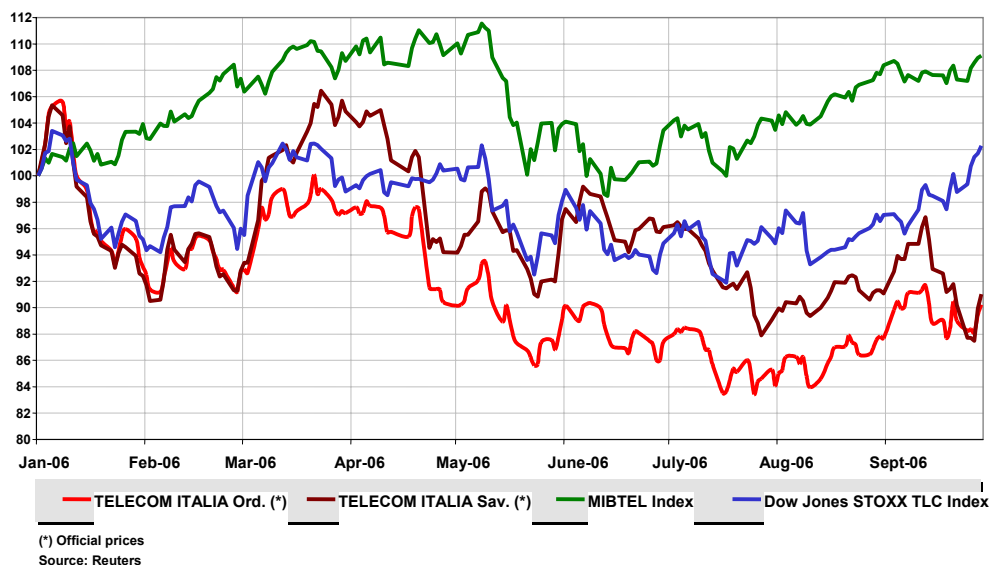
Composition of Telecom Italia S.p.A. shareholders according to the Shareholders Book at September 30, 2006, supplemented by communications received and other sources of information
(ordinary shares)



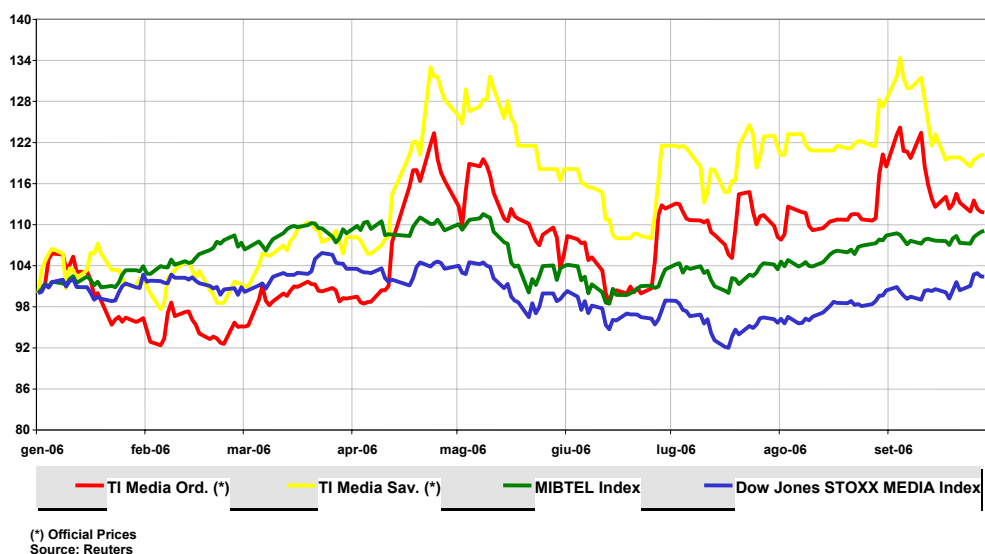
On October 18, 2006, Olimpia, Pirelli, Edizione Holding, Edizione Finance International, Mediobanca and Generali signed a shareholders' agreement in which Olimpia, Mediobanca and Generali tied up a total of 23.2% Telecom Italia ordinary capital. With the signing of this agreement (covering a period of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

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

Relative performance
TELECOM ITALIA S.p.A.
1/1/2006 – 9/30/2006
vs. MIBTEL
and DJ Stoxx TLC Indexes



Relative performance
TELECOM ITALIA MEDIA S.p.A.
1/1/2006 – 9/30/2006
vs. MIBTEL
and DJ Stoxx MEDIA Indexes (ordinary
shares)



■ RATINGS AT SEPTEMBER 30, 2006

STANDARD&POOR'S
MOODY'S
FITCH RATINGS

RATING
BBB+
Baa2
BBB+

OUTLOOK
Negative
Stable
Stable

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

On April 11, 2006, Fitch Ratings changed the Issuer Default Rating ("IDR") to BBB+ from A-, with a stable outlook, deeming that Telecom Italia's financial flexibility was 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 by the dividend policy of the company announced in communications dated March 7 and 8, 2006.

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

On September 11, 2006, S&P placed its BBB+ negative outlook rating on Telecom Italia on Creditwatch with negative implications following the first announcements of a Group reorganization plan.

On September 14, 2006, S&P justified its decision by indicating some of its assessments about a possible increase in the risk that could be associated with the decisions taken by board of directors on September 11, 2006 and stated that it would resolve its Creditwatch status after a more in-depth analysis that will be conducted over the next few months.

Both Moody's and Fitch, instead, deemed that the decisions taken by the board of directors on September 11, 2006 are not "credit sensitive" and, consequently, have maintained their respective ratings of Baa2 stable and BBB+ stable.

■ SELECTED OPERATING AND FINANCIAL DATA – TELECOM ITALIA GROUP

The Quarterly Report at September 30, 2006 of the Telecom Italia Group has been prepared in accordance with Attachment 3D of the Regulation for Issuers (CONSOB Regulation No. 11971 of May 14, 1999, as amended), as allowed by article 82 of the same regulation. The Quarterly Report is unaudited.

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

At September 30, 2006, the scope of consolidation shows the following changes compared to the Quarterly Report at September 30, 2005 and the annual financial statements at December 31, 2005:

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

In the balance sheet at September 30, 2006, assets held for sale also include the investments held in Solpart Participações and Brasil Telecom Participações following the decision to proceed with the disposal of these holdings.

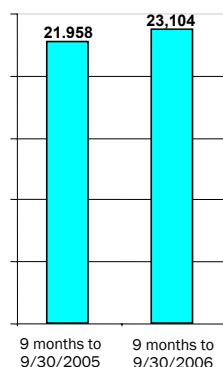
Segment information

As indicated in the First Half 2006 Report at June 30, 2006, the accounting representation by business segment is as follows:

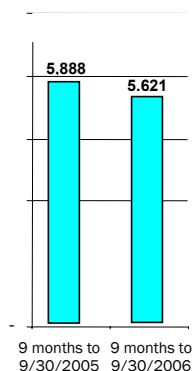
- Wireline
- Domestic Mobile
- Brazil Mobile
- Media
- Olivetti
- Other activities

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

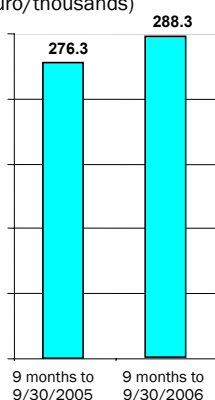
Revenues (euro/millions)



EBIT (euro/millions)



Revenues/Employees (euro/thousands)



Operating and Financial Data (millions of euro)

Revenues	7,769	7,430	23,104	21,958
EBITDA (*)	3,268	3,219	9,786	9,704
EBIT(*)	1,820	1,909	5,621	5,888
Income from continuing operations before taxes	1,429	1,363	4,161	4,469
Net income from continuing operations	878	760	2,305	2,514
Net income from discontinued operations/assets held for sale	-	117	46	542
Net income for the period	878	877	2,351	3,056
Net income attributable to the equity holders of the Parent	880	850	2,376	2,625
Capital expenditures:				
Industrial	1,083	1,034	3,299	3,202
Financial	197	175	198	14,631
Profit Ratios				
EBITDA(*) / Revenues	42.1	43.3	42.4	44.2
EBIT(*) / Revenues (ROS)	23.4	25.7	24.3	26.8
Revenues/Employees (average number in Group, thousands of euros)			288.3	276.3

Balance Sheet Data (millions of euro)

Total assets	89,366	96,010
Total equity	26,472	26,985
- attributable to the equity holders of the Parent	25,386	25,662
- attributable to the Minority interests	1,086	1,323
Net financial debt	39,504	39,858
Debt Ratio (Net financial debt/Net invested capital ⁽¹⁾)	59.9	59.6

Employees, number at period-end ⁽²⁾

Employees (excluding employees relating to discontinued operations/assets held for sale)	84,376	85,484
Employees relating to discontinued operations/assets held for sale	-	1,047

Employees, average number ⁽²⁾

Employees (excluding employees relating to discontinued operations/assets held for sale)	80,130	79,473
Employees relating to discontinued operations/assets held for sale	372	5,638

(*) For details, please refer to the section "Alternate performance measures"

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

(2) The number includes persons with temp work contracts

ALTERNATE PERFORMANCE MEASURES

In the third quarter report at September 30, 2006 of the Telecom Italia Group, in addition to the conventional financial performance measures established by IFRS, certain non-IFRS measures are presented for purposes of a better understanding of the trend of operations and financial condition of the Telecom Italia Group; however, such measures should not be construed as a substitute for the operating and financial information required by IFRS.

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

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

Income from continuing operations before taxes

- | |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none">+ Financial expenses- Financial income+/- Share of losses (profits) of associates and joint ventures accounted for using the equity method |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

EBIT (Operating Income)

- | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <ul style="list-style-type: none">+/- Impairment losses (reversals) on non-current assets+/- Losses (gains) on disposals of non-current assets+ Depreciation and amortization |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

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

- **Organic growth of Revenues, EBITDA and EBIT.** This measure expresses changes (percentage or amount) in Revenues, EBITDA and EBIT, excluding the effects of exchange differences, the change in the scope of consolidation as well as other operating income and expenses detailed in the quarterly report at September 30, 2006 of the Telecom Italia Group.
Telecom Italia deems that the presentation of such additional information allows the operating performance of the Group (as a whole and of the Business Units) to be interpreted in a more effective manner.
The organic change is also used in presentations to analysts and investors. The third quarter report provides details and a graphic representation of the economic amounts used to arrive at the organic change.
- **Net financial debt.** Telecom Italia believes that the Net Financial Debt represents an accurate indicator of its ability to meet its financial obligations. It is represented by Gross Financial Debt less Cash and Cash Equivalents and other Financial Assets (financial receivables and securities other than equity investments). A table is attached to this report that shows the amounts taken from the balance sheet and used to calculate the Net Financial Debt.

■ COMMENTS ON OPERATING AND FINANCIAL PERFORMANCE – TELECOM ITALIA GROUP

CONSOLIDATED STATEMENTS OF INCOME

	3 rd Quarter 2006	3 rd Quarter 2005	9 months to 9/30/2006 (a)	9 months to 9/30/2005 (b)	Change (a-b)	
(millions of euro)					amount	%
Revenues	7.769	7.430	23.104	21.958	1.146	5,2
Other income	85	107	396	330	66	20,0
Total operating revenues and other income	7.854	7.537	23.500	22.288	1.212	5,4
Purchases of materials and external services	(3.489)	(3.216)	(10.258)	(9.194)	(1.064)	11,6
Personnel costs	(863)	(889)	(2.855)	(2.818)	(37)	1,3
Other operating expenses	(336)	(294)	(1.002)	(936)	(66)	7,1
Change in inventories	(4)	(33)	65	39	26	66,7
Capitalized internal construction costs	106	114	336	325	11	3,4
OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) ON NON-CURRENT ASSETS (EBITDA)	3.268	3.219	9.786	9.704	82	0,8
Depreciation and amortization	(1.435)	(1.310)	(4.278)	(3.806)	(472)	12,4
Gains (losses) on disposals of non-current assets (1)	(13)	1	114	-	114	
Impairment reversals (losses) on non-current assets	-	(1)	(1)	(10)	9	(90,0)
OPERATING INCOME (EBIT)	1.820	1.909	5.621	5.888	(267)	(4,5)
Share of profits (losses) of associates and joint ventures accounted for using the equity method	8	(24)	33	(39)	72	(184,6)
Financial income	721	345	2.370	2.345	25	1,1
Financial expenses	(1.120)	(867)	(3.863)	(3.725)	(138)	3,7
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	1.429	1.363	4.161	4.469	(308)	(6,9)
Income taxes	(551)	(603)	(1.856)	(1.955)	99	(5,1)
NET INCOME FROM CONTINUING OPERATIONS	878	760	2.305	2.514	(209)	(8,3)
Net income (loss) from discontinued operations/assets held for sale	-	117	46	542	(496)	(91,5)
NET INCOME FOR THE PERIOD	878	877	2.351	3.056	(705)	(23,1)
of which:						
• Net income attributable to equity holders of the Parent	880	850	2.376	2.625	(249)	(9,5)
• Net income (loss) attributable to Minority interests	(2)	27	(25)	431	(456)	(105,8)

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

Earnings Per Share

	9 months to 9/30/2006	9 months to 9/30/2005
(euro)		
Earnings per share (Basic EPS = Diluted EPS)		
• Ordinary Share	0,12	0,14
• Savings Share	0,13	0,15
Of which:		
- From continuing operations		
• Ordinary Share	0,12	0,11
• Savings Share	0,13	0,12
- From discontinued operations/assets held for sale		
• Ordinary Share	-	0,03
• Savings Share	-	0,03

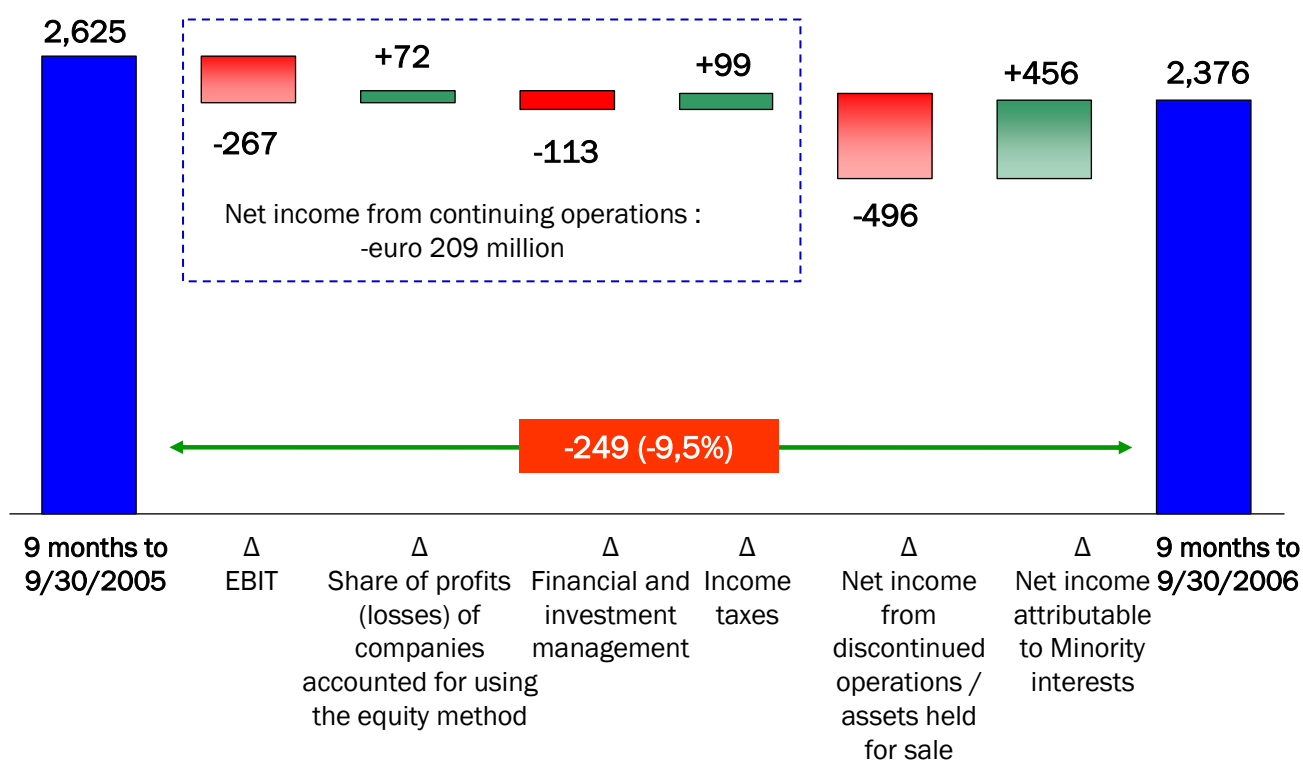
Consolidated net income attributable to the equity holders of the Parent in the first nine months of 2006 is euro 2,376 million (euro 2,351 million before Minority interests); in the first nine months of 2005, the consolidated net income attributable to the equity holders of the Parent was euro 2,625 million (euro 3,056 million before Minority interests).

The change in the consolidated net income (-euro 249 million) is due to the following:

- *operating income*, -euro 267 million;
- *share of profits (losses) in associates and joint ventures accounted for using the equity method*, +euro 72 million;
- higher *financial expenses*, net of financial income, euro 113 million: the improvement in the financial management balance (euro 75 million) is offset by a lower result from investment management and the release of provisions relating to Avea I.H.A.S.;
- lower *income taxes*, euro 99 million;
- lower *net income from discontinued operations/assets held for sale*, euro 496 million. The first nine months of 2006 include net gains on discontinued operations for euro 31 million. In the first nine months of 2005, the net gains on discontinued operations were euro 507 million;
- lower *net income attributable to Minority interests* (+euro 456 million), mainly in connection with the TIM merger transaction (tender offer and merger). During 2005, control over the mobile business was reached as a result of the tender offer in January and the merger in June.

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

(millions of euro)



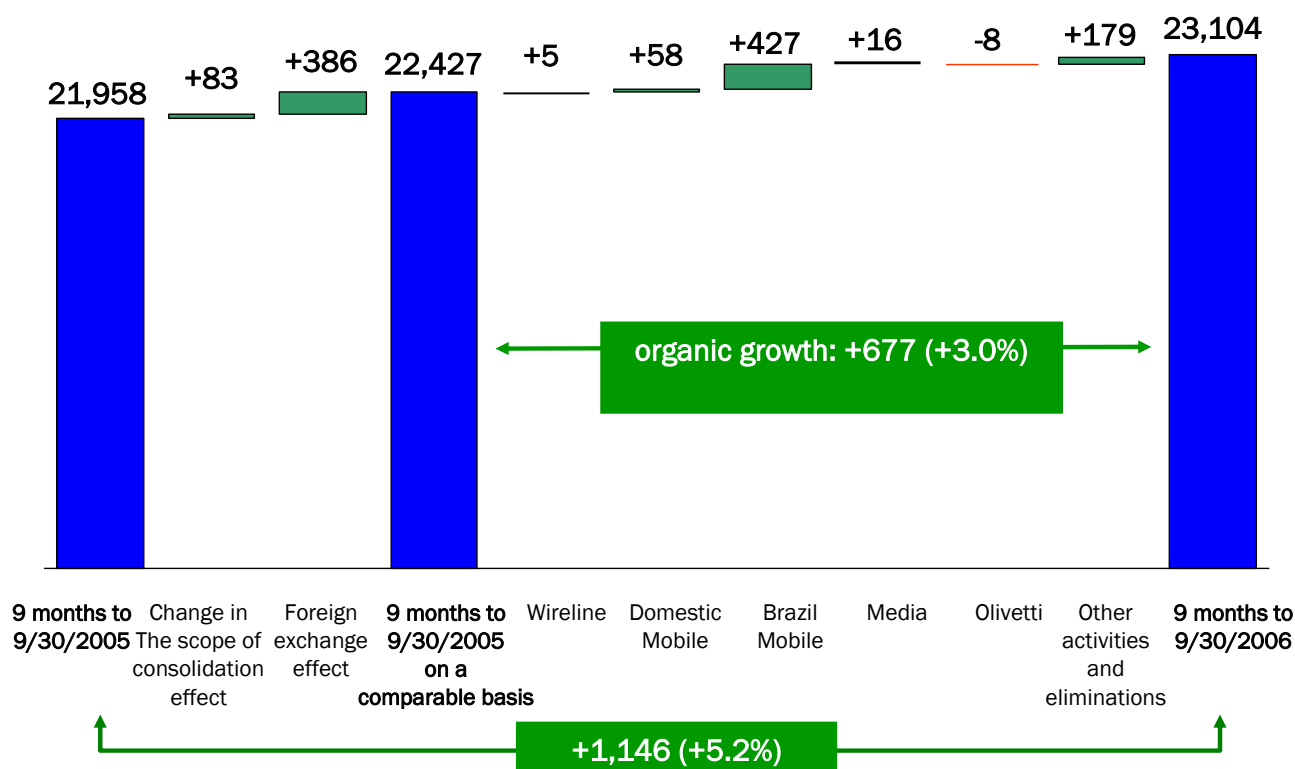
In the **third quarter of 2006**, the consolidated net income attributable to the equity holders of the Parent is euro 880 million (euro 878 million before the net income attributable to the Minority interests). This is euro 30 million higher than the net income of euro 850 million reported in the third quarter of 2005 (euro 877 million before the net income attributable to Minority interests).

Revenues amount to euro 23,104 million, with an increase of 5.2% compared to euro 21,958 million in the first nine months of 2005. Excluding the positive foreign exchange effect (+euro 386 million, mainly due to the Brazil Mobile Business Unit) and the change in the scope of consolidation (+euro 83 million), organic growth is equal to 3.0% (euro 677 million). Revenues in the first nine

months of 2006, compared to the corresponding period of the prior year, were impacted by the cut in termination rates starting from the second half of 2005.

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

(millions of euro)



The organic growth of revenues particularly reflects:

- revenues of the Wireline Business Unit that have remained more or less unchanged (+euro 5 million), achieved thanks to the constant growth of the national and European broadband market and wholesale services, countered by a decline in the traditional telephony market which was also hurt by the impact of the reduction in fixed-mobile termination rates and the migration of voice traffic from the fixed to the mobile network;
- a positive contribution by the Domestic Mobile Business Unit (+euro 58 million), with an increase of 0.8% compared to the first nine months of 2005. This growth is particularly due to the expansion of value-added services, the positive trend of revenues from outgoing voice traffic and the growth of revenues from handset sales, countered by the negative impact of the new fixed-mobile and mobile-mobile termination rates that came into effect;
- a significant contribution by the Brazil Mobile Business Unit (+euro 427 million), driven by the expansion of its customer base, and a positive input recorded by value-added services;
- an increase in the revenues of the Media Business Unit (+euro 16 million) which showed a positive trend compared to the first nine months of 2005 thanks to national advertising which grew at a faster pace than the market and the contribution made by digital terrestrial Pay-per-View revenues;
- a reduction in the invoicing of the Olivetti Business Unit (-euro 8 million) due to the decline in traditional Ink-jet and Gaming sales, which was partly compensated by the growth in new Ink-jet products;
- an increase in Other activities and eliminations (+euro 179 million) in connection with both lower eliminations on transactions between the Wireline and Domestic Mobile Business Units, mainly as a result of the reduction in termination rates and the migration of voice traffic from

the fixed to the mobile network, and also the increase in revenues from Other activities.

Revenues from telecommunications services are presented gross of the amount of revenues due to third-party operators of euro 4,013 million (euro 3,511 million in the first nine months of 2005, +14.3%).

Foreign revenues amount to euro 5,789 million (euro 4,346 million in the first nine months of 2005); 47.9% of the total is localized in Brazil (45.2% in the first nine months of 2005).

(millions of euro)	9 months to 9/30/2006 (a)	9 months to 9/30/2005 (b)	Change (a - b)
Italy	17,315	17,613	(298)
Other European countries	2,209	1,619	590
Latin America	2,988	2,162	826
Other countries	592	564	28
Total	23,104	21,958	1,146

*In the **third quarter of 2006**, revenues total euro 7,769 million (euro 7,430 million in the third quarter of 2005), with an increase of 4.6%. Excluding the exchange effect with regard to the Brazilian companies and the change in the scope of consolidation, organic growth is 3.8%.*

Other income amounts to euro 396 million (euro 330 million in the first nine months of 2005), and includes:

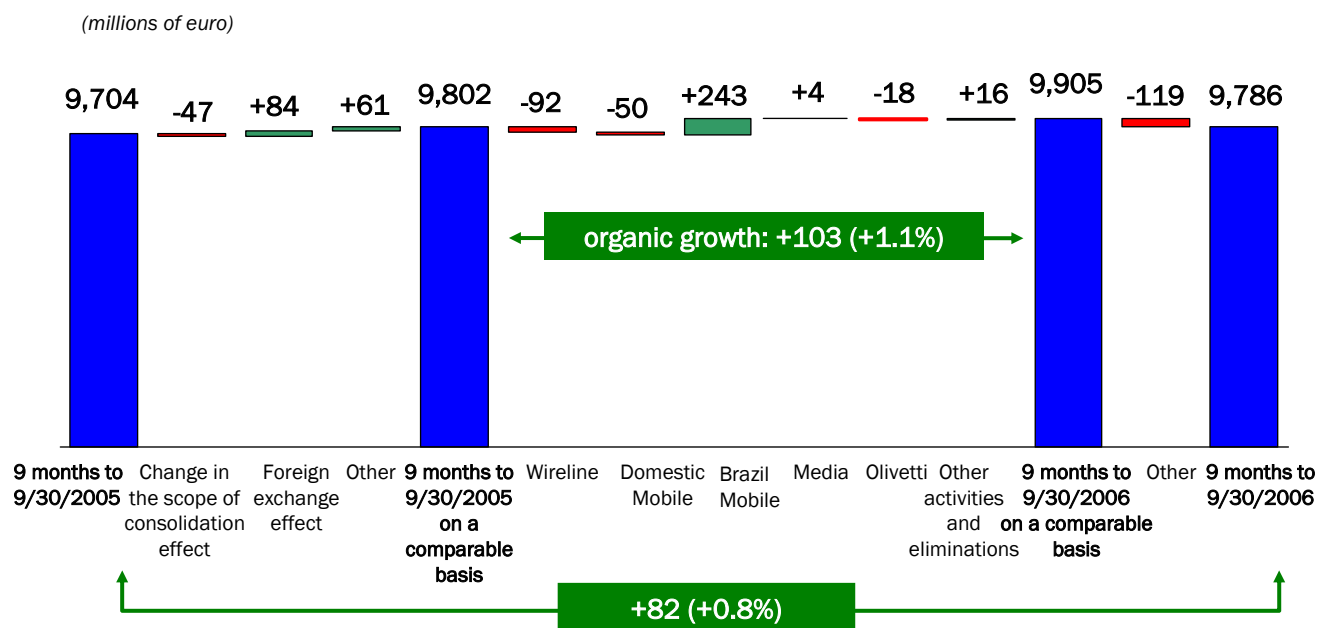
(millions of euro)	9 months to 9/30/2006 (a)	9 months to 9/30/2005 (b)	Change (a - b)
Late payment fees charged for regulated telephone services	74	75	(1)
Release of provisions and liability items	90	62	28
Recovery of costs of personnel and services rendered	40	49	(9)
Capital grants	27	29	(2)
Damage and penalty compensation	29	34	(5)
Sundry income	136	81	55
Total	396	330	66

EBITDA amounts to euro 9,786 million and grew by euro 82 million (+0.8%) from the first nine months of 2005. The organic change in EBITDA is a positive 1.1% (+euro 103 million) and is calculated, in particular, by excluding the following effects:

- foreign exchange effect (euro 84 million);
- change in the scope of consolidation (-euro 47 million);
- net change in other items of -euro 58 million, mainly due, in the first nine months of 2006, to company restructuring costs (euro 92 million), expenses connected with the reorganization of the Brazil Mobile Business Unit (euro 10 million) and other expenses (euro 17 million); in the first nine months of 2005, the items that were not included in the calculation of the organic growth of EBITDA totaled euro 61 million and related to expenses for the settlement with Opportunity, for Brasil Telecom, and expenses for settlements with customers and other expenses and income.

The percentage of EBITDA to revenues went from 44.2% in the first nine months of 2005 to 42.4% in the first nine months of 2006; at the organic level, the percentage of EBITDA to revenues is equal to 42.9% in the first nine months of 2006 (43.7% in the first nine months of 2005).

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



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

- **purchases of materials and external services**, euro 10,258 million, with an increase of 11.6% compared to the first nine months of 2005 (euro 9,194 million). This increase is mainly due to the expansion of Broadband, higher interconnection costs as a result of the growth of traffic managed as well as the increase in costs for the purchase of products and content. The percentage of purchases to revenues is 44.4% (41.9% in the first nine months of 2005);
- **personnel costs**, equal to euro 2,855 million, with an increase of euro 37 million (+1.3%) compared to the first nine months of 2005 (euro 2,818 million). The increase is due almost entirely to the increase in the foreign component (+euro 78 million) offset by the decrease in Italian companies (-euro 40 million, being the difference between the reduction in the average number of salaried staff of 1,810 persons and the increase in other cost items).

Employees at September 30, 2006 number 84,376. Additional details are as follows:

(number)	9/30/2006 (a)	12/31/2005 (b)	Change (a - b)
Italy	69,974	71,987	(2,013)
Abroad	14,402	13,497	905
Total (excluding discontinued operations/assets held for sale)	84,376	85,484	(1,108)
<i>Discontinued operations/assets held for sale:</i>			
<i>Italy</i>	-	184	(184)
<i>Abroad</i>	-	863	(863)
Total discontinued operations/assets held for sale	-	1,047	(1,047)
Total employees (1)	84,376	86,531	(2,155)

(1) Includes persons with temp work contracts: 2,661 at 9/30/2006 and 3,382 at 12/31/2005.

The reduction of 2,155 employees compared to December 31, 2005 is due to:

- the sale of Digitel Venezuela (915), Gruppo Buffetti (183), Telecom Italia Learning Services (195), Eustema (134), Wirelab (54) and the “Radiomaritime Activities” business by the Parent (72);
- the hiring of 5,044 employees, mainly abroad (119 of whom are employed in companies classified as discontinued operations), the termination of employment of 4,925 employees (67 of whom are employed in companies classified as discontinued operations) as well as a reduction of 721 people with temp work contracts;

· **other operating expenses**, equal to euro 1,002 million (euro 936 million in the first nine months of 2005), include:

(millions of euro)	9 months to 9/30/2006 (a)	9 months to 9/30/2005 (b)	Change (a - b)
Impairments and expenses connected with non-financial receivables management	392	334	58
Accruals to provisions for risks and future charges	29	36	(7)
Telecommunications fees and charges	176	132	44
Taxes on revenues of South American companies	160	119	41
Indirect duties and taxes	109	103	6
Other expenses	136	212	(76)
Total	1,002	936	66

In the third quarter of 2006, EBITDA is equal to euro 3,268 million (euro 3,219 million in the third quarter of 2005), with an increase of 1.5%.

Excluding the foreign exchange effect, the change in the scope of consolidation and other variations, the change in EBITDA is +2.7% (euro 85 million). In particular, the positive contribution to EBITDA by the Brazil Mobile Business Unit (euro 125 million), the Domestic Mobile Business Unit (euro 14 million), the Media and the Olivetti Business Units is offset by the decrease in the Wireline Business Unit (-euro 56 million).

EBITDA as a percentage of revenues is 42.1% (43.3% in the third quarter of 2005).

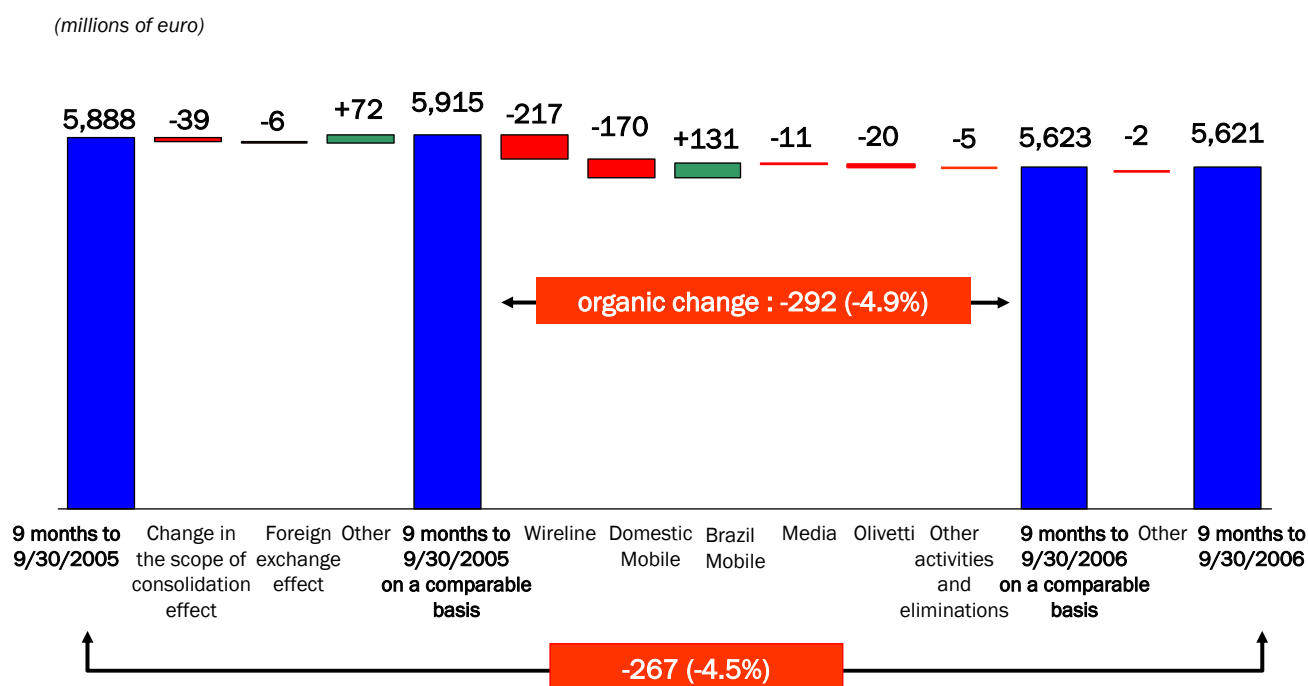
EBIT amounts to euro 5,621 million, with a decrease of euro 267 million from the first nine months of 2005 (-4.5%). The organic change in EBIT is a negative 4.9% (-euro 292 million) and was calculated, in particular, by excluding the following effects:

- foreign exchange effect (-euro 6 million);

- effect of the change in the scope of consolidation (-euro 39 million);
- net change in other items of euro 70 million which, besides what was already mentioned in the comments on EBITDA, is due to the gain on the sale of real estate investment properties to the Raissa and Spazio Industriale Funds (euro 123 million), the gain on the sale of the investment in Ruf Gestion (euro 27 million), the loss on the sale of the investment in Telecom Italia Learning Services (euro 25 million) and the loss on the sale of the “Radiomaritime Activities” business (euro 9 million). In the first nine months of 2005, the items that were not included in the calculation of the organic growth of EBIT totaled euro 72 million and included, besides what was already mentioned in the comments on EBITDA, asset writedowns by consolidated companies.

The percentage of EBIT to revenues went from 26.8% in the first nine months of 2005 to 24.3% in the first nine months of 2006. At the organic level, the percentage of EBIT to revenues is equal to 24.3% in the first nine months of 2006 (26.4% in the first nine months of 2005).

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



In greater detail, EBIT is impacted by:

- **depreciation and amortization** of euro 4,278 million (euro 3,806 million in the first nine months of 2005), with an increase of euro 472 million. The increase is attributable to higher capital expenditures for the development of infrastructures for the network and to support the business, the foreign exchange effect of the Brazilian companies in the Mobile Business Unit, as well as the change in the calculation method, introduced starting from the 2003 financial statements, relating to the starting date for the amortization of software (established as the date the asset effectively comes into use instead of the start of the year), and which affects the year 2006 (euro 242 million);
- **capital gains (losses) realized on non-current assets** equal to euro 114 million. The details are as follows:
 - gains of euro 123 million, net of incidental expenses, relating to additional real estate property sales made by the Group in the first nine months of 2006 to the closed-end Raissa and Spazio

Industriale Funds as part of the property sales program approved by the board of directors' meeting on December 21, 2005;

- gain of euro 27 million on the sale of the entire real estate investment held in Ruf Gestion;
- loss of euro 25 million on the sale of the entire investment in Telecom Italia Learning Services;
- loss of euro 9 million on the sale of the "Radiomaritime Activities" business and a net loss of euro 2 million between the gains and losses on the sale of other non-current assets;
- **impairment reversals (losses) on non-current assets** equal to euro 1 million (euro 10 million in the first nine months of 2005, including the writedown of the property, plant and equipment of the company Maxitel (now named Tim Nordeste S.A.).

In the **third quarter of 2006**, EBIT is equal to euro 1,820 million (euro 1,909 million in the third quarter of 2005), with a variation of -4.7%.

Excluding the exchange effect, the change in the scope of consolidation and other variations, the decrease in EBIT is equal to -2.4% (-euro 45 million), mainly in reference to the Wireline Business Unit (-euro 83 million) and the Domestic Mobile Business Unit (-euro 39 million), which was only partly compensated by the improvement in the EBIT of the Brazil Mobile Business Unit (+euro 90 million).

EBIT to revenues is equal to 23.4% (25.7% in the third quarter of 2005).

The **share of profits (losses) of investments in associates and joint ventures accounted for using the equity method** shows profits of euro 33 million (losses of euro 39 million in the first nine months of 2005). Details are as follows:

(millions of euro)	9 months to 9/30/2006 (a)	9 months to 9/30/2005 (b)	Change (a - b)
ETECSA	35	30	5
Solpart Participações	1	65	(64)
Avea I.H.A.S.	-	(122)	122
Other investments	(3)	(12)	9
Total	33	(39)	72

Financial income and expenses shows a net expense balance of euro 1,493 million. Details are as follows:

(millions of euro)	9 months to 9/30/2006 (a)	9 months to 9/30/2005 (b)	Change (a - b)
Financial management balance	(1,805)	(1,880)	75
Investment management and Avea provisions released to income	312	500	(188)
Total	(1,493)	(1,380)	(113)

The main changes are due to:

- the improvement in the financial management balance of euro 75 million mainly as a result of the reduction in net average debt exposure during the first nine months of 2006 compared to the same period of the prior year;
- the reduction of euro 188 million in investment management and Avea provisions released to income.

In greater detail, this item includes the following in the first nine months of 2006:

- the gain on the sale of the entire 4.99% stake held in Neuf Télécom (euro 110 million);

- the gain on the sale of Avea I.H.A.S (euro 72 million) in the third quarter of 2006 and, at the same time, the release to income of the remaining provisions for sureties provided to banks and cancelled in September 2006 (euro 121 million).

In the first nine months of 2005, this item included:

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

Income taxes for the period amount to euro 1,856 million, with a decrease of euro 99 million compared to the first nine months of 2005.

Net income from discontinued operations/assets held for sale amounts to euro 46 million (euro 542 million in the first nine months of 2005) and includes euro 31 million relating to the gain, net of incidental expenses, on the sale of Digitel Venezuela in May 2006. It also includes the positive contribution to net income by the same Digitel Venezuela for the first four months of 2006, equal to euro 15 million.

The first nine months of 2005 included the gains on the sales of Tim Hellas (euro 410 million) and Tim Perù (euro 120 million), losses and incidental charges on the sales of the Finsiel group, the Entel Chile group and Gruppo Buffetti (euro 23 million) and the net income from discontinued operations/assets held for sale for a total of euro 35 million.

CONSOLIDATED BALANCE SHEETS

(millions of euro)	9/30/2006	6/30/2006	12/31/2005	Change
	(a)		(b)	(a-b)
ASSETS				
NON-CURRENT ASSETS				
Intangible assets				
Goodwill and other intangible assets with an indefinite life	43.767	43.939	43.980	(213)
Intangible assets with a finite life	6.521	6.644	6.810	(289)
	50.288	50.583	50.790	(502)
Tangible assets				
Property, plant and equipment owned	15.577	15.799	16.443	(866)
Assets held under finance leases	1.522	1.546	1.598	(76)
	17.099	17.345	18.041	(942)
Other non-current assets				
Investments in associates and joint ventures accounted for using the equity method	493	740	781	(288)
Other investments	754	546	561	193
Securities, financial receivables and other non-current financial assets	584	522	996	(412)
Miscellaneous receivables and other non-current assets	855	828	825	30
	2.686	2.636	3.163	(477)
Deferred tax assets	1.325	1.747	2.793	(1.468)
TOTAL NON-CURRENT ASSETS (A)	71.398	72.311	74.787	(3.389)
CURRENT ASSETS				
Inventories	355	363	294	61
Trade receivables, miscellaneous receivables and other current assets	9.478	9.927	8.856	622
Current tax receivables	39	45	335	(296)
Securities other than investments	258	244	378	(120)
Financial receivables and other current financial assets	447	320	509	(62)
Cash and cash equivalents	7.152	2.958	10.323	(3.171)
Current assets subtotal	17.729	13.857	20.695	(2.966)
Discontinued operations/Assets held for sale				
of a financial nature	-	-	37	(37)
of a non-financial nature	239	-	491	(252)
	239	-	528	(289)
TOTAL CURRENT ASSETS (B)	17.968	13.857	21.223	(3.255)
TOTAL ASSETS (A+B)	89.366	86.168	96.010	(6.644)
EQUITY AND LIABILITIES				
EQUITY				
Equity attributable to equity holders of the Parent	25.386	24.472	25.662	(276)
Equity attributable to Minority interests	1.086	1.088	1.323	(237)
TOTAL EQUITY (A)	26.472	25.560	26.985	(513)
NON-CURRENT LIABILITIES				
Non-current financial liabilities	42.085	39.762	42.146	(61)
Employee severance indemnities and other employee-related provisions	1.395	1.376	1.351	44
Deferred tax liabilities	102	62	137	(35)
Provisions for risks and future charges	836	821	797	39
Miscellaneous payables and other non-current liabilities	1.932	1.962	2.113	(181)
TOTAL NON-CURRENT LIABILITIES (B)	46.350	43.983	46.544	(194)
CURRENT LIABILITIES				
Current financial liabilities	5.860	5.597	9.812	(3.952)
Trade payables, miscellaneous payables and other current liabilities	10.658	10.974	12.157	(1.499)
Current tax liabilities	26	54	227	(201)
Current liabilities subtotal	16.544	16.625	22.196	(5.652)
Liabilities relating to discontinued operations/assets held for sale				
of a financial nature	-	-	143	(143)
of a non-financial nature	-	-	142	(142)
	-	-	285	(285)
TOTAL CURRENT LIABILITIES (C)	16.544	16.625	22.481	(5.937)
TOTAL LIABILITIES (D=B+C)	62.894	60.608	69.025	(6.131)
TOTAL EQUITY AND LIABILITIES (A+D)	89.366	86.168	96.010	(6.644)

Non-current assets of euro 71,398 million show a decrease of euro 3,389 million from December 31, 2005.

Details of non-current assets are as follows:

- **intangible assets** decreased by euro 502 million, from euro 50,790 million at the end of 2005 to euro 50,288 million at September 30, 2006.
The reduction of euro 213 million in Goodwill is mainly due to the sale of the associate Avea I.H.A.S..
The decrease of euro 289 million in Intangible assets with a finite life is due to a combination of the following items:
 - capital expenditures (euro 1,295 million);
 - amortization for the period (-euro 1,579 million);
 - disposals, foreign exchange effect, change in the scope of consolidation and other movements (for a total decrease of euro 5 million);
- **tangible assets** decreased by euro 942 million, from euro 18,041 million at the end of 2005 to euro 17,099 million at September 30, 2006. The change is due to the balance of the following:
 - capital expenditures (euro 2,004 million);
 - depreciation for the period (-euro 2,699 million);
 - disposals, change in the scope of consolidation, foreign exchange effect and other movements (-euro 247 million);
- **other non-current assets** decreased by euro 477 million, from euro 3,163 million at the end of 2005 to euro 2,686 million at September 30, 2006;
- **deferred tax assets** decreased by euro 1,468 million, from euro 2,793 million at the end of 2005 to euro 1,325 million at September 30, 2006. The reduction is due to deferred tax assets offset against the taxes accrued in the first nine months of 2006.

Current assets, equal to euro 17,729 million, decreased from December 31, 2005 by euro 2,966 million. This reduction is mainly due to the decrease in Cash and cash equivalents of euro 3,171 million as a result of repayments of non-current financial liabilities and also the payment of dividends in the early months of 2006 which were only partly offset by cash flows generated during the period, new bond issues and new loans.

Discontinued operations/assets held for sale total euro 239 million (euro 528 million at December 31, 2005) and in the first nine months of 2006 consist of the investment in Solpart Participações (the controlling holding company of Brasil Telecom Participações) and Brasil Telecom Participações, following the decision to proceed with the sale of these investments and charge JP Morgan with their sale.

At December 31, 2005, discontinued operations/assets held for sale included the assets and the goodwill of Digital Venezuela, sold in May 2006, and the assets of Gruppo Buffetti, sold in January 2006.

Equity amounts to euro 26,472 million (euro 26,985 million at the end of 2005), of which euro 25,386 million is attributable to the equity holders of the Parent (euro 25,662 million at December 31, 2005) and euro 1,086 million to Minority interests (euro 1,323 million at December 31, 2005).

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

(millions of euro)	1/1 and 9/30 2006	1/1 and 12/31 2005
At the beginning of period	26,985	20,798
Contribution by shareholders, bond conversions and stock options	24	1,842
Net income attributable to the equity holders of the Parent and the Minority interests	2,351	3,690
Dividends declared by:	(3,002)	(2,342)
- <i>Telecom Italia S.p.A.</i>	(2,766)	(1,912)
- <i>TIM S.p.A.</i>	-	(376)
- <i>Other Group companies</i>	(236)	(54)
Tender offer for TIM shares and additional purchases of TIM shares	-	(2,124)
Telecom Italia/TIM merger	-	4,911
Tender offer for Telecom Italia Media shares	-	(134)
Exchange differences, changes in the scope of consolidation and other changes	114	344
At the end of period	26,472	26,985

Net financial debt amounts to euro 39,504 million at September 30, 2006, with a decrease of euro 354 million from euro 39,858 million at the end of 2005.

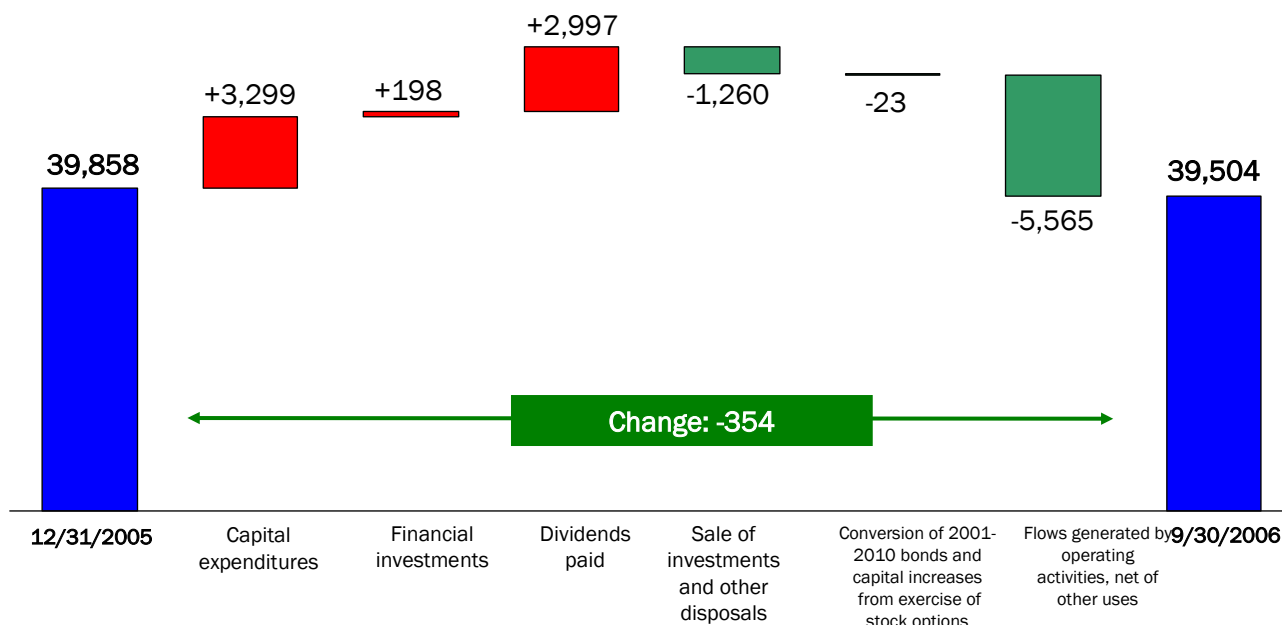
The composition of the net financial debt is analyzed in the following table:

CONSOLIDATED NET FINANCIAL DEBT

(millions of euro)	9/30/2006 (a)	6/30/2006	12/31/2005 (b)	Change (a-b)
GROSS FINANCIAL DEBT				
Non-current financial liabilities				
- Financial payables	40.085	37.870	40.252	(167)
- Finance lease liabilities	1.881	1.892	1.894	(13)
- Other financial liabilities	119	-	-	119
Current financial liabilities				
- Financial payables	5.603	5.346	9.572	(3.969)
- Finance lease liabilities	251	245	234	17
- Other financial liabilities	6	6	6	-
Financial liabilities relating to discontinued operations/assets held for sale	-	-	143	(143)
TOTAL GROSS FINANCIAL DEBT (A)	47.945	45.359	52.101	(4.156)
FINANCIAL ASSETS				
Non-current financial assets				
- Securities other than investments	8	8	8	-
- Financial receivables and other non-current financial assets	576	514	988	(412)
Current financial assets				
- Securities other than investments	258	244	378	(120)
Financial receivables and other current financial assets	447	320	509	(62)
Cash and cash equivalents	7.152	2.958	10.323	(3.171)
Financial assets relating to discontinued operations/assets held for sale	-	-	37	(37)
TOTAL FINANCIAL ASSETS (B)	8.441	4.044	12.243	(3.802)
NET FINANCIAL DEBT (A-B)	39.504	41.315	39.858	(354)

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

(millions of euro)



In particular:

- **capital expenditures** in the first nine months of 2006 total euro 3,299 million and increased by euro 97 million from the first nine months of 2005. The increase is due principally to higher investments made by the Wireline and the Domestic Mobile Business Units particularly for development solutions to support new services and the expansion of the European Broadband Project against lower capital expenditures by the Brazil Mobile Business Unit after gradually completing the coverage of the territory;
- **sale of investments and other disposals** led to a reduction in debt of euro 1,260 million and refer to the following transactions:
 - sale of the investment in Gruppo Buffetti equal to euro 66 million (including the deconsolidation of the net financial debt of the subsidiary sold);
 - disposal of the real estate investment in Ruf Gestion equal to euro 51 million (including the deconsolidation of the net financial debt of the subsidiary sold);
 - sale of Corporación Digitel C.A. (Digitel Venezuela) equal to euro 318 million (including the deconsolidation of the net financial debt of the subsidiary sold);
 - sale of Neuf Télécom equal to euro 161 million;
 - sale of AVEA I.H.A.S. to Turk Telekom equal to euro 275 million. This amount is the net balance between the proceeds on the sale (euro 393 million) and the recognition of non-current financial liabilities for euro 118 million, corresponding to the gain temporarily deferred on the sale of Avea I.H.A.S., against the commitments undertaken for a subordinated loan to be made to Avea I.H.A.S. for an amount of USD 150 million. The total net impact of the transaction for the sale of Avea I.H.A.S. amounts to euro 78 million in that, at the time of the sale of the investment, the Telecom Italia Group invested euro 197 million in Oger Telecom (the parent of Turk Telekom).
 - reimbursements of share capital and the distribution of dividends by Tiglio I, Tiglio II and Telegono (euro 34 million);
 - disposal of other non-current assets (euro 83 million);

- disposal of properties by the Group to the closed-end real estate investment funds Raissa and Spazio Industriale which reduced debt by euro 272 million. Such disposals fall under the property sales program approved by the board of directors on December 21, 2005 which will be completed by the end of the year.

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

(millions of euro)	9/30/2006	12/31/2005
Securitization	83	648
Factoring	913	615
	996	1,263

The securitization program came to its natural end in the month of July 2006: the residual amount is due to the sales made during the previous periods. In September 2006, however, contracts were signed for the sale of the same kind of receivables in the securitization transactions.

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

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

1) NEW ISSUES

- Telecom Italia S.p.A. issued two new bond issues under the euro 15 billion Euro Medium Term Note Programme:
 - on May 19, 2006, a dual-tranche issue: one for euro 750 million, 4.75% coupon, issue price 99.156%, maturing May 19, 2014 and one for GBP 400 million (euro 590 million at September 30, 2006), 5.875% coupon, issue price 99.622%, maturing May 19, 2023;
 - on June 9, 2006, issue of euro 750 million, quarterly coupon indexed to the 3-month Euribor + 0.22%, issue price 100%, maturing June 9, 2008.
- On July 18, 2006, Telecom Italia Capital S.A. issued multi-tranche bonds on the American market for a total of USD 2,600 million. The issue is in three tranches and has the following features:
 - USD 850 million (euro 671.4 million at September 30, 2006), coupon indexed to the 3-month USD Libor + 0.61%, maturing July 18, 2011, issue price 100%;
 - USD 750 million (euro 592.4 million at September 30, 2006), 6.20% coupon, maturing July 18, 2011, issue price 99.826%;
 - USD 1,000 million (euro 789.9 million at September 30, 2006), 7.20% coupon, maturing July 18, 2036, issue price 99.440%.
- Telecom Italia S.p.A. 2002-2022 bonds, set aside for subscription by employees of the Group. The bonds are equal to euro 247.9 million at September 30, 2006 and decreased during the

first nine months of 2006 by euro 0.4 million (euro 248.3 million at December 31, 2005) as a result of bond purchases/subscriptions for euro 77.8 million and sales for euro 78.2 million by the bondholders. The maximum amount of bonds that can be subscribed is equal to euro 400 million. According to the bond indenture, the Company is the sole counterpart for purchases and sales made by holders of this bond category.

2) REPURCHASES AND CANCELLATIONS OF BONDS

Telecom Italia Finance S.A. repurchased its bonds for a total nominal amount of euro 128.4 million during the first nine months of 2006 as follows:

- a nominal amount of euro 48.4 million relating to bonds for the original amount of euro 3,000 million, maturing April 20, 2006; the residual nominal debt of euro 2,464.6 million reached maturity and was repaid;
- a nominal amount of euro 25 million relating to bonds convertible (exchangeable) into Telecom Italia S.p.A. or SEAT Pagine Gialle S.p.A. and Telecom Italia Media S.p.A. shares; the residual nominal debt of euro 1,709.7 million reached maturity and was repaid on March 15, 2006;
- a nominal amount of euro 40 million relating to bonds of euro 2,350 million maturing July 30, 2009 with a 6.575% coupon. On June 20, 2006, bonds that had been repurchased by the company on several occasions were cancelled for euro 140 million so that the residual nominal debt is equal to euro 2,210 million;
- nominal amount of euro 15 million relating to bonds of euro 1,750 million maturing January 24, 2008 with a 5.875% coupon: the residual nominal debt is equal to euro 1,659 million.

3) REPAYMENTS AND CONVERSIONS

- **Repayment of “Telecom Italia Finance S.A. euro 1,100,000,000 floating rate notes due 2006”:** repayment of the notes issued by Telecom Italia Finance S.A. on May 29, 2002 was made on January 3, 2006 at maturity (euro 1,045 million net of repurchases made in 2003 for euro 55 million);
- **Early repayment of “Telecom Italia S.p.A. euro 1,000,000,000 floating rate notes due 2007”:** repayment took place on January 30, 2006, the earliest date possible under the bond indenture for the floating-rate bonds maturing October 29, 2007;
- **Repayment of “Telecom Italia Finance S.A. exchangeable notes 1% due 2006”:** repayment of the notes took place on March 15, 2006 at maturity for euro 2,012 million (inclusive of the repayment premium);
- **Repayment of “Telecom Italia Finance S.A. bonds 6.125% due 2006”:** repayment of the bonds originally issued for euro 3,000 million was made on April 20, 2006 at maturity; the repayment amounted to euro 2,464.6 million net of repurchases made during the three years 2004-2006;
- **Early repayment of “Telecom Italia Finance S.A. bonds 5.625% due 2046”:** early repayment of the CHF bonds 1986-2046 originally issued for CHF 100 million (CHF 88 million net of the cancellation of bonds held in portfolio on December 30, 2005 for CHF 12 million) was made on June 12, 2006. Repayment was at 102% of nominal value;
- **Conversion of “Telecom Italia S.p.A. 1.5% 2001-2010 convertible bonds with a repayment premium”:** as a result of requests for the conversion of “Telecom Italia 1.5% 2001-2010

convertible bonds with a repayment premium”, the nominal debt decreased during the first nine months of 2006 by euro 25.7 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 full and unconditional guarantees provided by Telecom Italia S.p.A. for the bonds issued by Telecom Italia Finance S.A. and Telecom Italia Capital S.A..

Bonds at September 30, 2006 are carried for an amount of euro 34,028 million (euro 35,462 million at December 31, 2005). Instead, in terms of the nominal repayment amount, bonds total euro 33,485 million, with a reduction of euro 1,092 million from December 31, 2005 (euro 34,577 million) with the following breakdown: Telecom Italia S.p.A. euro 10,910 million, Telecom Italia Finance S.A. euro 12,622 million and Telecom Italia Capital S.A. euro 9,953 million.

Convertible bonds at September 30, 2006 are carried for an amount of euro 481 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 nominal repayment amount, these bonds total euro 574 million with a reduction of euro 2,068 million compared to December 31, 2005 (euro 2,642 million). This reduction is principally due to the previously mentioned repayment of the “Telecom Italia Finance S.A. Exchangeable Notes 1% due 2006” for euro 2,012 million.

It should be underscored that all of the contracts for loans granted directly by the European Investment Bank (EIB), which are recorded in the financial statements at September 30, 2006 for euro 1,646.5 million, are covered by bank guarantees for the full and exact amount of the company’s economic obligations (with the exception of a single loan for euro 350 million). These guarantees have been issued by banks that have credit ratings of not less than “A-“ assigned by Standard & Poor’s or an equivalent level assigned by other agencies. The loan contracts contain negative pledge clauses, that is, limitations regarding activities of the company which could influence its ability to produce profits and therefore meet the commitments undertaken, yet leaving ample operating possibilities in line with international contract best practice.

Moreover, the major bank loans carried by the subsidiaries in Brazil provide for personal and real guarantees, financial covenants (i.e. obligations of the company to respect certain financial indexes), negative pledge clauses and other covenants.

On June 13, 2006, furthermore, a repayment of euro 1.5 billion was made on the euro 6.0 billion revolving credit facility expiring in August 2012: the current utilization is equal to euro 3.0 billion. At the same time, a partial cancellation of euro 1.5 billion was made on the revolving credit facility expiring in March 2007; the residual amount of this facility is equal to euro 3.5 billion (euro 5 billion at December 31, 2005).

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

The average maturity of non-current financial liabilities is equal to 8.16 years.

MATURITIES OF NON-CURRENT FINANCIAL LIABILITIES (1)(2)(3)						
(millions of euro)	Bonds		Loans and other debt		Total	
	Nominal amount	Carrying amount	Nominal amount	Carrying amount	Nominal amount	Carrying amount
within September 30, 2007	3,470	4,336	578	865	4,048	5,201
within September 30, 2008	2,409	2,407	1,120	1,116	3,529	3,523
within September 30, 2009	4,610	4,654	416	412	5,026	5,066
within September 30, 2010	1,561	1,459	3,317	3,356	4,878	4,815
within September 30, 2011	4,883	4,877	288	289	5,171	5,166
beyond September 30, 2011	17,126	16,776	6,080	6,739	23,206	23,515
TOTAL	34,059	34,509	11,799	12,777	45,858	47,286

(1) Carrying amounts include fair value adjustments and amortized cost.

(2) Including amounts due within September 30, 2007.

(3) Carrying amounts relating to "Loans and other debt" include euro 118 million, corresponding to the gain temporarily deferred on the sale of Avea I.H.A.S., against the commitments undertaken for a subordinated loan to be made to Avea I.H.A.S. for an amount of USD 150 million.

The following table shows the maturities of financial commitments due within 12 months after September 30, 2006 (inclusive of accrued expenses and deferred income, which increase the current portion of non-current financial liabilities due by euro 1,145 million and current liabilities by 45 million):

FINANCIAL LIABILITIES MATURING WITHIN 12 MONTHS (1)						
(millions of euro)	Non-current financial liabilities – current portion due within 12 months		Current financial liabilities		Total	
	Nominal amount	Carrying amount	Nominal amount	Nominal amount	Carrying amount	Carrying amount
TOTAL	4,048	5,201	620	659	4,668	5,860

(1) Carrying amounts include fair value adjustments.

To meet these short-term commitments, there are current financial assets amounting to euro 7,857 million (euro 7,600 million at nominal amounts) to cover the maturities arising in 2007.

Moreover, at September 30, 2006, unused committed credit lines expiring in March 2007 amount to euro 3.5 billion (originally euro 6.5 billion), after the cancellations of euro 3.0 billion on October 20, 2005 and June 13, 2006. These cancellations, however, also made euro 3.0 billion available for future use on the committed revolving credit line expiring August 2012, bringing the total unused committed and available credit lines to euro 6.6 billion.

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

Cash and cash equivalents at September 30, 2006 amount to euro 7,152 million (euro 10,323 million at December 31, 2005).

The characteristics of cash and cash equivalents at September 30, 2006 can be analyzed as follows:

- Maturities: deposits have a maximum maturity of two months;
- Counterparty risk: deposits have been made with leading banking and financial institutions with a high credit rating and mostly with those having at least an "A" rating;
- Country risk: deposits have been made principally in markets in Europe.

Securities other than investments (due within three months) include euro 110 million (euro 327 million at December 31, 2005) of Euro Commercial Paper of Telecom Italia Finance S.A., with a maximum due date of one month. The issuers all have “A” ratings and are located in Europe.

CONSOLIDATED STATEMENTS OF CASH FLOWS

millions of euro)	9 months to 9/30/2006	9 months to 9/30/2005
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income from continuing operations	2.305	2.514
<i>Adjustments to reconcile net income from continuing operations to cash flows generated by (used in) operating activities:</i>		
Depreciation and amortization	4.278	3.806
Impairment (reversals) losses on non-current assets (including investments)	13	(14)
Net change in deferred tax assets and liabilities	1.376	481
Net realized (gains) losses on disposals of non-current assets (including investments)	(297)	(85)
Share of (profits) losses of associates and joint ventures accounted for using the equity method	(33)	40
Change in employee severance indemnities and other employee-related provisions	(18)	42
Change in other operating assets/liabilities:		
Change in inventories	(65)	(56)
Change in trade receivables and net receivables on construction contracts	(321)	82
Change in trade payables	(840)	(1.082)
Net change in miscellaneous receivables/payables and other assets/liabilities	(729)	44
CASH FLOWS GENERATED BY (USED IN) OPERATING ACTIVITIES (A)	5.669	5.772
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of intangible assets on an accrual basis	(1.295)	(976)
Acquisitions of tangible assets on an accrual basis	(2.004)	(2.226)
Total acquisitions of intangible and tangible assets on an accrual basis	(3.299)	(3.202)
Change in amounts due to fixed asset suppliers	(293)	(162)
Total acquisitions of intangible and tangible assets on a cash basis	(3.592)	(3.364)
Acquisitions of investments in subsidiaries and businesses, net of cash acquired (I)	-	(261)
Acquisitions of other investments (I)	(198)	(14.370)
Change in financial receivables and other financial assets	393	(211)
Proceeds on sale of investments in subsidiaries, net of cash disposed of (II)	332	2.028
Proceeds on sale of intangible, tangible and other non-current assets (II)	940	322
CASH FLOWS GENERATED BY (USED IN) INVESTING ACTIVITIES (B)	(2.125)	(15.856)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in current financial liabilities	(274)	(447)
Proceeds from non-current financial liabilities (including current portion)	5.074	14.092
Repayments of non-current financial liabilities (including current portion)	(8.425)	(905)
Proceeds from equity instruments	2	100
Dividends paid (distribution of reserves included)	(2.997)	(2.328)
CASH FLOWS GENERATED BY (USED IN) FINANCING ACTIVITIES (C)	(6.620)	10.512
CASH FLOWS GENERATED BY (USED IN) DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE (D)	(13)	37
AGGREGATE CASH FLOWS (E=A+B+C+D)	(3.089)	465
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)	9.958	8.667
Net effect of foreign currency translation on net cash and cash equivalents (G)	(2)	142
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (H=E+F+G)	6.867	9.274
ADDITIONAL CASH FLOW INFORMATION:		
Income taxes paid	373	281
Interest expense paid	2.457	2.380
Interest income received	709	750
Dividends received	42	47
ANALYSIS OF NET CASH AND CASH EQUIVALENTS:		
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD:		
Cash and cash equivalents - from continuing operations	10.323	8.746
Bank borrowings repayable on demand - from continuing operations	(383)	(248)
Cash and cash equivalents - classified as discontinued operations/assets held for sale	37	210
Bank borrowings repayable on demand - classified as discontinued operations/assets held for sale	(19)	(41)
	9.958	8.667
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD:		
Cash and cash equivalents - from continuing operations	7.152	9.532
Bank borrowings repayable on demand - from continuing operations	(285)	(287)
Cash and cash equivalents - classified as discontinued operations/assets held for sale	-	46
Bank borrowings repayable on demand - classified as discontinued operations/assets held for sale	-	(17)
	6.867	9.274

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

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

■ BUSINESS OUTLOOK

As for the current year operating performance, compared to the prior year, the forecast is for a positive change in revenues and gross operating income (EBITDA)
Debt is also expected to continue to decline.

■ KEY DATA - TELECOM ITALIA GROUP BUSINESS UNITS

Segment information

As previously indicated in the First Half Report at June 30, 2006, the accounting representation by business segment is as follows:

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

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

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

(millions of euro)		Wireline (1)	Domestic Mobile	Brazil Mobile	Media	Olivetti	Other activities (1)	Adjustments and eliminations	Total Group
Revenues	9 months to 9/30/2006	13,295	7,565	2,792	136	298	1,175	(2,157)	23,104
	9 months to 9/30/2005	13,200	7,507	1,985	121	310	969	(2,134)	21,958
EBITDA	9 months to 9/30/2006	5,747	3,859	604	(71)	(36)	(309)	(8)	9,786
	9 months to 9/30/2005	5,921	3,942	279	(71)	(9)	(348)	(10)	9,704
EBIT	9 months to 9/30/2006	3,315	2,834	(47)	(111)	(49)	(356)	35	5,621
	9 months to 9/30/2005	3,630	3,037	(180)	(96)	(21)	(530)	48	5,888
Capital expenditures	9 months to 9/30/2006	2,155	680	329	65	6	92	(28)	3,299
	9 months to 9/30/2005	2,042	581	465	32	13	73	(4)	3,202
Employees (number at period-end) (2)	9/30/2006	56,607	11,127	9,461	962	1,533	4,686	-	84,376
	12/31/2005	56,987	11,720	9,043	886	1,750	5,098	-	85,484

(1) As a result of the new organizational structure of the Group approved on October 5, 2005, the activities of the Innovation & Engineering Services business segment of Telecom Italia, ex-TILAB segment 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)								
Revenues	9 months to 9/30/2006	121	-	-	-	121	(1)	120
	9 months to 9/30/2005	632	94	238	289	1,253	(49)	1,204
EBITDA	9 months to 9/30/2006	31	-	-	-	31	-	31
	9 months to 9/30/2005	161	7	77	7	252	(34)	218
EBIT (3)	9 months to 9/30/2006	15	-	-	-	15	31	46
	9 months to 9/30/2005	51	4	36	(3)	88	513	601
Net income (loss) from discontinued operations / assets held for sale	9 months to 9/30/2006	15	-	-	-	15	31	46
	9 months to 9/30/2005	19	1	26	(11)	35	507	542
Capital expenditures	9 months to 9/30/2006	10	-	-	-	10	-	10
	9 months to 9/30/2005	60	2	27	5	94	-	94
Net financial debt (liquidity)	9/30/2006	-	-	-	-	-	-	-
	12/31/2005	90	16	-	-	106	-	106
Employees (number at period-end)	9/30/2006	-	-	-	-	-	-	-
	12/31/2005	863	184	-	-	1,047	-	1,047

(1) Includes: Tim Hellas (sold at the beginning of June 2005), Tim Perù (sold in August 2005) and Digital Venezuela (sold in May 2006).

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

(3) The EBIT adjustments and eliminations include:

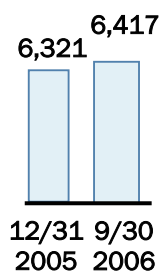
- in the first nine months of 2006, the gain on the sale of Digital Venezuela net of the relative incidental charges;
- the first nine months of 2005, the gains on the sales of Tim Hellas (euro 410 million, net of the relative incidental charges) and Tim Perù (euro 120 million) as well as the losses and incidental charges on the sale of the Finsiel group and the Entel Chile group (euro 23 million).

■ OPERATING HIGHLIGHTS - TELECOM ITALIA GROUP

9/30/2006 12/31/2005 9/30/2005

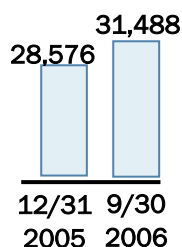
WIRELINE

Voice pricing plans
(thousands)



Fixed network connections in Italy (thousands)	24,288	25,049	25,407
Physical accesses (Consumer + Business)	20,992	21,725	22,032
Voice pricing plans (thousands)	6,417	6,321	6,272
Broadband accesses (thousands)	8,175	7,020	5,943
- domestic (thousands)	6,457	5,707	4,873
- European (thousands)	1,718	1,313	1,070
Alice (ex-Virgilio) page views - (millions)	9,708	9,842	6,948
Alice (ex-Virgilio) average monthly single visitors - (millions)	18.6	15.7	15.0
Network infrastructure in Italy:			
- access network in copper (millions of km - pair)	105.2	105.2	105.2
- access network and transport in fiber optics (millions of km of fiber optics)	3,7	3,7	3,7
Network infrastructure abroad:			
- European backbone (km of fiber optics)	51,000	51,000	39,500

Mobile lines - Italy
(thousands)



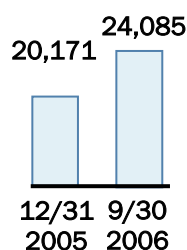
DOMESTIC MOBILE

Mobile lines - in Italy (at period-end, thousands)	31,488	28,576	27,254
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BRAZIL MOBILE

Mobile lines - in Brazil (at period-end, thousands)	24,085	20,171	18,340
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Mobile lines - Brazil
(thousands)



MEDIA

La 7 audience share Free to Air (analog mode) (period average %)	3.0	2.7	2.6
La 7 audience share Free to Air (analog mode) (last month of the period %)	3.1	3.1	2.7

■ EVENTS SUBSEQUENT TO SEPTEMBER 30, 2006

SALE OF NEUF TELECOM

With regard to the sale of Neuf Télécom by Telecom Italia International N.V. on May 9, 2006, as envisaged by the sales contract, the listing of Neuf Télécom, which took place on October 25, 2006, gives Telecom Italia International N.V. the right to a price adjustment equal to the difference between the sales price and the price identified in the IPO: the earn-out will bring the Telecom Italia Group additional proceeds of about euro 38.5 million.

REORGANIZATION OF THE GROUP

On October 25, 2006, the Telecom Italia board of directors examined the strategic guidelines of the Group's reorganization following the resolutions passed on September 11, 2006.

The board of directors reaffirmed that the decisions reached on September 11 represent the evolution of the fixed-mobile integration begun two years ago which yielded cost savings of more than euro 1 billion in 2005 and in the first half of 2006.

The Group confirms that its strategic objective remains the convergence between fixed, mobile, broadband Internet and media content. This would ensure the necessary operational flexibility without relinquishing the benefits gained from fixed-mobile integration and with the intention of taking advantage, in full agreement with the telecommunications regulatory authority, of all the opportunities offered by the market.

The company aims to commence a significant transformation of the access networks into the new-generation networks, that, among other things, will enable the transmission of high-definition television programs, movies, music and videos and provide ICT business and public services (telemedicine, infomobility, etc.). This new network will also involve the separation of the access network from Telecom Italia according to a model to be jointly developed with the regulatory authority.

MOBILE ACTIVITIES OF THE TELECOM ITALIA GROUP IN BRAZIL

In view of a very recent unsolicited purchase proposal, on November 6, 2006, the board of directors asked senior management to negotiate the possible sale of the Group's mobile activities in Brazil and to promptly inform the board of directors so that the relative final decisions could be formalized.

The sale would ensure Telecom Italia the financial flexibility need to pursue its already announced industrial policies and, in particular, the opportunities to develop in the European market and realize the new-generation network in the domestic market.

■ RELATED PARTY TRANSACTIONS

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

The economic, balance sheet and financial effects of related party transactions on the interim consolidated financial statements of the Telecom Italia Group at September 30, 2006 are detailed below. The statement of income and capital expenditures are compared with those for the first nine months of 2005 and the balance sheet data is compared with that of December 31, 2005.

The following table presents the major economic, balance sheet and financial transactions between companies consolidated line-by-line and the associates and the joint ventures.

(millions of euro)	9 months to 9/30/2006	9 months to 9/30/2005	
Revenues	186	235	These mainly refer to revenues in respect of Teleleasing S.p.A. euro 143 million (euro 146 million in the first nine months of 2005), LI.SIT S.p.A. euro 8 million (euro 50 million in the first nine months of 2005), Shared Service Center Scarl euro 16 million (euro 16 million in the first nine months of 2005), Telecom Argentina Group euro 9 million (euro 9 million in the first nine months of 2005), EtecSA euro 7 million (euro 6 million in the first nine months of 2005), AVEA IHAS euro 1 million, Inva S.p.A. euro 1 million and Nordcom S.p.A. euro 1 million
Other income	4	3	This mainly refers to cost recoveries for off-site personnel by certain subsidiaries and associates
Purchases of materials and external services	80	214	These refer mainly to costs for ICT equipment from Teleleasing S.p.A. euro 11 million (euro 16 million in the first nine months of 2005), for software and computer materials and for maintenance and assistance contracts from Siemens Informatica S.p.A. euro 15 million (euro 37 million in the first nine months of 2005), for maintenance and assistance contracts from Shared Service Center Scarl euro 19 million (euro 24 million in the first nine months of 2005), sponsorship costs of Luna Rossa Challenge 2007 SL euro 12 million (euro 15 million in the first nine months of 2005), TLC services from EtecSA euro 5 million (euro 84 million in the first nine months of 2005), for TLC services from Telecom Argentina Group euro 4 million (euro 4 million in the first nine months of 2005), AVEA IHAS euro 2 million (euro 3 million in the first nine months of 2005), costs for accessories and consumables from Baltea S.r.l. euro 3 million (euro 2 million in the first nine months of 2005), costs for telemedicine services from Telbios S.p.A. euro 3 million (euro 2 million in the first nine months of 2005), costs for rent from Tiglio I S.r.l. euro 2 million (euro 9 million in the first nine months of 2005), Tiglio II S.r.l. euro 2 million (euro 12 million in the first nine months of 2005) and costs for the development of computer and information solutions by Nordcom S.p.A. euro 1 million
Financial income	1	2	This includes accrued interest income on loans made to associates
Financial expenses	19	24	These mainly refer to interest expenses to Teleleasing S.p.A. euro 18 million (euro 17 million in the first nine months of 2005) for finance leases. Tiglio I S.r.l. euro 1 million (euro 3 million in the first nine months of 2005). In the first nine months of 2005, they had included interest expenses to Tiglio II S.r.l. euro 3 million for sale and leaseback transactions
Capital expenditures in tangible and intangible assets	103	101	These refer mainly to acquisitions of computer projects from Shared Service Center Scarl euro 57 million (euro 59 million in the first nine months of 2005), Siemens Informatica S.p.A. euro 43 million (euro 41 million in the first nine months of 2005). In the first nine months of 2005, they had included acquisition from Value Team S.p.A. (euro 1 million)

<i>(millions of euro)</i>	9/30/2006	12/31/2005	
Securities and non-current financial receivables	24	24	These refer to medium/long term loans made to Aree Urbane S.r.l. euro 24 million (euro 21 million at December 31, 2005). At December 31, 2005, they had also included loans due from Tiglio II S.r.l. euro 3 million
Miscellaneous receivables and other non-current assets	12	15	These refer to receivables from LI.SIT S.p.A. for the residual additional paid-in capital paid
Trade receivables, miscellaneous receivables and other current assets	210	214	These refer mainly to receivables from LI.SIT S.p.A. euro 118 million (euro 109 million at December 31, 2005), Teleleasing S.p.A. euro 50 million (euro 75 million at December 31, 2005), Telecom Argentina Group euro 11 million (euro 4 million at December 31, 2005), Luna Rossa Challenge 2007 SL euro 11 million (euro 4 million at December 31, 2005), Shared Service Center Scarl euro 4 million (euro 4 million at December 31, 2005), EtecSA euro 3 million (euro 3 million at December 31, 2005), Tiglio I S.r.l. euro 5 million (euro 1 million at December 31, 2005) and Tiglio II S.r.l. euro 4 million (euro 3 million at December 31, 2005). At December 31, 2005, they had also included the receivables from AVEA IHAS per euro 9 million
Cash and cash equivalents	1	14	These refer to treasury accounts with associates
Non-current financial liabilities	255	279	These refer to non-current financial payables to Teleleasing S.p.A. euro 247 million (euro 203 million at December 31, 2005), for finance leases, to Tiglio I S.r.l. euro 7 million (euro 43 million at December 31, 2005) and Tiglio II S.r.l. euro 1 million (euro 33 million at December 31, 2005)
Miscellaneous payables and other non-current financial liabilities	14	10	These refer to the medium/long-term portion of deferred income on the sale of "IRU" transmission capacity to Telecom Argentina Group
Current financial liabilities	136	124	These refer to current financial payables to Teleleasing S.p.A. euro 131 million (euro 113 million at December 31, 2005) for finance leases, Tiglio I S.r.l. euro 4 million (euro 8 million at December 31, 2005) and Tiglio II S.r.l. euro 1 million for sale and leaseback transactions (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 operating and investment activities with Siemens Informatica S.p.A. euro 52 million (euro 56 million at December 31, 2005), Shared Service Center Scarl euro 23 million (euro 18 million at December 31, 2005), Teleleasing S.p.A. euro 3 million (euro 8 million at December 31, 2005), EtecSA euro 11 million (euro 11 million at December 31, 2005), Telbios S.p.A. euro 1 million (euro 2 million at December 31, 2005), Telecom Argentina Group euro 2 million (euro 2 million at December 31, 2005), Baltea S.r.l. euro 1 million (euro 1 million at December 31, 2005), Tiglio I S.r.l. euro 1 million (euro 2 million at December 31, 2005), deferrals regarding LI.SIT S.p.A. euro 13 million relating to the portion of deferred income from investments (euro 11 million at December 31, 2005). At December 31, 2005, they had also included AVEA IHAS euro 1 million and Tiglio II S.r.l. euro 4 million

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

<i>(millions of euro)</i>	9 months to 9/30/2006	9 months to 9/30/2005	
Revenues	160	2	These mainly refer to revenues for telecommunications services rendered to the Brasil Telecom Participações group euro 158 million
Purchases of materials and external services	47	13	These refer to costs for maintenance and assistance contracts from the Italtel group euro 18 million (euro 13 million in the first nine months of 2005) and TLC service costs from the Brasil Telecom Participações Group euro 29 million
Capital expenditures in tangible and intangible assets	257	220	These refer to the purchase of telephone exchanges from the Italtel Group

(millions of euro)	9/30/2006	12/31/2005	
Trade receivables, miscellaneous receivables and other current assets	57	8	These refer to receivables from the Brasil Telecom Participações Group connected with TLC operations euro 53 and dividends to be collected euro 2 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	123	101	These refer to supply transactions connected with investment and operating activities with the Italtel Group euro 101 million (euro 101 million at December 31, 2005) and with the Brasil Telecom Participações Group euro 22 million.

The Telecom Italia Group has also provided guarantees on behalf of associates, joint ventures and subsidiaries of associates, for a total of euro 135 million (euro 276 million at December 31, 2005) as follows: euro 54 million on behalf of Tiglio I S.r.l (euro 54 million at December 31, 2005), euro 43 million on behalf of Aree Urbane S.r.l. (euro 44 million at December 31, 2005), euro 25 million on behalf of the Italtel Group companies (euro 31 million at December 31, 2005) and euro 12 million on behalf of other companies (euro 13 million at December 31, 2005). At December 31, 2005, there were also guarantees provided on behalf of Tiglio II for euro 13 million and euro 121 million on behalf of AVEA I.H.A.S..

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

(millions of euro)	9 months to 9/30/2006	9 months to 9/30/2005	
Revenues	13	25	These refer to information system and computer services, and energy and telephone services supplied to the Pirelli Group euro 8 million (euro 6 million in the first nine months of 2005), to the Edizione Holding Group euro 3 million (euro 3 million in the first nine months of 2005) and to F.C. Internazionale Milano S.p.A., a related company through Mr. Moratti, euro 1 million (euro 1 million in the first nine months of 2005). In the first nine months of 2005, they had included euro 13 million to the Unipol Group and euro 1 million to the STMicroelectronics Group, which are no longer related parties
Purchases of materials and external services	73	85	These refer to R&D expenditures, consulting and services regarding intellectual property rights and real estate activities from the Pirelli Group euro 55 million (euro 56 million in the first nine months of 2005), document management services from Telepost S.p.A. euro 13 million (euro 15 million in the first nine months of 2005), commissions paid to Autogrill S.p.A (Edizione Holding Group) for the sale of prepaid telephone cards euro 1 million (euro 1 million in the first nine months of 2005), sponsorship and content provider costs from F.C. Internazionale Milano S.p.A. euro 2 million (euro 4 million in the first nine months of 2005) and the supply of energy by Camfin S.p.A. euro 1 million. In the first nine months of 2005, they had included euro 8 million relating to insurance services from the Unipol Group and euro 1 million from STMicroelectronics, which are no longer related parties
Capital expenditures in tangible and intangible	50	46	These mainly refer to purchases of modems, cables and ADSL equipment from the Pirelli Group

(millions of euro)	9/30/2006	12/31/2005	
Trade receivables, miscellaneous receivables and other current assets	4	6	These mainly refer to the above-mentioned services under revenues and purchases rendered to the Edizione Holding Group euro 1 million (euro 2 million at December 31, 2005), to the Pirelli Group euro 3 million (euro 2 million at December 31, 2005). At December 31, 2005, they had included euro 2 million due from the Unipol Group, which is no longer a related party
Trade payables, miscellaneous payables and other current liabilities	28	43	These mainly refer to supply transactions connected to the performance of services and investment activities with the Pirelli Group euro 23 million (euro 34 million at December 31, 2005), costs for Document Management services from Telepost S.p.A. euro 3 million (euro 7 million at December 31, 2005), transactions with F.C. Internazionale Milano S.p.A. euro 1 million (euro 1 million at December 31, 2005) and Edizione Holding Group euro 1 million.

Description of the main contracts between the Telecom Italia Group and associates, joint ventures, subsidiaries of associates and related parties through directors and key executives of the company.

Transactions with:

Avea I.H.A.S.

Revenue related

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

Expense related

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

Baltea S.p.A

Expense related

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

EtecSA

Revenue related

The transactions refer to Telecom Italia Sparkle data traffic and contracts for technical assistance rendered by Telecom Italia.

Expense related

The transactions relate to roaming traffic originating from mobile customers to Cuba.

IN.VA S.p.A.

Revenue related

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

LI.SIT S.p.A.

Revenue related

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

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

Luna Rossa Challenge 2007 SL

Expense related

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

Nordcom S.p.A.

Revenue related

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

Expense related

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

Shared Service Center Scarl

Revenue related

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

Expense related

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

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

Siemens Informatica S.p.A.

Expense related

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

Telecom Argentina Group

Revenue related

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

Expense related

The transactions relate to international telecommunications and roaming services.

Teleleasing S.p.A.

Revenue related

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

Expense related

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

Telbios S.p.A.

Expense related

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

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.

* * *

Brasil Telecom Participações Group

Revenue related

The transactions refer to telecommunications services, interconnection services in particular, and site sharing.

Expense related

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

Italtel Group

Revenue related

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

Expense related

The contracts provide for the supply and maintenance of traditional switching and innovative switching (VoIP) devices and the relative services, as well as the supply of innovative devices and their maintenance for the data networks using CISCO technology.

* * *

Camfin S.p.A.

Expense related

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

Edizione Holding Group

Revenue related

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

Expense related

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

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

Revenue related

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

Expense related

The contracts refer to costs for the sponsorship and the rights to diffuse content regarding the sports events of the company F.C. Internazionale Milano (Inter) by Telecom Italia. The sponsorship contract particularly provides for the possibility of using the Inter brand and logo for all advertising activities and the sale of mobile telephone products, the participation of Inter in the Trofeo TIM and

the visibility of the TIM brand during the Inter home games of the Italian Championships and in the Italy Cup/TIM Cup.

Pirelli & C. S.p.A.

Revenue related

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

Expense related

The following contracts should be noted:

- Consulting and services contract regarding patent rights

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

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

- contract regarding research and development

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

The contract provides:

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

Each of the parties is required to pay the other party 50% of the consideration from any sublicenses granted.

Furthermore, Pirelli is obliged to sell, under an exclusive arrangement, to Telecom Italia and to companies which it controls, any optical devices for telecommunications that use patents deriving from the research projects, for a period of one year from the completion of the single project. However, the parties may agree upon alternative solutions which ensure a similar or substitute advantage to Telecom Italia.

- contracts for the supply of apparatus and cables

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

- cooperation agreement concerning joint initiatives

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

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

Revenue related

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

Expense related

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

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

Telepost S.p.A.

Expense related

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

■ OPERATING AND FINANCIAL PERFORMANCE - TELECOM ITALIA GROUP BUSINESS UNITS

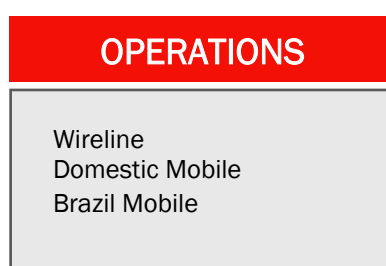
OPERATIONS

On October 5, 2005, the board of directors of Telecom Italia adopted the “One Company Model” organizational structure by converging the two previous Wireline and Mobile Business Units into one single unit (Operations).

For purposes of accounting representation, starting from the first half of 2006, Mobile activities have been divided into Domestic Mobile and Brazil Mobile.

■ STRUCTURE

Operations is organized as follows:



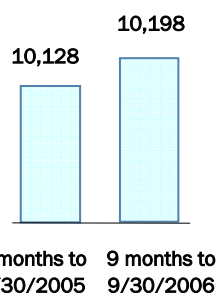
■ OPERATING AND FINANCIAL DATA

In order to have an overall picture of Operations, the following table shows the key results in the third quarter and in the first nine months of 2006, compared to the corresponding periods of 2005, restated for purposes of comparison.

(millions of euro)	3 rd Quarter 2006	3 rd Quarter 2005	9 months to 9/30/2006	9 months to 9/30/2005	Change %	
	(a)	(b)	(c)	(d) (1)	(a/b)	(c/d)
Revenues	7,589	7,251	22,485	21,383	4.7	5.2
EBITDA	3,392	3,344	10,198	10,128	1.4	0.7
% of Revenues	44.7	46.1	45.4	47.4		
EBIT	2,005	2,088	6,092	6,479	(4.0)	(6.0)
% of Revenues	26.4	28.8	27.1	30.3		
Capital expenditures	1,035	991	3,164	3,083	4.4	2.6
Employees at period-end (number)			77,198	77,754		(0.7)

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

EBITDA



Revenues, totaling euro 22,485 million (euro 7,589 million in the third quarter of 2006), record an increase of 5.2% (+euro 1,102 million) compared to the first nine months of 2005. Organic growth, on a comparable consolidation basis and excluding the foreign exchange effect, is 2.9% (+euro 632 million). In the third quarter of 2006, the organic growth of revenues compared to the same period of 2005 is 3.8%, up from the first half of 2006 (+2.4%).

EBITDA, amounting to euro 10,198 million (euro 3,392 million in the third quarter of 2006), shows an increase of 0.7% (+euro 70 million) compared to the same period of 2005, with the percentage of EBITDA to revenues equal to 45.4% (47.4% in the first nine months of 2005). The organic growth of EBITDA compared to the first nine months of 2005 is equal to 1.0% (+euro 106 million), calculated by taking into account the foreign exchange effect (euro 83 million), the change in the scope of consolidation (euro 2 million) and the negative impact of other items for euro 121 million (euro 86 million in the first nine months of 2006, relating principally to restructuring costs, and euro 35 million in the first nine months of 2005, relating principally to other income). Organic growth in the third quarter of 2006 is 2.5% (0.3% in the first six months of the year).

At the organic level, EBITDA as a percentage of revenues is 45.7% (46.6% in the first nine months of 2005).

EBIT, amounting to euro 6,092 million (euro 2,005 million in the third quarter of 2006), records a decrease of 6.0% in 2005 (-euro 387 million), and as a percentage of revenues is equal to 27.1% (30.3% compared to the same period of 2005). At the organic level – net of the foreign exchange effect (-euro 6 million), the change in scope of consolidation (-euro 6 million) and the negative impact of other items for euro 119 million (euro 96 million in the first nine months of 2006, relating principally to restructuring costs and the loss on the sale of the “Radiomaritime Activities” business, and euro 23 million in the first nine months of 2005 relating principally to other income) – EBIT decreased by 4.0% (-euro 256 million) compared to the first nine months of 2005). In the third quarter of 2006, EBIT improved with a change equal to -1.6% (-5.1% in the first half of 2006).

At the organic level, EBIT as a percentage of revenues is 27.5% (29.5% compared to the same period of 2005 and 27.9% to June 2006).

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

WIRELINE

- Consolidation of Telecom Italia's leadership position in the Italian broadband market with about 6.5 million accesses (about 5.4 million of which are Retail accesses) and continuous growth of the broadband customer base in Europe with about 1.7 million broadband accesses at September 2006 in Germany, France and Holland
- Further increase of the portfolio of new flat-rate voice plans (more than 1 million at September 2006) 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 of wireline telephone and data services for final customers (retail) and other operators (wholesale). On an international level, Wireline develops fiber optic networks for wholesale customers (in Europe, in the Mediterranean area and in South America) and also offers innovative broadband services in France, Germany and Holland.

■ STRUCTURE

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.	BBNET Group Liberty Surf Group HanseNet Telekommunikation GmbH
	Telecom Italia Sparkle Group: - Telecom Italia Sparkle S.p.A. - Latin American Nautilus Group - Med-1 Group - Mediterranean Nautilus Group - TMI Group - Pan European Backbone - Telecom Italia Sparkle Singapore - Telecom Italia San Marino S.p.A. - Telecom Italia Sparkle of North America Inc. - Telefonía Mobile Sammarinese S.p.A. - Thinx S.r.l. - TIS France S.A.S.	

■ MAJOR CORPORATE EVENTS/SCOPE OF CONSOLIDATION

Note should be taken of the following:

- on September 17, 2006, Telecom Italia and Time Warner formalized the agreement for the purchase of the AOL Internet activities in Germany for a price of euro 675 million. The deal is expected to be finalized within four to six months after the pertinent authorities authorize the transaction. Once Telecom Italia concludes this deal, it will become the second largest broadband operator in Germany with about 2 millions accesses and 3.2 million total clients, and the top broadband operator, on a par with France Telecom, with 8.2 million retail clients;
- in September 2006, the sale of the "Radiomaritime Activities" business to the company ITS Servizi Marittimi e Satellitari S.p.A. was finalized. Consideration on the sale amounted to euro 200 thousand;

- on September 26, 2006, the act for the merger by incorporation of the company Nuova Tin.it S.r.l. in the Parent, Telecom Italia, was signed. The merger took effect on October 1, 2006.

■ OPERATING AND FINANCIAL DATA

The following table shows the key results in the third quarter and in the first nine months of 2006, compared to the corresponding periods of 2005. The data takes into account, as from January 1, 2005, the acquisition of the internet business, the merger of IT Telecom activities and the inclusion of the ex-TILAB (R&D) business of Telecom Italia in the scope of consolidation.

	3 rd Quarter 2006	3 rd Quarter 2005	9 months to 9/30/2006	9 months to 9/30/2005	Change %	
(millions of euro)	(a)	(b) (1)	(c)	(d) (1) (2)	(a/b)	(c/d)
Revenues	4,318	4,339	13,295	13,200	(0.5)	0.7
EBITDA	1,845	1,931	5,747	5,921	(4.5)	(2.9)
% of Revenues	42.7	44.5	43.2	44.9		
EBIT	1,022	1,143	3,315	3,630	(10.6)	(8.7)
% of Revenues	23.7	26.3	24.9	27.5		
Capital expenditures	661	542	2,155	2,042	22.0	5.5
Employees at period-end (number)			56,607	56,987		(0.7)

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

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

Revenues, totaling euro 13,295 million (euro 4,318 million in the third quarter of 2006), show an increase of 0.7% (+euro 95 million) compared to the first nine months of 2005. Organic growth, on a comparable consolidation basis and excluding the foreign exchange effect, is equal to euro 5 million. This result, although affected by the cut in the fixed-mobile termination rates (euro 128 million), which took place starting from the second half of 2005, and the acceleration of the migration of voice traffic from the fixed to the mobile network, is supported by the strong growth of the European and domestic broadband market. Excluding the negative effect of the reduction in termination rates, the organic growth would be 1.0%.

Revenues by strategic business area are as follows:

Retail telephone

Revenues from the Retail Telephone area, equal to euro 7,052 million, show a reduction of 7.4% compared to the same period of 2005. The market scenario of this area features a structural contraction in traffic revenues (-euro 354 million; -10.8%) which reflect a drop in demand (due to the migration of traffic from the fixed to the mobile network) and the negative impact of the reduction in termination prices (euro 128 million). Revenues from VAS services are also down (-euro 26 million) as a result of the new market regulation for 12xy services, with a decrease of euro 63 million compared to 2005.

Internet

Revenues from the Internet area, equal to euro 1,123 million, grew by 5.8% (+euro 62 million) compared to the first nine months of 2005, thanks to the continuous growth of broadband revenues (+euro 100 million; +12.4% compared to 2005).

Wireline's portfolio of broadband retail customers in Italy at September 30, 2006 now totals 5,382,000 (+1,343,000 compared to September 2005 and +187,000 compared to June 2006).

Data Business

Revenues from the Data Business area, equal to euro 1,290 million, show a slight decline overall (-euro 15 million; -1.1%) compared to the same period of 2005. This reduction, due to fiercer competition in the Corporate client market, is particularly evident in leased lines services (-euro 40 million) and traditional Data Transmission (- euro 27 million). Instead, ICT services again reported a positive performance with a continuous trend of growth (+euro 39 million, +10.8%) compared to the same period of 2005).

Wholesale

Revenues from wholesale services, equal to euro 2,936 million, grew by a total of euro 332 million (+12.7%) compared to the same period of 2005. National wholesale services account for euro 77 million of the increase and international wholesale services for euro 255 million.

European Broadband Project

Revenues from the European Broadband Project (France, Germany and Holland), equal to euro 662 million (+75.6% compared to 2005), show a strong and continuous increase. On a comparable consolidation basis, taking into account the inclusion of Liberty Surf Group in the first half of 2005 (the date of acquisition is May 31, 2005), organic growth is 42.4%. The portfolio of customers has now reached 2,014,000 at September 30, 2006 (+223,000 compared to the end of 2005), of which 1,718,000 with Broadband access (+405,000 compared to the end of 2005)

The following tables shows the key results of the European Broadband Project in the third quarter and in the first nine months of 2006, compared to the corresponding periods of 2005.

(millions of euro)	3 rd Quarter 2006	3 rd Quarter 2005	9 months to 9/30/2006	9 months to 9/30/2005	Change %	
	(a)	(b)	(c)	(d) (1)	(a/b)	(c/d)
Revenues	235	165	662	377	42.4	75.6
EBITDA	26	5	40	(11)	°	
% of Revenues	11.1	3.0	6.0	(2.9)		
EBIT	(28)	(26)	(106)	(85)	(7.7)	(24.7)
% of Revenues	(11.9)	(15.8)	(16.0)	(22.5)		
Capital expenditures	116	73	344	217	58.9	58.5
Employees at period-end (number)			3,019	2,494		21.0

EBITDA

40

(11)

9 months to
9/30/2006

9 months to
9/30/2005

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

EBITDA, equal to euro 5,747 million (euro 1,845 million in the third quarter of 2006), shows a decrease of 2.9% (-euro 174 million) compared to the first nine months of 2005, with the percentage of *EBITDA* to revenues at 43.2% (44.9% in the first nine months of 2005). *EBITDA*, compared to the same period of 2005, was highly affected by the variation in the revenue mix, the added push given to sales to support new business initiatives as a result of competitive pressure in Italy and the increase in personnel costs in connection with restructuring costs (euro 54 million in the first nine months of 2006).

The organic growth of *EBITDA* – calculated by taking into account the change in the scope of consolidation (euro 2 million) and the impact of other negative items for euro 84 million (euro 60 million in the first nine months of 2006, mainly referring to restructuring costs, and euro 24 million in the first nine months of 2005, relating principally to other income) – is equal to -1.6% (-euro 92 million) compared to the same period of 2005.

At the organic level, *EBITDA* as a percentage of revenues is 43.7% (44.4% at September 2005 and 44.0% at June 2006).

As for the domestic scope of consolidation, excluding the European Broadband Project, the organic *EBITDA* margin is 45.7% compared to 46.1% in the corresponding period of 2005.

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

- purchases of materials and external services total euro 5,614 million, with an increase of 4.2% compared to the same period of 2005. Besides the expansion of broadband in Europe, the growth of +euro 225 million is principally due to higher interconnection costs (+euro 61 million, chiefly on account of the strong growth of international wholesale traffic volumes), higher costs for the purchase of products and content (+euro 61 million) as well as electrical energy used for the industrial installations (+euro 21 million, mainly due to price increases);
- personnel costs amount to euro 1,982 million, with an increase of euro 61 million compared to the same period of 2005 (+3.2%). The increase is largely due to the aforementioned restructuring costs (+euro 54 million);
- other operating expenses amount to euro 126 million (-euro 15 million compared to 2005).

EBIT is euro 3,315 million (euro 1,022 million in the third quarter), down by 8.7% (-euro 315 million) compared to the first nine months of 2005. As a percentage of revenues, *EBIT* is 24.9% (27.5% in 2005). The organic change in *EBIT* – calculated by taking into account the change in the scope of consolidation (-euro 6 million) and the impact of other negative items for euro 92 million (euro 70 million in the first nine months of 2006, mainly due to restructuring costs and the loss on the sale of the “Radiomarine Activities” business and euro 22 million in the first nine months of 2005 relating to other income) – is a decrease of 6.0% (-euro 217 million) compared to the first nine months of 2005.

At the organic level, *EBIT* as a percentage of revenues is 25.5% (27.1% in the first nine months of 2005 and 26.1% in the first half of 2006).

Compared to 2005, besides the increase in operating costs connected with higher wholesale traffic volumes and the expansion of the European Project, *EBIT* was also affected by higher depreciation and amortization charges (+euro 128 million). The latter was influenced by the change in the calculation method, introduced starting

from the 2003 financial statements, relating to the starting date for the amortization of software (established as the date the asset effectively comes into use instead of the start of the year). The effect on the nine months of 2006 is euro 153 million.

Capital expenditures amount to euro 2,155 million and increased by euro 113 million (+5.5%) compared to the same period of 2005; the increase is due entirely to the expansion of the European Broadband Project.

Employees number 56,607 and show a reduction of 380 people compared to December 31, 2005. The change is due to the hiring of 2,059 people, of whom 744 are in Italy and 1,315 abroad (mainly in France), and intragroup mobility (+160), countered by the sale of the “Radiomaritime Activities” business (72) and 2,028 terminations of employment (principally at Telecom Italia).

The number of persons with temp contracts decreased by 499.

■ INFORMATION ON OPERATIONS

The main operating highlights at September 30, 2006 compared to December 31, 2005 and September 30, 2005 are presented below:

Operating highlights	9/30/2006	12/31/2005	9/30/2005
Fixed network connections (thousands of equivalent lines)	24,288	25,049	25,407
Physical accesses (<i>Consumer + Business</i>)	20,992	21,725	22,032
Voice pricing plans (thousands)	6,417	6,321	6,272
Minutes of traffic on the fixed network (billions)	129.6	185.1	136.9
• domestic traffic	119.6	171.3	126.4
• international traffic	10.0	13.8	10.5
TP terminals using ISDN technology (thousands)	105.4	108.8	114.4
Internet users:			
- Dial-up users (Tin.it Free and Premium) (thousands)	733	950	1,048
- Broadband accesses (thousands)	8,175	7,020	5,943
- of which domestic (thousands)	6,457	5,707	4,873
- of which European (thousands)	1,718	1,313	1,070
Alice page views - ex-Virgilio (millions)	9,708	9,842	6,948
Alice average monthly single visitors - ex-Virgilio (millions)	18.6	15.7	15.0

A description follows of the main activities, commercial initiatives and data regarding the Business Unit in the third quarter of 2006, with reference to the various Strategic Business Areas and the Domestic and International network.

• RETAIL

The commercial initiatives undertaken during the third 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 Internet (Alice Adsl and Alice Business plans), Data Business (Broadband and other Data services) and VAS markets are as follows:

Telephone	Traditional Accesses	Activities launched in the first six months of 2006 to meet the demand for activating traditional accesses and increase the penetration of Pricing and Broadband flat rates continued through promotions on subscription charges for the <i>No Problem</i> and <i>ADSL Flat</i> rate plans and the 3 months' free trial of the <i>Tutto 4*</i> package for all new installations.
	Pricing (rate plans)	The <i>Welcome Home</i> rate plan was launched for the Consumer clientele with the aim of providing further support for traffic directed towards international ethnic destinations. Furthermore, other promotions launched for the <i>SME</i> and <i>SOHO</i> clientele offered the advantage of no subscription charge for the first month on all activations of the <i>Team Business</i> and <i>Teleconomy One Office</i> packages. Another promotion involved videocalls made on local and long-distance fixed networks and to the TIM mobile network, which were free from June 1 until August 31, 2006.
	Products	A study has been commissioned to improve the telephone menu, the plastic materials and the audio quality of the range of Aladino telephones supplied to the Consumer clientele. Launch of the two new products Aladino Voip and the new Videotelefono for calls over IP. Finally, new models of PC were sold in bundles with the <i>Alice</i> rate plan and for the Aladino Voip Business clientele in bundles with <i>Alice Business Voce</i> .

Internet and VOIP	Alice	A promotion was launched with the <i>Alice Free</i> rate plan to enable a larger number of customers to switch to a broadband connection. Launch of the <i>Unica</i> rate plan, the first integrated TIM Telecom package which, through the TIM UNICO handset, can use the Wi-Fi connection of an ADSL line inside the home and the TIM mobile network outside the home like a normal mobile phone. The <i>Unica</i> package, therefore, allows customers to call both fixed-line and TIM customers at advantageous rates.
	Alice Business	September saw the launch of <i>Alice Business 20 mega</i> , the ADSL 2+ offer for the Business clientele. Launch of <i>Alice Business Voce autoinstallante</i> , which obviates the need for any technical assistance, thus streamlining and speeding up the activation process. Finally, promotions were launched associated with <i>Alice Business Flat</i> and <i>5 FAST</i> , with no subscription charges for the first 2 months, <i>Alice Business Sicura</i> with a basic subscription charge of 1 euro/month for the first 6 months, and <i>HDSL in Liberty</i> with no basic subscription charge for the first month on 2-Mb Liberty access lines.

IPTV	Coverage of the <i>Alice Home TV</i> (IPTV) service was extended to more than 200 towns to enlarge the potential customer base. The promotion offering free installation by a Telecom Italia technical expert was also renewed.
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<i>Alice Portal (ex-Virgilio)</i>	During the third quarter, activities were geared mainly to (i) strengthening the editorial content of the portal by supplying portal users with dedicated areas enabling them to follow important events “live on line”, such as the World Soccer Championships (ii) implementing services using the web 2.0 logic to encourage users to participate actively in the life of the portal and the creation of content. (In this context, the new sections entitled Segnalo and Oknotizie were published) (iii) releasing a new version of C6 messenger with the aim of strengthening the community and the role of the user within the portal.
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<i>Data Business</i>	Lambda	The procedures were completed for authorizing a significant repositioning of the price of the Lambda service with regard to “Long Distance”. New POPs were activated to access the service, making it possible to extend the coverage of the new fiber access services in cities by more than 30% with access speeds to the MPLS Hyperway or IP Alice Business networks ranging from 622Mbps to 10Gbps.
	Hyperway, Datawan and Alice Business	Launch of the first integrated service between broadband IP Fixed/Mobile networks. The new service provides secure access to private MPLS Hyperway networks from mobile terminals through TIM’s dedicated APN service. New ADSL 2+ profiles were launched for accessing Internet (<i>Alice Business</i>) and private networks (Hyperway) up to 20 Mega, with greater speed also upstream and different values of guaranteed bandwidth.

<i>Telephone VAS</i>	Services	Launch of the <i>Alice Basic</i> rate plan which provides free registration to e-mail, Community and other services offered by the Alice portal. Introduction of the promotion of the <i>Tutto 4*</i> offer free for 3 months on all new installations and renewal of the promotion in conjunction with <i>Aladino</i> and <i>Videotelefono</i> products. And for Business clientele, the <i>Tutto 4*</i> package and the NT1 Plus socket are free for 3 months on the purchase of the <i>Aladino</i> .
<i>VAS ICT</i>	Security	Release of a new version of the URL Filtering Offer which making it possible to regulate and control Internet access.
	Network Management	Release of the <i>Network Business Day</i> package which constitutes the extension of the Network Management service to the Hyperway networks.
	Desk Top Management	Release of an integrated value package whereby customers can rent the equipment on which the DTM service is based. Release of the HW Procurement option for the supply of equipment to customers. Release of a new price list for the LAN Management service with lower basic subscription charges.

- NATIONAL WHOLESALE**

During the period July - September 2006, the national wholesale market clearly reaffirmed the trend now underway which shows that other operators are adopting an ever more decisive stance in acquiring clientele to keep them tied directly to their

networks. As a result, OLOs are increasingly migrating their customers from connection solutions such “Carrier Preselection” and “ADSL wholesale” to solutions based on “unbundling” and “shared access”. The figures presented below demonstrate this situation:

Local Loop Unbundling (LLU)	LLU Lines	Almost 1,500,000 lines are connected directly to the networks of other operators, with an increase of approximately 380,000 lines since December 2005. Similarly, Shared Access lines, with which other operators provide ADSL access to Telecom Italia’s telephone clientele, now number about 280,000, an increase of about 140,000 accesses from the end of 2005.
Broadband access	XDSL	XDSL wholesale accesses acquired by other operators number about 1,074,000, an increase of about 184,000 from December 2005.
Carrier-PreSelection	CPS Lines	At September 30, 2006, the number of accesses configured totaled approximately 3,880,000, a decrease of around 205,000 from December 2005.

- **INTERNATIONAL WHOLESale**

During the third quarter of 2006, actions continued to support the growth of the profitability of Voice traffic, particularly for the transit component (+euro 5.6 million of net revenues compared to the corresponding period of 2005).

With this in mind, the interconnection policy focused on attempts to achieve cost efficiencies which, in the final analysis, gave priority to Voice Over IP transport technology (35 new interconnections with 18 in Voice Over IP and 11 new mobile customers). VOIP traffic volumes equaled 690 million minutes, an increase of 99% compared to the third quarter of 2005.

During the third quarter of 2006, the Data & IP market reported a substantial growth of the bandwidth sold, while prices tended to decline. However, this phenomenon generated an increase in sales of innovative wholesale services of approximately 19.8% compared to the corresponding period of 2005.

- **DOMESTIC NETWORK**

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

National transmission backbone (fiber optic evolution)	Another Marconi latest-generation high-capacity electronic frame has been installed, bringing the total restoration capabilities to 32 junctions. Work continued to increase the DWDM links already in operation, bringing the overall capacity to 153 systems.
Metro Regional Network for IP TV services	During the third quarter, marketing of the IP TV-Alice Home TV service continued and was extended to a larger number of towns than originally planned, adding a further 158 exchanges, bringing the total number of activated exchanges to 818. At September 30, 2006, approximately 44% of the telephone population in 245 municipalities is covered.

Gigabit Ethernet Access	Work continued to create a network to support the marketing of services based on Gigabit Ethernet technology (Ethernity, Hyperway IP/MPLS, Gigabusiness and Genius services). About 80 new GBE accesses were installed, bringing the total number at September 30, 2006 to more than 1,960 accesses. In the third quarter of 2006, GBE optical access coverage was extended to 26 towns across the country.
ADSL Access	During the third quarter of 2006, 113 new ADSL exchanges were equipped and about 208,000 new accesses were installed. At September 30, 2006, the exchanges capable of supplying ADSL access number 4,746 and total coverage corresponds to about 87.5% of the telephone population in Italy, corresponding to 6,940,000 customers.

- **FOREIGN RETAIL NETWORKS**

Telecom Italia, under the "Broadband International" 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.S., HanseNet and BBNED.

FRANCE	<p>The company Telecom Italia S.A.S., a subsidiary of the holding company Liberty Surf Group S.A., intends to extend coverage of the service to 274 new sites in 2006, bringing the total coverage to 505 Subscriber Identification Exchanges Ready for delivery by the end of the year.</p> <p>At September 30, 2006, 107 new sites were ready for delivery in addition to the 231 open at the end of 2005.</p> <p>The main achievements in terms of services in the third quarter of 2006 are the 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) • IP-TV (TPS Free bouquet) • Alice-Pro Micro Business • B2B
GERMANY	<p>HanseNet's main achievements during 2006 include activities aimed at extending LLU coverage to 100 more exchange areas.</p> <p>At September 30, 2006, 100 more sites were ready for deliver in addition to the 493 open at the end of 2005.</p> <p>During the third quarter of 2006, a due diligence was conducted with regard to the acquisition of the BB and NB customer portfolio of AOL. Telecom Italia won the bid and is waiting to complete the acquisition after authorization is received from the European regulatory authority.</p> <p>The following achievements in the third quarter of 2006 are worthy of note:</p> <ul style="list-style-type: none"> • introduction of VoIP • the IPTV rate plan (100 channels broadcast + 1,500 VOD films) • the introduction of ISP services to the platform
HOLLAND	The Dutch market has reached a high level of broadband penetration which limits the Group's future development prospects in this area.

- **INTERNATIONAL NETWORK**

During the third quarter of 2006, the software of the operating systems and all the DWDM systems of the TI Sparkle long-distance network was updated to support transparent transport of 10GbE signals with LAN and WAN PHY interfaces.

This new service broadens the "City2city lambda link" services portfolio.

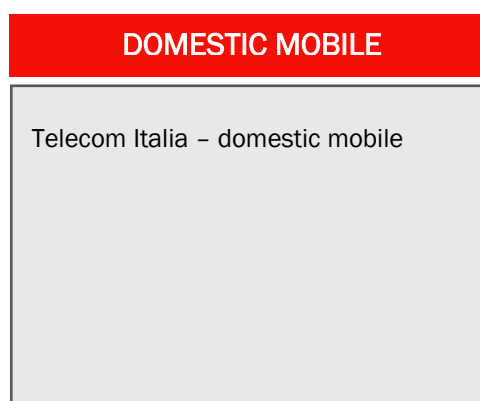
In addition, a second POP IP has been installed in Milan to improve the reliability of the IP backbone.

DOMESTIC MOBILE

- 31.5 million mobile lines reached in Italy at September 2006, while market share recovery has been consolidated (40.3% at September 2006)
- UMTS customers now at about 3.9 million and contributing to the strong growth of Value-Added Service (VAS) revenues (+10.3% in the first nine months of 2006 compared to first nine months of 2005)

■ STRUCTURE

The Business Unit operates with the following structure:



■ OPERATING AND FINANCIAL DATA

The following table shows the key results (i) in the third quarter of 2006 by the Telecom Italia S.p.A. mobile segment and (ii) in the first nine months of 2006, respectively, by Tim Italia S.p.A., up to the date of the merger of Tim Italia S.p.A. into Telecom Italia S.p.A. (March 1, 2006), and the Telecom Italia S.p.A. mobile segment in the period March – September 2006. The amounts for 2005 refer to ex-TIM S.p.A. up to the date of the spin-off of the mobile activities to Tim Italia S.p.A. (March 1, 2005) and Tim Italia S.p.A. in the period March – September 2005.

(millions of euro)	3 rd Quarter 2006 (a)	3 rd Quarter 2005 (b)	9 months to 9/30/2006 (c)	9 months to 9/30/2005 (d) (1)	Change %	
					(a/b)	(c/d)
Revenues	2,583	2,577	7,565	7,507	0.2	0.8
EBITDA	1,306	1,306	3,859	3,942		(2.1)
% of Revenues	50.6	50.7	51.0	52.5		
EBIT	960	1,012	2,834	3,037	(5.1)	(6.7)
% of Revenues	37.2	39.3	37.5	40.5		
Capital expenditures	237	244	680	581	(2.9)	17.0
Employees at period-end (number)			11,127	11,720		(5.1)

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

Revenues in the first nine months of 2006 amount to euro 7,565 million, with an increase of 0.8% compared to the same period of 2005 (+euro 58 million). This performance was affected by the negative impact (euro 340 million) of the new termination price list which came into force; net of this item, the change over the same period of 2005 would be +5.3%.

In the third quarter of 2006, revenues grew by 0.2% (+1.1% in the first half of 2006), +4.5% net of the impact of the reduction in termination rates. The contraction of the growth rate from 2005 in the last three months is exclusively due to handset sales.

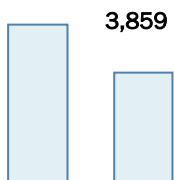
Excluding the handsets component, the third quarter of 2006, in fact, would show an increase in revenues of 0.9% from the corresponding period of 2005 with an increase over the first six months of 2006 (which had recorded a reduction of 1.1%).

The growth in revenues in the first nine months of 2006 was particularly driven by the strong increase of Value-Added Service (VAS) revenues of euro 1,225 million (+10.3% compared to the same period of 2005), thanks to the continuous innovation of services and the portfolio of offerings. These revenues increased almost entirely due to the new interactive services which account for more than 38% of VAS revenues compared to 33% in the first nine months of 2005, whereas the percentage of VAS to service revenues now stands at 17.4% against 15.7% in the corresponding period of the prior year. "Telephone" revenues, equal to a total of euro 5,459 million, show an increase in outgoing traffic (+2.7%, +euro 109 million) and a decrease in ingoing traffic (-16.6%, -euro 263 million) which, however, was affected by the above negative impact of the new termination price list (euro 340 million); net of this item, the change from 2005 would also be positive and equal to +euro 77 million (+4.8%).

Revenues from the sale of terminals total euro 531 million, an increase of euro 86 million (+19.3%) compared to the same period of 2005 (+37.8% in the first half of 2006). In the first nine months of 2006, 4.4 million devices were sold. This is a 30% increase, a good part of which refers to third-generation terminals (1.5 million pieces, +85% compared to 2005).

EBITDA

3,942



EBITDA is equal to euro 3,859 million, a decrease of euro 83 million (-2.1%) compared to the first nine months of 2005. In the third quarter of 2006, the trend was reversed and performance is in line with the third quarter of 2005.

The change in the first nine months of 2006 was negatively affected by the termination rate adjustment for an amount of euro 171 million; net of this item, the change from 2005 would be an increase of euro 88 million, +2.2%.

In the third quarter of 2006, a reversal of the trend in EBITDA produced performance that was in line with the corresponding period of the prior year.

EBITDA as a percentage of revenues is 51.0% (52.5% in the corresponding period of 2005 and 51.2% in the first half of 2006).

The organic change – calculated by taking into account the impact of other negative items of euro 33 million (euro 16 million in the first nine months of 2006 relating mainly to restructuring costs and euro 17 million in the first nine months of 2005 relating to other income) – is a decrease of euro 50 million (-1.3%). Excluding the negative effect of the reduction in termination rates, the organic change would be an increase of 3.1%.

At the organic level, EBITDA as a percentage of revenues is 51.2% (52.3% in the first nine months of 2005 and 51.6% in the first half of 2006).

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

- purchases of materials and external services of euro 3,497 million increased by 8.4% compared to the same period of 2005. This increase (+euro 272 million) is principally due to higher traffic volumes, which caused an increase in interconnection costs of euro 45 million, and handsets sold (+euro 154 million) and also the added push given to sales (marketing costs rose by euro 49 million);
- personnel costs, equal to euro 350 million, decreased by euro 41 million from the first nine months of 2005;
- other operating expenses amount to euro 77 million and show a decrease of euro 3 million compared to the same period of 2005.

EBIT in the first nine months of 2006 amounts to euro 2,834 million (euro 960 million in the third quarter) a decline of euro 203 million (-6.7%) compared to the same period of 2005. *EBIT* as a percentage of revenues is equal to 37.5% (40.5% compared to the same period of 2005).

The organic change – calculated by taking into account the impact of other negative items of euro 33 million (euro 16 million in the first nine months of 2006 relating mainly to restructuring costs and euro 17 million in the first nine months of 2005 relating to other income) – is a decrease of 5.6% (-euro 170 million) compared to 2005.

At the organic level, *EBIT* as a percentage of revenues is 37.7% (40.2% in the first nine months of 2005).

EBIT was particularly impacted by depreciation and amortization charges, equal to euro 1,023 million, which are euro 121 million higher than in the same period of 2005. The charges were affected by the change in the calculation method, introduced starting from the 2003 financial statements, relating to the starting date for the amortization of software (established as the date the asset effectively comes into use instead of the start of the year). The effect on the nine months of 2006 is euro 89 million.

Capital expenditures total euro 680 million (+euro 99 million compared to the first nine months of 2005) and were directed towards the building of new network platforms and infrastructures. The increase over 2005 is particularly attributable to the development of solutions to support new services.

Employees number 11,127 and show a reduction of 593 people (216 for infragroup mobility) compared to December 31, 2005.

The number of persons with temp contracts decreased by 143.

■ INFORMATION ON OPERATIONS

The main operating highlights at September 30, 2006 compared to December 31, 2005 and September 30, 2005 are presented below:

Operating highlights	9/30/2006	12/31/2005	9/30/2005
Mobile lines (thousands)	31,488	28,576	27,254
Mobile traffic (millions of minutes) (*)	33,640	42,597	31,655

(*) This item includes traffic minutes referring to customers of foreign operators and the minutes of traffic for infoservices; it excludes videocall traffic.

There are about 3.9 million UMTS customers, which represent 12.4% of the total number of customers, an increase of 4.8% compared to December 2005. During the third quarter of 2006, innovative mobile telephone services were developed with the aim of augmenting customer loyalty and increasing opportunities for using cell phones. The most important initiatives were:

Rate plans by segment	<p><i>TIM Tribù (Young)</i>: the Push to Talk service, through which all <i>TIM Tribù</i> customers can send voice messages free within the <i>TIM Tribù</i> community, has been extended until December 31, 2006.</p> <p><i>Relax (Elite)</i>: introduction of a new euro 19 “entry ticket” for the <i>Telefono Relax</i> rate plan, with the aim of accelerating the process of renewing the handsets in circulation.</p> <p><i>TIM Welcome Home</i> (for ethnic international clientele): on August 9, 2006, the launch of the <i>TIM Welcome Home</i> top-ups for customers who sign up for the new <i>TIM Welcome Home</i> profile.</p>	
Promo AL (Acquisizioni Lorde)/MNP (Mobile Number Portability)	Launch in September 2006 of a new promotion for <i>TIM tribù</i> , directed at the younger customer segment, offering 500 free messages to TIM numbers and fixed telephones.	
UMTS Hi Speed	<p>In July 2006, Telecom Italia marketed the new UMTS Hi Speed/HSDPA (High Speed Downlink Packet Access) cell phones, which make it possible to access mobile broadband, initially at a speed of 2 Mbits. The HSDPA technology will be applied to about 5,000 UMTS exchanges, making it possible to access mobile broadband at speeds of up to 4 Mbits and ensuring a higher quality of service than normal UMTS (later, thanks to technological upgrades, surfing speeds of up to 20-30 Mbits are expected to be reached).</p> <p>“All inclusive” packages were launched to promote data services using HSDPA technology, including mobile Internet surfing and hi-speed PC card products (<i>Tutto Relax Internet, Internet Relax</i>).</p>	
Multimedia VAS	DVB - H (Digital Video Broadcast – Handheld Service)	Marketing of the service known as <i>TIM TV</i> started on a promotional basis on May 29, 2006 in association with the <i>Relax TV</i> rate plans and the Samsung SGH-P920 handset. In June, coverage of the service was extended to the regional capitals of Italy. The promotion offers customers the option of paying for the handset in installments and, in the case of anyone opting for the rate plan by August 24, 2006, access to the service (including general channels) and viewing of the 2006/2007 soccer championship are included in the monthly installment. The channels available since the launch are: Canale 5, Italia 1, LA7, MTV, SKY TG24 and SKY Meteo News.
	Message rate plans	This summer saw the launch of the promotion “ <i>Carta Vacanze Messaggi Relax</i> ”, from May 29 until August 6, 2006. Against payment of euro 5, customers could obtain a special rate for SMS (5 eurocents) and MMS (30 eurocents) up to a maximum of 1,000 messages for 30 days. In September, the “ <i>TIM ScriviScrivi</i> ” service was launched. This year, from September 12 until October 21, 2006, customers could send 500 SMS or MMS messages free to TIM and Telecom Italia numbers and all e-mail addresses, against payment of an activation cost of euro 9.
Integrated fixed/mobile plans	UNICA	September 2006 saw the launch of Unica, the first integrated fixed/mobile plan which, by exploiting Wi-Fi technology, through the TIM UNICO handset, can be used like a normal mobile phone both inside and outside the house.

BRAZIL MOBILE

- TIM Brasil arrived at 24.1 million customers at September 2006, strengthening its position as the second largest domestic operator in Brazil (25.1% of market share; 23.4% at December 2005 and 22.9% at September 2005)
- Strong growth of revenues (+21.5% compared to the same period of the prior year) partly due to the enormous increase in VAS revenues (+59.0% compared to the first nine months of 2005)

■ STRUCTURE

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



■ OPERATING AND FINANCIAL DATA

The following table shows the key results in the third quarter and in the first nine months of 2006, compared to the corresponding periods of 2005.

	(millions of euro)				(millions of BRL)				Change %	
	3 rd Quarter 2006	3 rd Quarter 2005	9 months to 9/30/2006	9 months to 9/30/2005	3 rd Quarter 2006	3 rd Quarter 2005	9 months to 9/30/2006	9 months to 9/30/2005		
	(a)	(b)	(c)	(d) (1)	(e)	(f)	(g)	(h) (1)	(e/f)	(g/h)
Revenues	1,070	761	2,792	1,985	2,951	2,204	7,595	6,251	33.9	21.5
EBITDA	250	108	604	279	690	313	1,644	877	°	87.5
% of Revenues	23.4	14.2	21.6	14.0	23.4	14.2	21.6	14.0		
EBIT	31	(67)	(47)	(180)	82	(195)	(128)	(567)		77.4
% of Revenues	2.8	(8.8)	(1.7)	(9.1)	2.8	(8.8)	(1.7)	(9.1)		
Capital expenditures	136	205	329	465	375	607	895	1,465	(38.2)	(38.9)
Employees at period-end (number)			9,461	9,043			9,461	9,043		4.6

(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 21.5 million lines at September 30, 2006, +29.6% compared to December 31, 2005 (16.6 million).

Total lines at September 30, 2006 are 24.1 million, with an increase of 3.9 million lines from December 31, 2005 (+19.3%). The TIM Brasil group, with a market share of 25.1%, is confirmed as the second largest operator domestically in terms of the number of customers.

Consolidated *revenues* in the first nine months of 2006 total BRL 7,595 million and grew by 21.5% compared to the first nine months of 2005 (+24.2% for revenues from services alone). The sharp increase is due to the expansion of the customer base and the input by valued-added service revenues, which, as a percentage of total revenues rose from 5.6% to 7.1%.

Consolidated *EBITDA* in the first nine months of 2006 of BRL 1,644 million grew by BRL 767 million against the first nine months of 2005 (+87.5%). As a percentage of revenues, EBITDA is 21.6% and shows an improvement of 7.6% compared to the first nine months of 2005.

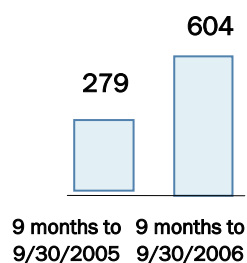
The organic growth of EBITDA from the first nine months of 2005 is equal to 86.5%.

At the organic level, EBITDA as a percentage of revenues is 21.8% (14.2% in the first nine months of 2005).

Consolidated EBITDA in the third quarter of 2006 of BRL 690 million increased by BRL 377 million compared to the third quarter of 2005 (+120.4%). As a percentage of revenues, EBITDA is 23.4% and shows an improvement of 9.2% against the third quarter of 2005.

Beginning from the third quarter of 2006, with effect from January 1, 2006, the costs to acquire clientele (subsidies for the purchase of handsets when there are contracts binding the customer to the company for at least 12 months and a penalty in the case of the early cancellation of the contract) are recognized in the statement of income and matched against the revenues over the period of the contract. The application of this method led to an improvement in EBITDA in the third quarter of 2006 equal to BRL 136 million, of which BRL 101 million relates to the first six months of the year.

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



- purchases of materials and external services of BRL 4,361 million increased by 10.2% compared to the first nine months of 2005 (BRL 3,959 million). Such purchases as a percentage of revenues are 57.4% (63.3% in the first nine months of 2005);
- personnel costs, equal to BRL 427 million, increased by BRL 72 million from the first nine months of 2005 (+20.3%). Personnel costs as a percentage of revenues are 5.6% (5.7% in the first nine months of 2005);
- other operating expenses amount to BRL 1,291 million (BRL 1,079 million in the first nine months of 2005) and include sundry expenses (BRL 941 million), principally made up of indirect taxes and duties, TLC operating fees, writedowns and bad debts expense (BRL 329 million) and other items (BRL 21 million).

Consolidated *EBIT* in the first nine months of 2006 is a negative BRL 128 million (a negative BRL 567 million in the first nine months of 2005). The improvement over the first nine months of 2005 came despite higher depreciation and amortization charges relating to investments in network infrastructures and information systems.

Organic growth is 77.9% compared to the first nine months of 2005. Such growth was mainly impacted by writedowns of fixed assets made by the company Maxitel, now named Tim Nordeste, in the first nine months of 2005.

In particular, EBIT was affected by amortization and depreciation charges of BRL 1,772 million (BRL 1,412 million in the first nine months of 2005).

Amortization and depreciation charges as a percentage of revenues are 23.3% (22.6% in the first nine months of 2005).

Consolidated *EBIT* in the third quarter of 2006 is a positive BRL 82 million (a positive BRL 195 million in the third quarter of 2005).

Capital expenditures amount to BRL 895 million (BRL 1,465 million in the first nine months of 2005), with a decrease of BRL 570 million as a result of the gradual completion of nationwide coverage.

■ INFORMATION ON OPERATIONS

The main operating highlights at September 30, 2006 compared to December 31, 2005 and September 30, 2005 are presented below:

Operating highlights	9/30/2006	12/31/2005	9/30/2005
Mobile lines (thousands)	24,085	20,171	18,340
Traffic managed (millions of minutes) (*)	16,978	18,290	12,909

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

MEDIA

- Improvement in revenues from the first nine months of 2005 (+12.4%)
- Higher audience share of La7 Free to Air (analog mode) which rose from 2.6% in the first nine months of 2005 to 3.0% in the same period of 2006, with an increase of 15.2%
- Sharp rise in gross advertising on La7 Free to Air which grew by 10.5% compared to the same period of 2005
- Increase in Digital Terrestrial TV revenues driven by growth of Pay-per-View: euro 15 million in the first nine months of 2006 (euro 5 million in the first nine months of 2005)

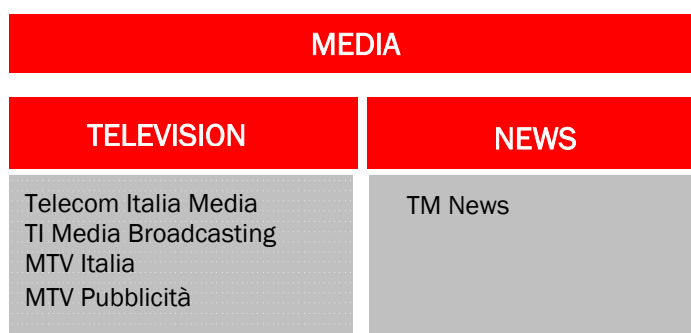
■ THE BUSINESS UNIT

The Media Business Unit operates in the following segments:

- Television: with La7 and MTV, both in the production and broadcasting of editorial content through the television broadcasting 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 (DTT);
- News: with TM News, a national news agency operating 24/7 under the APCom brand.

■ STRUCTURE

The Business Unit is organized as follows:



■ OPERATING AND FINANCIAL DATA

The following table shows the key results in the third quarter and in the first nine months of 2006 compared to the corresponding periods 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.

	3 rd Quarter 2006	3 rd Quarter 2005	9 months to 9/30/2006	9 months to 9/30/2005	Change %	
(millions of euro)	(a)	(b)	(c)	(d) (1)	(a/b)	(c/d)
Revenues	38	38	136	121	-	12.4
EBITDA	(19)	(20)	(71)	(71)	5.0	-
% of Revenues	(50.0)	(52.6)	(52.2)	(58.7)		
EBIT	(32)	(29)	(111)	(96)	(10.3)	(15.6)
% of Revenues	(84.2)	(76.3)	(81.6)	(79.3)		
Capital expenditures	6	10	65	32	(40.0)	°
Employees at period end (number)			962	886		8.6

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

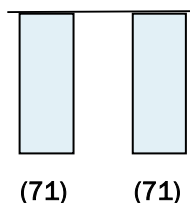
Revenues in the first nine months of 2006 total euro 136 million, with an increase of 12.4% compared to euro 121 million in the first nine months of 2005. This is proof of the affirmation of the editorial content of the broadcasting of the two channels and the positive start of the new Digital Terrestrial initiatives. Excluding the change in the scope of consolidation, organic growth is equal to 13.2% (+euro 16 million).

In particular:

- revenues in the first nine months of 2006 of the Free to Air analog and satellite business area amount to euro 115 million, an increase of 4.4%;
- revenues from Digital Terrestrial TV (mainly consisting of events using pay-per-view and smart cards) amount to euro 15 million, compared to euro 5 million in the first nine months of 2005;
- revenues from the News area amount to euro 7 million, an increase of 53.3% from the first nine months of 2005.

EBITDA

9 months to 9 months to
9/30/2005 9/30/2006



Revenues in the third quarter of 2006, equal to euro 38 million, are in line with the corresponding period of 2005.

EBITDA in the first nine months of 2006 is a negative euro 71 million, unchanged from the first nine months of 2005.

Organic growth, compared to the first nine months of 2005, is equal to 6.3% (+euro 4 million) and was calculated by excluding expenses of euro 5 million in the first nine months of 2006 relating mainly to penalties for the early cancellation of a sales contract and expenses regarding disputes with personnel.

In particular, operating profitability during the first nine months of 2006 shows an improvement in analog and satellite Free to Air broadcasting of euro 3 million, driven by the growth of national advertising (+7.4%). The improvement is also a reflection of La7's actions to concentrate its resources on adding more programs to its schedule with a higher audience/advertising return and MTV's actions of developing new multichannel/multiplatform strategies. Digital terrestrial TV, in the presence of an improvement in pay-per-view margins, which are still negative, reported higher operating costs associated with the start-up of the new "free" channels (e.g. La7 sport) on which advertising is still being built up since it is closely linked to the penetration of decoders and the consolidation of audience share.

Furthermore, in "other activities", there was a marked reduction in the costs of the Central Functions, with a positive impact of euro 7 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..

EBITDA in the third quarter of 2006 is a negative euro 19 million but records an improvement of 5% over the corresponding period of 2005, -euro 20 million, and also over the two previous quarters of 2006.

EBIT in the first nine months of 2006 is a negative euro 111 million. This is euro 15 million higher than the negative *EBIT* reported in the first nine months of 2005 due mainly to an increase in depreciation and amortization charges (euro 16 million) in the Television area as a result of investments made during the year 2005 following the acquisition of a new nationally-televised network. The organic change compared to the first nine months of 2005 is a negative 11.8% and was calculated by taking into account the items described above for EBITDA.

EBIT in the third quarter of 2006 is a negative euro 32 million. This is euro 3 million higher than in the corresponding period of 2005 as a result of the aforementioned increase in depreciation and amortization charges.

Capital expenditures amount to euro 65 million (euro 32 million in the first nine months of 2005) and mainly refer to investments in the Television area in connection with Digital Terrestrial Television (euro 44 million chiefly consisting of the acquisition of Indefeasible Rights of Use from Telecom Italia) and the acquisition of television rights (euro 17 million).

Employees at September 30, 2006 number 962 (886 at December 31, 2005) and include 69 persons with temp work contracts (49 at December 31, 2005). Compared to December 31, 2005, the total number of employees shows an overall increase of 76 due mainly to people hired in the Television area for new TV productions, the operation of the new satellite channels and pay-per-view services.

■ INFORMATION ON OPERATIONS

Of the main activities carried out during the third quarter of 2006 the following initiatives are mentioned:

DIGITAL TERRESTRIAL TELEVISION

With the new Serie A soccer championship, the number of Cartapiù teams has risen to 10, the same number as Mediaset. Customers can now purchase events through the remote control device (IPPV) which is regarded as being easier and more intuitive. At September 30, 2006 about 1 million cards were put into circulation and, since the new method of purchasing events started on July 25, 2006, about 85,000 top-ups have been sold.

On July 27, 2006, Telecom Italia Media and Mediaset signed an agreement for the reciprocal sale of rights to broadcast the soccer matches of the top teams of the respective bouquets on Digital Terrestrial Television for the next three championship series.

Thanks to the agreement, Telecom Italia Media will be able to broadcast the games of five of its teams (Fiorentina, Palermo, Cagliari, Sampdoria and Catania) when they play away games at the stadiums of the Mediaset teams and Mediaset will have the same rights for the away games of the Milan, Inter, Roma, Lazio and Torino teams. Furthermore, Mediaset will pay Telecom Italia Media the sum of euro 64 million, divided as follows: euro 12 million for the 2006-2007 season, euro 24 million for the 2007-08 season and euro 28 million for the 2008-2009 season.

Thanks to this agreement, Telecom Italia Media has enhanced the Digital Terrestrial offering of “La7 Cartapiù” by making the coverage of the entire championship of five of the top teams available to its customers.

In August 2006, Telecom Italia Media signed a contract with the Parent, Telecom Italia, to exclusively supply Telecom Italia with the audio-visual content of the home games of the “La7” teams, for which Telecom Italia Media has and/or will have the broadcasting rights using DVBT (Digital Video Broadcast Terrestrial) and DVB-H (Digital Video Broadcast Handheld) technology for the seasons 2006/2007 - 2009/2010, with the aim of allowing Telecom Italia to broadcast the above pay-TV content on TVphones.

For the 2006/2007 season, the contract calls for a fixed payment of euro 7 million whereas, for the subsequent seasons, variable amounts will be paid, to be calculated on the basis of the costs incurred by Telecom Italia Media for acquiring the above-mentioned rights.

On July 18, 2006, the European Investment Bank (EIB) approved a loan of euro 100 million for Telecom Italia Media’s investment program for the Digital Terrestrial network.

The program particularly refers to investments to be made in the three years 2005-2007 for a total cost of euro 280 million. The investments will be directed to an expansion of the transmission infrastructures for the development of digital TV throughout the national territory.

The European Investment Bank granted the loan in view of the strong innovative content of the proposed investments, which also met with a positive opinion from the European Commission. The loan has a term of eight years at one of the best interest rates offered by the market. This is the first loan granted by the European Investment Bank in the Media sector in Italy.

The Parent, Telecom Italia, and EIB are currently working out the conditions and timing of the loan.

La7

During the period of July and August 2006, the average audience share reached 3.2% with an average growth of 16% compared to 2005, and an increase of 26% for Daytime TV. One of the most important gains is in early morning TV viewing where the audience share of Omnibus Estate (4.6% summer average) grew by 56% compared to the same period of 2005. Good results in terms of audience share were achieved by news programs and by the TV series “*Alla conquista del West*”, “*Jarod*”, “*The Agency*” and “*Star Trek*”.

September closed with an audience share of 3%, +8% compared to September 2005. Worthy of note is Prime Time TV (20.30-24.00) with an audience share of 2.8%, up 20% over the prior year.

In the new program schedule for autumn 2006, there are important new features in the channel’s two key sectors, namely News and Sport. In fact, September 18, 2006 saw the start of the new in-depth sports show “*Le partite non finiscono mai*” hosted by

the experienced sports journalist Darwin Pastorin, the network's Sports Director. Other programs with in-depth reporting include the return, on September 11, 2006, of "Omnibus", the morning program presented by Antonello Piroso which recorded a high audience share, and, starting on September 26, 2006, the program "Otto e Mezzo", once again bringing together the duo of Giuliano Ferrara and Ritanna Armeni as hosts.

MTV

MTV Italia's autumn season opened with a music week and culminated in the MTV Day broadcast live from Bologna on September 16, 2006, with ten hours of uninterrupted live music focusing on the theme "the superpower of music".

The autumn program schedule, therefore, concentrates on its music positioning with the launch of two new programs: Our Noise, MTV 10 of the Best and Download Chart, the new chart based on the most popular tracks downloaded from the Internet. TRL returns to Milan with Alessandro Cattelan and musical scrutiny continues with the new series A Night With and Brand:new. The last survey, conducted by Makno & Consulting's Television System Observatory, confirms the healthy status of the network, which is consolidating its rapport with the public: 8,850,000 daily contacts, an increase of 5% compared to May 2005, and 15.8 million weekly contacts (+3% compared to May 2005).

OLIVETTI

- Updates and changes in the offerings continue and the restructuring and rationalization at the product level is nearing completion

■ THE BUSINESS UNIT

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

■ STRUCTURE

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



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

■ OPERATING AND FINANCIAL DATA

The following table shows the key results in the third quarter and in the first nine months of 2006 compared to the corresponding periods of 2005.

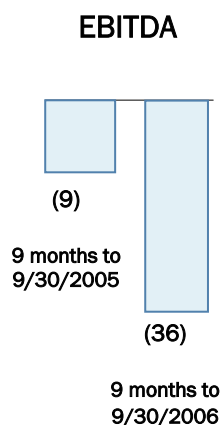
(millions of euro)	3 rd Quarter 2006	3 rd Quarter 2005	9 months to 9/30/2006	9 months to 9/30/2005	Change %	
	(a)	(b)	(c)	(d) (1)	(a/b)	(c/d)
Revenues	86	87	298	310	(1,1)	(3.9)
EBITDA	(10)	(11)	(36)	(9)	9.1	°
% of Revenues	(11,6)	(12,6)	(12,1)	(2,9)		
EBIT	(14)	(15)	(49)	(21)	6.7	°
% of Revenues	(16,3)	(17,2)	(16,4)	(6,8)		
Capital expenditures	1	5	6	13	(80.0)	(53.8)
Employees at period-end (number)			1,533	1,750		(12.4)

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

Revenues in the first nine months of 2006 amount to euro 298 million, including euro 26 million relating to R&D projects commissioned by Telecom Italia S.p.A..

Compared to the same period of 2005, revenues show a reduction of euro 12 million (-3.9%). Excluding the effects of the change in the scope of consolidation for a total of -euro 4 million, the reduction is euro 8 million and is especially due to the decrease in the revenues of traditional Ink-jet products and products for Gaming, which were only partly compensated by higher revenues for new Ink-jet products, specialized printers and Office products, launched on the market during the last months of 2005,.

Revenues in the third quarter of 2006 amount to euro 86 million and are basically in line with revenues in the third quarter of 2005.



EBITDA in the first nine months of 2006 is a negative euro 36 million. This is euro 27 million higher than the negative *EBITDA* reported in the first nine months of 2005. The organic change, compared to the first nine months of 2005, is a negative euro 18 million and was calculated by taking into account expenses of euro 10 million in the first nine months of 2006, relating to restructuring costs and production reconversions, and expenses of euro 1 million in the same period of 2005.

The difference is due to lower margins on traditional Ink-jet products and products for Gaming as well as the sales push aimed at new Ink-jet products to replace existing installed products.

EBITDA in the third quarter of 2006 is a negative euro 10 million and is basically the same as in the third quarter of 2005.

EBIT in the first nine months of 2006 is a negative euro 49 million. This is euro 28 million higher than the negative *EBIT* in the first nine months of 2005. The organic change is a negative euro 20 million and was calculated by taking into account the items described above for *EBITDA*.

The negative change can be ascribed to the decrease in the margins of the above Ink-jet and Gaming products.

EBIT in the third quarter of 2006 is a negative euro 14 million and is basically the same as in the third quarter of 2005.

Capital expenditures amount to euro 6 million in the first nine months of 2006 and decreased by euro 7 million compared to the same period of 2005, which had included capital expenditures for the launch of the new technological platform for Ink-jet products.

Employees at September 30, 2006 number 1,533, of whom 1,376 are in Italy and 157 abroad. The figure does not include persons with temp contracts (there were 7 at December 31, 2005). The reduction of 217 persons, compared to December 31, 2005, is mainly attributable to the termination of employment (169) and the exclusion of Wirelab from the scope of consolidation (54).

■ EVENTS SUBSEQUENT TO SEPTEMBER 30, 2006

On October 7, 2006, the company Olivetti Tecnost H.K. Ltd. – in liquidation – was wound up and cancelled from the Hong Kong register of companies.

On October 20, 2006, the company Olivetti Tecnost Nederland B.V. was put into a wind-up.

■ INFORMATION ON OPERATIONS

The main activities carried out during the third quarter of 2006 are the following.

BUSINESS & MARKET DEVELOPMENT

During the third quarter of 2006, activities to market and expand the new line of Ink-jet technology products (multifunctional printers and portable photo-printers) continued and new entry-level products were presented along with others with Wi-Fi functions.

During the quarter, there was a contraction in sales of Ink-jet fax machines on the European market which sparked off fiercer competition in terms of prices. Consumption of fax accessories continues to report a significant decrease in volumes, the consequence of a trend begun in 2005 and confirmed in the following months of 2006, owing to a stronger presence in the consumer area than in the business area.

Sales of the other product lines, photocopiers and office products based on laser technology, printers for banks and the retail market, were higher than in the same period of 2005 because of greater integration among sales channels as a result of the new organization which brought the entire product portfolio offering to every customer.

During the third quarter, in the Very Large Accounts channel, the offering was expanded by participating in important bids for multi-year contracts for complete ticketing services and network printing/copying systems with customers like Poste Italiane, Ferrovie (the Italian railway operator) and Italian banks (in July 2006, Olivetti won a bid for printing and copying services with Poste Italiane worth euro 13 million over three years).

PRODUCT/TECHNOLOGY DEVELOPMENT & INDUSTRIAL OPERATION

The main activities in the third quarter of 2006 in the “consumer” Ink-jet technology segment were as follows:

- restyling of the range of multifunctional products launched in 2005 and the extension of the range with the introduction of a fax model (with printer, photocopier, scanner and fax functions);
- introduction of a new multifunctional ‘entry-level’ product;
- development of a new platform of multifunctional products and associated high-performance printheads, scheduled to become available in the first half of 2007;
- in the ‘banking’ and ‘shop automation’ segment, activities continued in order to update and develop specialized printers and to develop a fiscal cash register based on Ink-jet technology. The range of conventional fiscal cash registers was also expanded.

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

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 charge at the Group level, and the Service Units, which have the task of ensuring that the common operational activities servicing the business are carried out.

Central functions – Details of Operating Costs

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

The table excludes the effects of certain expenses (such as, for example, the OTE closing and the Opportunity settlement which both took place in the first half of 2005) in order to present a more meaningful and comparative representation of the operating trend of the Central Functions.

OPERATING COSTS

(millions of euro)	9 months to 9/30/2006	9 months to 9/30/2005 Proforma	Change	
			amount	%
Group functions (*)	(357)	(388)	31	(8.0)
Service Units (*)	(857)	(884)	27	(3.1)
Eliminations	51	50	1	2.0
TOTAL CENTRAL FUNCTIONS	(1,163)	(1,222)	59	(4.8)

(*) See the tables on the following page.

Operating costs show a reduction of euro 59 million mainly as a result of the decrease in professional fees, consulting fees, other outside costs and also labor costs also as a result of the transactions for the sales of Telecom Italia Learning Services and Eustema.

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

■ GROUP FUNCTIONS

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

OPERATING COSTS

(millions of euro)	9 months to 9/30/2006	9 months to 9/30/2005 Proforma	Change	
			amount	%
Staff functions	(309)	(319)	10	(3.1)
Group Communication	(35)	(39)	4	(10.3)
Corporate LATAM + TI International	(13)	(30)	17	(56.7)
Group Functions	(357)	(388)	31	(8.0)

Compared to the same period of 2005, the costs decreased by euro 31 million as a result of the reduction in professional fees, consulting fees, other outside costs and also labor costs also as a result of the transactions for the sales of Telecom Italia Learning Services and Eustema.

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

■ SERVICE UNITS

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

OPERATING COSTS

(millions of euro)	9 months to 9/30/2006	9 months to 9/30/2005 Proforma	Change	
			amount	%
Real Estate Activities and Services	(716)	(714)	(2)	0.3
CSA	(35)	(40)	5	(12.5)
Security	(36)	(44)	8	(18.2)
Purchasing	(27)	(24)	(3)	12.5
Welfare	(19)	(18)	(1)	5.6
Other & Eliminations (1)	(24)	(44)	20	(45.5)
Service Units	(857)	(884)	27	(3.1)

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

Costs decreased by euro 27 million. Efficiencies and savings in building management, CSA and Security more than proportionally compensated the effects of inflation on property leases and the significant increase in the prices of fuel and electrical energy.

REAL ESTATE ACTIVITIES AND SERVICES

Tiglio Project (Real Estate Funds)

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

Consistent with the progress made on the project, during the above period the companies Tiglio I and Tiglio II effected certain transactions involving their capital and thus optimized their equity and financial structure.

Specifically:

- Tiglio I approved a distribution of capital (paid-in-capital) for euro 5 million to Telecom Italia, received in October 2006.
- In March 2006, Tiglio II approved a reduction in share capital by a reimbursement to the shareholders and which, for Telecom Italia, will amount to euro 4 million when paid in the last quarter of 2006.

Considering the amount already distributed to the Telecom Italia Group in the first half of 2006 in terms of capital and dividends, the two companies have distributed to the Group a total of euro 37 million (of which euro 28 million has already been received) up to September 30, 2006. In addition, in March 2006, the Telecom Italia Group received euro 3 million for its share of the dividends declared by Tiglio II in 2005 that had not yet been paid.

■ INTERNATIONAL HOLDINGS

Entel Bolivia Group

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

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

At September 30, 2006, land lines number approximately 73,000, representing an increase of 28.1% compared to December 31, 2005 (57,000).

During the third quarter of 2006, there were no changes in the rate structure of the fixed telephone business. Action was mainly concentrated in the commercial sphere to consolidate the “Aquí Entel” (public service) initiative. This initiative recorded growth in terms of lines equal to approximately 50% compared to December 2005 (19,957 lines at September 30, 2006 against 12,383 at the end of 2005) and an increase in revenues due to higher traffic volumes. At the same time, there were promotions geared to increasing international long-distance traffic, which totally compensated the losses reported in the same segment during the first six months of the year.

The number of mobile lines, approximately 1,346,000 at September 30, 2006, decreased by 101,000 compared to December 31, 2005 as the result of competition.

In fact, in the mobile telephone business, the third-quarter results were again affected by fierce competition, particularly for GSM technology from the operator Telecel (with the Tigo brand). The Telecel offering, which included subsidies for acquiring handsets and the possibility of operating above 850 MHz, together with the offering of another operator, Nuevatel, caused a loss of market share, especially in Santa Cruz, in the industrial east of the country, of approximately 10 percentage points since December 2005 (falling from 60% to 50.2%). To combat the competition, Entel has responded by launching new rate plans in September 2006, with the aim of increasing the clientele and on-Net traffic (with consequent savings in terms of interconnection costs).

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

Telecom Argentina Group

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

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

Land lines in service (also including installed public telephones) are about 4,055,000 at September 30, 2006, an increase of 2.7% compared to December 31, 2005.

During the third quarter, considerable growth was again recorded for broadband by Telecom Argentina, which now has about 367,000 customers for an increase of 66% compared to December 31, 2005.

In the mobile business, the customer base increased by 26.8% compared to December 31, 2005, reaching approximately 8,624,000 customers (of which 11% are in Paraguay). The number of post-paid customers increased by 25.6% compared to December 31, 2005 and represents 32.5% of the total customer base (compared to 32.8% at the end of 2005). Customers who use GSM services reached 82.6% of the total customer base.

Brasil Telecom Group

Agreement for the transfer of the investment held by Telecom Italia International in Solpart to a Trust

On October 9, 2006, before the expiry of the date (October 28, 2006) set by ANATEL (the Brazilian telecommunications regulatory authority) to resolve the overlap of the long-distance and SMP licenses between the Brasil Telecom group and the TIM group in Brazil, Telecom Italia International N.V. ("TII") signed an agreement with Credit Suisse Securities (Europe) Limited ("CSFB") to set up a trust under British law (Trust Deed). The agreement, in short, provides for: the conferral to the trust of a new company established under Italian law, Brasilco S.r.l. and (ii) the transfer of the investment held by TII in Solpart to Brasilco for a price of USD 410 million, after authorization is received from Anatel. CSFB, which will act as the trustee, will manage the investment for the purpose of selling it to third parties with the assistance of JP Morgan, which, on September 29, 2006, was engaged by Telecom Italia as a consultant in the sale of the investment in Solpart to third parties.

After the above transfer, TII will cede ownership of the Solpart shares and relative governance rights but, as the sole beneficiary of the trust, will continue to receive any earnings from the investment in Solpart, including the price of its future sale to third parties.

On October 18, 2006, Anatel approved the transfer of the investment held by TII in Solpart to Brasilco and confirmed that, as a result of the finalization of that transfer, the question concerning the overlapping of the mobile and long-distance licenses between the Brasil Telecom group and the TIM group in Brazil can be considered resolved, thus averting the possible application of sanctions by Anatel to the two operators. The execution of the transaction took place on October 27, 2006.

AVEA ILETISIM HIZMETLERI A.S.

On July 14, 2006, the contracts were signed for the sale of the investment held by Tim International in Avea (equal to 40.56% of capital) to Turk Telekom for consideration of USD 500 million.

This sale constituted one of the assumptions established in the July 2005 contracts between Telecom Italia and Saudi Oger.

Execution of the sale was finalized on September 15, 2006 after the necessary authorizations were received from the competent Turkish authorities.

As a result of closing the deal, Tim International was released from the guarantees it had provided on the loans made to AVEA, up to an amount of USD 150 million, and, in accordance with the agreements signed last July with Saudi Oger, has reinvested a part of the price received on the sale (USD 250 million) in the share capital of Oger Telecom – the controlling holding company of Turk Telekom. After which, Tim International has a 13.17% stake in Oger Telecom (at the date of September 30, 2006).

Moreover, Tim International must also disburse a subordinated loan of up to USD 150 million to Avea, earning interest at market rates, on condition that Avea manages to obtain a structured loan within one year of the closing date of the transaction.

Under the framework of the above transactions for the sale of Avea, TIM International renegotiated its partnership with Saudi Oger in a new Shareholders' Agreement which guarantees TIM International a greater participation in the governance of Oger Telecom, thus strengthening the Group's protection of its investment in Oger Telecom.

OTHER INFORMATION

■ DISPUTES, LITIGATIONS AND LEGAL PROCEEDINGS PENDING

The following is a summary update of the main proceedings involving the Telecom Italia Group compared to the situation disclosed in the 2005 Annual Report and in the 2006 Half-Yearly Report. Except where specifically indicated, no provisions have been made to the reserves for future risks and charges because of the absence of defined and objective elements and/or because a negative outcome to the litigation is not considered probable.

FASTWEB

In an order filed on September 21, 2006, the Milan Court of Appeal dismissed the appeal by Telecom Italia from the unfavourable ruling of the lower court on the urgent petition submitted on March 13, 2006 against Fastweb concerning inverse interconnection.

Telecom Italia had accused Fastweb of abusing its dominant position in the market for the supply of wholesale termination services for calls on its fixed telephony network, thereby altering the competitive conditions in the retail market for voice telephony services by imposing excessive and unfair prices on other operators (including Telecom Italia) in order to earn excess profits with which to illegitimately subsidize its offers to private and public final customers.

In dismissing the case, the Court of Appeal noted that the pricing policy for inverse termination followed by Fastweb (until the price was fixed by the Communications Regulatory Authority in Resolution 417/06/CONS of August 2006) could be considered as providing support for the arguments put forward by Telecom Italia. But the fact that the complaint referred to conduct on the part of Fastweb that had already ceased meant the latter was of importance only for an eventual action for damages brought by Telecom Italia, whereas it excluded any possibility of adoption of the urgent measures requested by Telecom Italia.

In the wake of the decision on Antitrust case A-351 and the ruling of the Council of State condemning Telecom Italia to pay a fine of euro 115 million for anticompetitive conduct in the Consip 2002 competitive tender and on the occasion of offers of integrated services to business customers, on November 3, 2006 Telecom Italia was notified of an action for damages brought by Fastweb. The first hearing is scheduled for February 2007.

More specifically, Fastweb has asked that Telecom Italia be condemned to pay euro 552 million or such other amount as will be proved during the trial or set by the judge according to equity to make good the losses allegedly caused by the transgressions already punished by the Antitrust Authority.

Telecom Italia intends to defend the case.

It should be noted immediately, without diminishing the need for a thorough analysis of the citation, that court decisions concerning the award of damages for abuse of dominant position have adopted very restrictive criteria, both as regards proof of the losses and the causal link between such losses and the abusive conduct punished by the Antitrust Authority and as regards quantification.

DISPUTE BETWEEN TELECOM ITALIA AND WIND CONCERNING INVERSE TERMINATION

In September 2006 a settlement was reached covering the disputes pending between Telecom Italia and Wind on the termination value of the calls delivered by Telecom Italia to Wind's fixed network in the period from January 1, 2004 to July 31, 2006.

LEVY UNDER ARTICLE 20.2 OF LAW 448/1998

As is well known, in a decision published on July 10, 2006 the Lazio Administrative Court upheld the compliance petition submitted by Telecom Italia and ordered the Ministry for the Economy and Finance and the Ministry for Communications to implement the decisions published in January 2005, in which the administrative court, annulling the decree of the Minister of Communications, had upheld the appeals filed by Tim and Telecom Italia and ascertained the obligation for the government to return the amount paid as a levy for 1999 under Article 20.2 of Law 448/1998 and the related interest (respectively euro 546 million and euro 95 million as of June 30, 2006).

On September 27, 2006, on behalf of the Ministries referred to above, the Avvocatura Generale dello Stato notified an appeal to the Council of State for the suspension and annulment of the administrative court's ruling.

On November 7, 2006 the Council of State dismissed the request for a suspension, arguing that "as matters stand, the appeal does not present sufficient grounds".

JUDGMENT OF THE LAZIO REGIONAL ADMINISTRATIVE COURT CONCERNING THE "ALICE 2' MEGA" OFFER

On November 2, 2006 the Lazio Regional Administrative Court published its judgment in favour of the petition submitted by the Associazione Italiana Internet Provider to suspend and annul the decision of the Communications Regulatory Authority authorizing Telecom Italia's offer of access to broadband services up to 20 Mbit/sec based on ADSL technology ("Alice 20 Mega"), associated with a wholesale offer based on Managed IP solutions.

Telecom Italia is preparing its appeal to the Council of State with a petition to suspend the ruling.

It should be noted that the ruling does not concern xDSL platform services with a broadband capacity of up to 20 Mbit/sec that were notified to the Communications Regulatory Authority subsequently and were therefore not covered by the authorization decision of April 2006 (e.g. all the 20 Mbit/sec offers based on ATM solutions).

ACTIONS BROUGHT AGAINST OTHER OPERATORS FOR UNFAIR COMPETITION AND VIOLATION OF PRIVACY

On October 16, 2006 Telecom Italia submitted an urgent petition to the Rome court, accusing Fastweb S.p.A., Wind S.p.A. and Tele2 S.p.A. of unfair competition. In particular it applied for the judge to declare that the three companies' telemarketing policies, based on indiscriminate telephone calls to Telecom Italia customers who had not consented to such contacts, violated competition rules.

The circumstances that led to the above-mentioned cases being brought have also been reported to the Personal Data Protection Commissioner.

VODAFONE

On October 31, 2006 Telecom Italia filed an urgent petition with the Rome court against Vodafone requesting a precautionary interdiction on action aimed at promoting, advertising or marketing, including preselling, the "Vodafone Casa Numero Fisso" offer, a new service that would permit the use of fixed telephony services by means of a mobile platform by associating with SIM cards a fixed network number in addition to a normal mobile number.

In Telecom Italia's opinion several aspects of this service breach the current regulatory framework and they have also been reported to the Communications Regulatory Authority and the Ministry of Communications, with a request for a pronouncement on the proper use by

Vodafone of fixed network numbers and the frequencies assigned for public mobile telephony services. In a brief submitted on November 9, in response to the urgent petition referred to above, Vodafone submitted a counter-request for Telecom Italia to be obligated to provide it with inverse interconnection (the remedy sought is basically the same as that of the petition it had already submitted to the Milan court on November 2, 2006, as reported below).

In fact, Telecom Italia, in order to avoid violating the regulatory framework as a consequence of Vodafone's illegal mingling of services provided by fixed and mobile platforms, informed that company of its intention to suspend the negotiations for an inverse interconnection contract. Vodafone had sought to conclude such a contract – normally concerned with fixed network services – with Telecom Italia in order to use it improperly in relation to a mobile network and to launch its “Vodafone Casa Numero Fisso” service. When it suspended the negotiations to protect itself, Telecom Italia immediately passed the question to the Communications Regulatory Authority by submitting a petition aimed at settling the dispute that had arisen by invoking Article 23 of the Electronic Communications Code.

As regards the suspension of the negotiations for an inverse interconnection contract and the launch of the above-mentioned “Vodafone Casa Numero Fisso” service, on November 2, 2006 Vodafone brought a civil action before the Milan court, with the first hearing scheduled in February 2007, in order: (i) to ascertain Telecom Italia's alleged violation of the obligation to negotiate an interconnection contract; (ii) to establish that such refusal amounted to unfair competition; and (iii) to establish that the marketing offer known as “Vodafone Casa Numero Fisso” and the related campaign for the launch of the service do not violate the applicable legislative provisions concerning electronic communications and do not constitute unfair competition.

Vodafone also asked the judge to order the immediate supply of the interconnection service and for Telecom Italia to be condemned to pay damages in an amount to be established during the trial.

ETECSA

As regards the dispute between ETECSA and BancoMext described in the 2005 Annual Report, the first hearing of ETECSA's appeal against the November 2005 judgment of the Turin court has been scheduled for December 2006.

In light of the above-mentioned decision and a subsequent attachment order notified to ETECSA in July, in the same month Bancomext initiated additional enforcement proceedings against Telecom Italia, Telecom Italia Sparkle and Wind. ETECSA submitted a challenge that on August 10, 2006 was dismissed by the Milan court, which assigned to BancoMext the sum of euro 2,814,013 payable by Telecom Italia to ETECSA. This sum was accordingly paid to BancoMext in September 2006.

In October, at BancoMext's request, the High Court of Justice Queen's Bench Division in London enforced the judgment of the Turin Court referred to above by issuing an attachment order covering all ETECSA's assets and claims in England and Wales up to £100,320,549.01. ETECSA was also enjoined not to dispose of any other assets or claims, wherever located, up to the same amount pending the hearing to be held in November.

OTHER CONTINGENT LIABILITIES

As part of the major company disposals made in prior years and up to September 30, 2006, the Telecom Italia Group undertook to indemnify the buyers in the event of the companies incurring certain liabilities, normally up to a percentage of the purchase price. The amounts in question mainly refer to contingent liabilities arising from guarantees contained in the contracts and problems in the legal, tax, social security and labour law fields.

At September 30, 2006 these potential obligations amounted to approximately euro 700 million. The Telecom Italia Group also undertook to indemnify buyers in other cases for which no maximum amount was fixed, so that it is not possible to estimate the contingent liability.

■ REGULATORY FRAMEWORK

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

There follows a short summary of the main legislative acts/regulatory standards adopted in the third quarter of 2006.

2006 Offering

With Resolution No. 19/06/CIR of May 30, 2006, but published in the *Gazzetta Ufficiale* on July 3, 2006, the National Regulatory Authority (NRA) approved, with amendments, the economic conditions of the Telecom Italia offering for the year 2006, with regard to the services included in the network cap baskets.

VAT on public telephone traffic

Legislative Decree No. 223 of July 4, 2006, which was converted into law, with amendments, by article 1 of Law No. 248 of August 4, 2006 established that the amount of VAT applied to telephone services provided through public telephone points and telephones for the use of the public will be changed from the lower subsidized 10% VAT rate to the ordinary 20% VAT rate.

Quality and services cards for Internet access from fixed points

With Resolution No. 131/06/CSP of July 12, 2006, the NRA approved a directive concerning quality and services cards for Internet access from fixed points, in compliance with article 1, subsection 6, letter b), point 2, of Law No. 249 of July 31, 1997. The directive identifies general quality indicators, criteria for measuring them and ways of publishing the corresponding annual objectives and the results achieved, with the aim of ensuring that the final users have access to comparable, adequate, up-to-date information.

Prices of calls to subscriber information services from mobile networks

With Resolution No. 504/06/CONS of September 7, 2006, the NRA approved urgent measures to fix the prices of the service for calls from mobile networks to non-geographical numbers with regard to subscriber information. A ceiling was established for the prices charged for voice calls on the networks of the mobile operators Telecom Italia, Vodafone, Wind and H3G, which must not be higher than the current value of the corresponding termination rate, increased by a maximum of 100% for services which are different from and accessory to the simple origination service. This is a precautionary measure which will expire on February 28, 2007, since an analysis of the corresponding market 15 bis is in progress, which began as a result of the NRA Resolution No. 162/06/CONS of March 22, 2006.

Sanctions

Legislative Decree No. 262 of October 3, 2006, article 34 concerns a change to article 98 of the Electronic Communications Code with regard to sanctions. In particular, on average, the amount of the sanctions are multiplied tenfold and the change provides for the elimination of the payment of a reduced amount (so-called oblation) for sanctions imposed by the NRA.

Market analyses relating to electronic communications

In compliance with EC Recommendation No. 2003/497 and the Electronic Communications Code (Legislative Decree No. 259 of August 1, 2003), with Resolution No. 118/04/CONS of May 19 2004, NRA has initiated preliminary proceedings with regard to the analysis of the 18 markets mentioned in the above-mentioned EC Recommendation and in articles 18 and 19 of the above-mentioned Code. The proceedings concern “the activity of market analysis, evaluation of competition, identification of any dominant operators and the formulation of a proposal for the revocation, maintenance or modification of existing obligations, or the introduction of new obligations”.

NRA has published the final measures on the following markets:

- Resolution No. 417/06/CONS of June 28, 2006 and published in the *Gazzetta Ufficiale* on September 7, 2006 concerning markets which collect, terminate and transit calls in the fixed public telephone network, evaluation of the existence of significant market power regarding the companies which operate in those markets and the regulatory obligations to which the companies with such power are subject (markets Nos. 8, 9 and 10 of those identified in the European Commission Recommendation on significant markets of products and services);
- Resolution No. 380/06/CONS of June 14, 2006 and published in the *Gazzetta Ufficiale* on July 5, 2006, concerning the market of international telephone services available to the public and provided at fixed points, for residential and non-residential customers (markets Nos. 4 and 6 of those identified in the European Commission Recommendation No. 2003/311/CE).
- Resolution No. 381/06/CONS of June 14, 2006 and published in the *Gazzetta Ufficiale* on July 5, 2006, concerning the national wholesale market for international roaming services for mobile public telephone networks (market No. 17 of the European Commission Recommendation No. 2003/311/CE).

■ RESEARCH, DEVELOPMENT AND INNOVATION

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

For this reason, for the Telecom Italia Group, technological innovation constitutes an essential and distinguishing factor through which to develop its competitive advantage and maintain its leadership in a market with escalating levels of competition.

Over the years, the Group's gradual accumulation of technological and innovative experience has enabled it to design, develop and adopt cutting-edge solutions for networks, terminals and services which the Group has also been able to exploit in the countries where it operates.

Work on technological innovation is conducted not only by the TILab - Innovation, Engineering & Testing function under Operations – where activities and expertise relating to basic research, the evaluation of emergent technologies and in-house development are concentrated – but also by the Operating and Business Units (Network, Market, Information Technology, Web & Media and Security) and by Olivetti.

What's more, the technological innovation of the Telecom Italia Group is the result of strategic partnerships with leading producers of equipment and telecommunications systems and with the top research centers of the most highly qualified academic institutions, both in Italy and abroad.

Technological innovation activities range from the revision of basic technologies with the aim of improving efficiency in the running of networks and systems, to complex, radical revisions of platforms, services and architectures. The work of the Operating Functions of the Business Units in the field is, therefore, vital for ensuring that new services meet customers' requirements and ensure continuous improvement in quality levels.

During the first nine months of 2006, the Telecom Italia Group's investments in innovation in tangible and intangible assets amounted to a total of approximately euro 2,200 million. Group employees devoted to these and research activities number approximately 6,100, representing an overall commitment of approximately euro 390 million (of which about euro 98 million is already included under investments).

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

TILab - Innovation, Engineering & Testing

"TILab – Innovation, Engineering & Testing", a function of the Technology area under Operations, operates as a center of competence for the research, development and testing activities of the Telecom Italia Group, catalyzing technological innovation, in support of functions in charge of business development for the Group. It also operates externally as a center of excellence in the telecommunications sector. Consistent with its mandate, its technical experts therefore operate to develop innovation engineering and testing, to make it rapidly and economically accessible to the Group's customers.

In its laboratories, innovative products and systems are conceived, designed and tested, analyzing the fixed and mobile access networks, working to develop the transport network, and developing services and platforms. All this involves a careful analysis of the requirements of the final customers as well as the needs of the companies which see the telecommunications network as the key to the future which will enable them to compete on the market worldwide.

Constant attention to generating a competitive advantage and creating value for the Telecom Italia Group is also pursued through the strategic management of the relationships between research, Intellectual Property Right (IPR) and business with the aim of augmenting the number of patents. In this context, placing, compared to the past, greater attention on the quality of the patents rather than on their number, in the third quarter of 2006, 11 new patents were filed which, in addition to the 18 patents filed in the first half of 2006, bring the number of patents filed in the first 9 months of 2006 to 29 (compared to 39 in the first 9 months of 2005), including the number deriving from innovation activities relating to operations and security systems.

As in the past, the main results achieved by Telecom Italia Lab during the third quarter of 2006, as described below, were in line with the strategy of pursuing innovation which will lead to more effective operations and open up prospects of new services.

Accordingly, within the sphere of the **evolution of Network Architectures** towards the Next Generation Network-2/NGN2, a technological trial was initiated to test an access network with speeds of up to 50 Mb/s (VDSL2 technique), suitable for supplying High Definition TV services (HDTV). The trial will form the basis for the next phase of field testing at Telecom Italia stores, where the HDTV service on the telephone network will be demonstrated to customers.

With reference to the **new Network/Platform infrastructures** the following achievements are worthy of mention:

- the start of deployment of the Core Network installation to create the seamless 2G-3G network, with the aim of keeping the network capacity unaltered as users change from 2G to 3G;
- demonstrations of statistical locating solutions, applied to infomobility in the cities (Venice Biennale – Telecom Italia/MIT pavilion);
- laboratory demonstration of fixed-mobile video solutions (turbo-call), between a user with a mobile phone and another user with a Personal Computer.

The contribution of TILab's **Engineering & Testing** components to the launch of **new services/terminals**, and to the extension of existing services and terminals was as follows:

- the ADSL 2+ offering for the residential and business clientele, launched during the last few months, which achieved coverage of 520 towns;
- extension to 242 towns of the availability of the Alice Home TV service;
- coverage on 3,528 sites of the hi-speed data service on mobile terminals (HSDPA);
- start of marketing of the “Unico” service (fixed-mobile convergence with integrated Wi-Fi/GSM terminals);
- commercial launch of the video-communication service, following the completion of activities to prepare the network side and certification of the terminal and the client (*Telefono di Alice*);
- completion of certification of the new product Aladino VoIP (DECT cordless, the base of which can be connected to the ADSL modem) which will enable customers to install the *Alice Voce* service themselves;
- development and start of testing for the launch of the Instant Messaging service on the Microsoft platform (fixed side) and Follow-up platform (mobile side);
- experimental start-up of television service on mobile terminals, known as DVB-H (Digital Video Broadcast-Handheld).

Finally, within the sphere of **innovation for new services/terminals**, the first phase of testing of m-commerce and m-ticketing began using a mobile phone with ZSIM (Zigbee enabled SIM). In

particular, cooperation was begun with Olivetti which will lead to a new generation of Zigbee enabled products and to testing nationwide during 2007.

Olivetti Business Unit

The Olivetti Business Unit devotes considerable resources to the technological R&D sector. It employs about 250 employees in its research centers in Italy and abroad, that is, 17% of its total work force.

In particular, ink-jet technology, which Olivetti is the only European company to own, together with five others in the world, was conceived and developed in the facility at Arnad (Aosta), where more than 200 employees are employed in the whole production cycle of thermal ink-jet technology. During the first six months of 2006, Olivetti's research centers were heavily involved in developing multi-functional printers which were launched in 2005.