Telecom Italia S.p.A.

First quarter 2007 Report

Contents

Corporate Boards

Board of Directors at March 31, 2007

Chairman	Guido Rossi (Executive)
Deputy Chairman	Gilberto Benetton
Executive Deputy Chairman	Carlo Orazio Buora (Executive Director)
Chief Executive Officer	Riccardo Ruggiero (Executive Director)
Directors	Paolo Baratta (Independent) Diana Bracco (Independent) John Robert Sotheby Boas (Independent) Domenico De Sole (Independent) Francesco Denozza (Independent Luigi Fausti (Independent) Guido Ferrarini (Independent) Jean Paul Fitoussi (Independent) Vittorio Merloni (Independent) Gianni Mion Massimo Moratti Marco Onado (Independent) Renato Pagliaro Pasquale Pistorio (Independent) Carlo Alessandro Puri Negri Luigi Roth (Independent)
Secretary to the Board	Francesco Chiappetta
Remuneration Committee	Luigi Fausti (Chairman) Paolo Baratta Pasquale Pistorio
Committee for Internal Control and Corporate Governance	Guido Ferrarini (Chairman) Domenico De Sole Francesco Denozza Marco Onado
Strategies Committee	Guido Rossi Carlo Orazio Buora Domenico De Sole Marco Onado Pasquale Pistorio

On April 6, 2007, Guido Rossi, tendered his resignation from the post of chairman and from the board of directors of Telecom Italia S.p.A..
The ordinary shareholders meeting held on April 16, 2007 replaced the board of directors, establishing 19 members and setting the expiry of the term of office as one year, that is, up to the date of shareholders' meeting called to approve the financial statements for the year ended December 31, 2007.
On April 17, 2007, the new board of directors of Telecom Italia elected Pasquale Pistorio as chairman and confirmed Carlo Buora as executive deputy chairman and Riccardo Ruggiero as CEO.
Accordingly, the board of directors of the Company is composed of the following:

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

Board of Statutory Auditors at March 31, 2007

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

The board of statutory auditors was elected by the shareholders' meeting held on April 13, 2006. On October 20, 2006, the statutory auditor, Stefano Meroi, from the minority slate, tendered his resignation. As established in the bylaws, the alternative auditor indicated by that slate, Enrico Maria Bignami, took over his post.

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

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

Common representatives

– Savings shareholders — Carlo Pasteris
Appointed for a three-year period by the special shareholders' meeting held on October 26, 2004.

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

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

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

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

Independent Auditors

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

Key managers at March 31, 2007

At March 31, 2007, the "key managers", that is, those who have the power and responsibility, directly or indirectly, for the planning, direction and control of the operations of Telecom Italia, including the directors, are the following:

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

(*) Executive Officers from February 16, 2007

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Committees

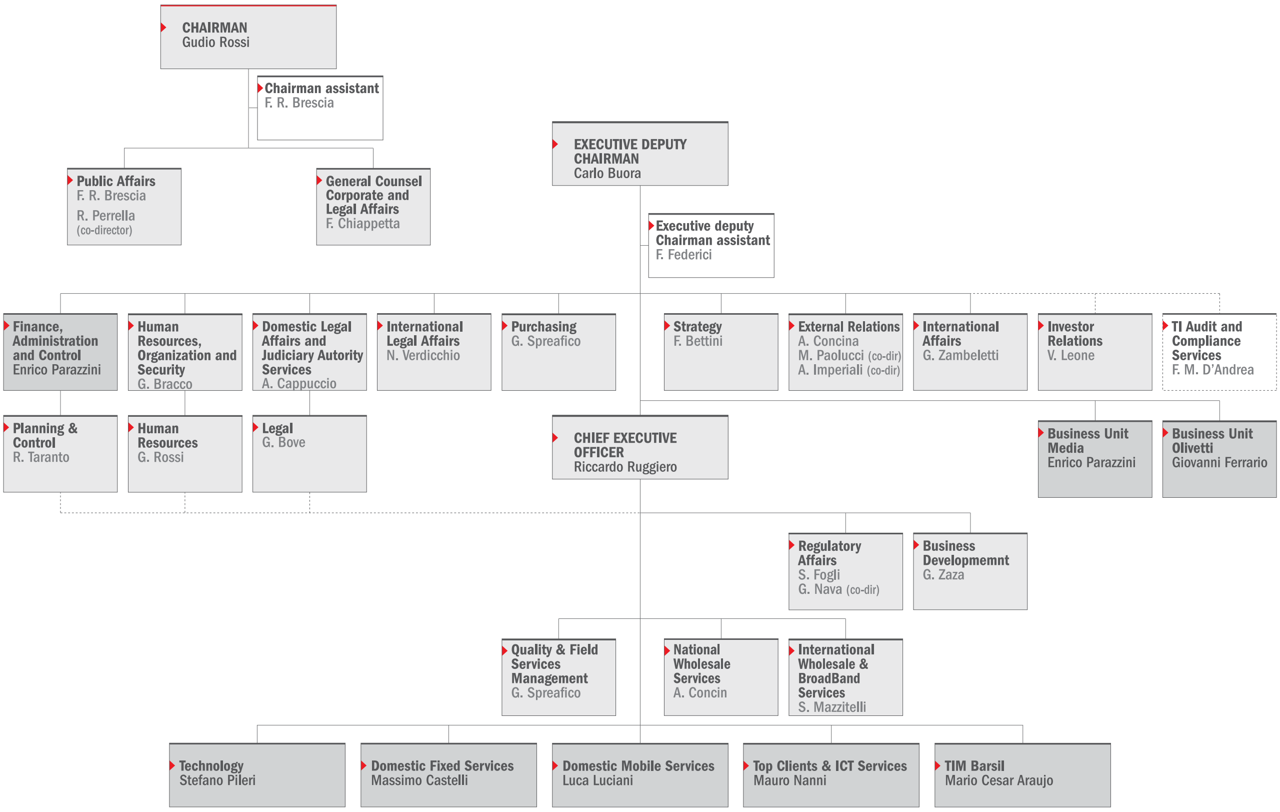
One of the important organizational tools adopted for the management and the operational integration of the Group is the Committee System of the Group, with the aim of:

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

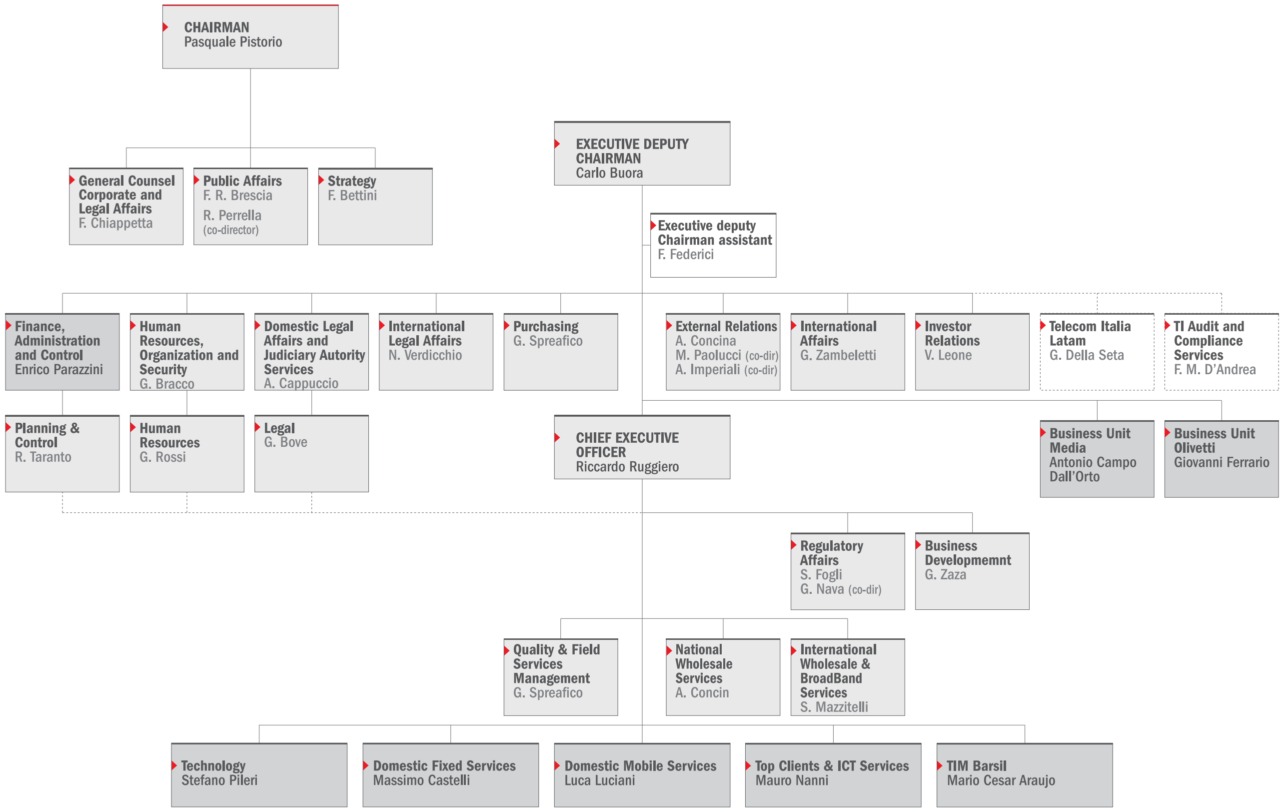
Currently, the Group Committee System is undergoing a review and transformation in light of the changes in the organizational structure.

Macro-organization chart - Telecom Italia Group

At March 31, 2007



Post-Board of Directors' Meeting held on April 17, 2007



The chairman, Pasquale Pistorio, appointed by the board of directors on April 17, 2007, besides legal representation of the Company, has also been attributed the following:

- responsibility for directing the process of examining and establishing the strategic guidelines of the Company and the Group, assisted by the executive deputy chairman and the chief executive officer,
- responsibility for introducing the strategic guidelines established by the board of directors and also
- responsibility for supervising the formulation of the industrial plans and the related processes for implementation.

The Chairman has also been attributed organizational responsibility for the coordination of the Group Functions of General Counsel and Corporate and Legal Affairs, Public Affairs and Strategy.
The executive deputy chairman has been attributed – besides legal representation of the Company and all the powers, with a single signature, necessary to fulfill the acts pertinent to corporate operations in its various explications, none excluded – responsibility for the overall governing of the Group, including the drafting – in coordination with the chairman – of the strategic guidelines, the coordination of the activities of the chief executive officer and the formulation, in agreement with the chief executive officer, of the industrial plans implementing the strategic guidelines of the Company and the Group approved by the board of directors.

The executive deputy chairman, who is also responsible for internal control, has also been attributed organizational responsibility relating to:

– coordination of the Olivetti Business Unit and the Media Business Unit;
– coordination of the Group Functions of Finance, Administration and Control, Human Resources, Organization and Security, Domestic Legal Affairs and Judicial Authority Services, International Legal Affairs, Purchasing, External Relations, International Affairs and Investor Relations, with responsibility for guaranteeing the direction and control of the business and the overall governance of issues transversal to the business;
– coordination of Telecom Italia Audit and Compliance Services and Telecom Italia Latam.

The chief executive officer has been assigned – besides legal representation of the Company and all the powers, with a single signature, necessary to fulfill the acts pertinent to corporate operations in its various explications, none excluded – responsibility for the coordination of operations, with the responsibility to ensure the management and development of the fixed and mobile telecommunications and the internet services businesses.
The chief executive officer has also been attributed organizational responsibility relating to:

- coordination of the Functions of Domestic Fixed Services, Domestic Mobile Services, Top Clients & ICT Services and Technology;
- coordination of Quality and Field Services Management, National Wholesale Services, International Wholesale and Broadband Services;
- coordination of the Functions of Business Development and Regulatory Affairs;
- coordination of Tim Brasil.

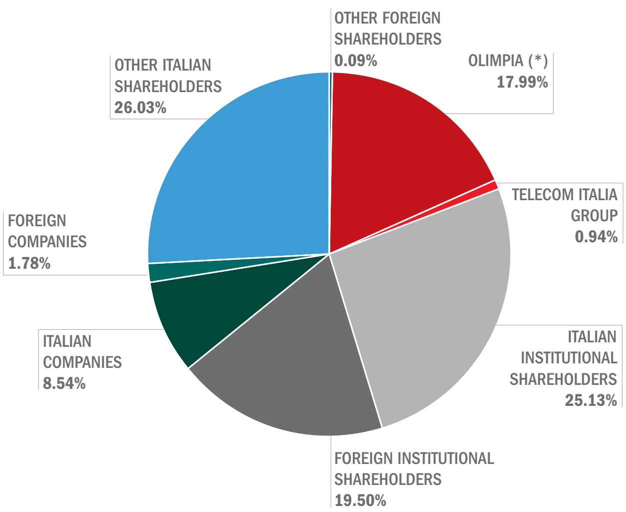
Information for Investors

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

Share capital (issued)	euro 10,673,776,048.65
Number of ordinary shares (par value of euro 0.55 each)	13,380,744,882
Number of savings shares (par value of euro 0.55 each)	6,026,120,661
Number of Telecom Italia ordinary treasury stock	1,272,014
Number of Telecom Italia ordinary shares held by Telecom Italia Finance	124,544,373
Percentage of treasury stock held by the Group to share capital	0.65%
Market capitalization (based on March 2007 average prices)	euro 39,940 million

Shareholders

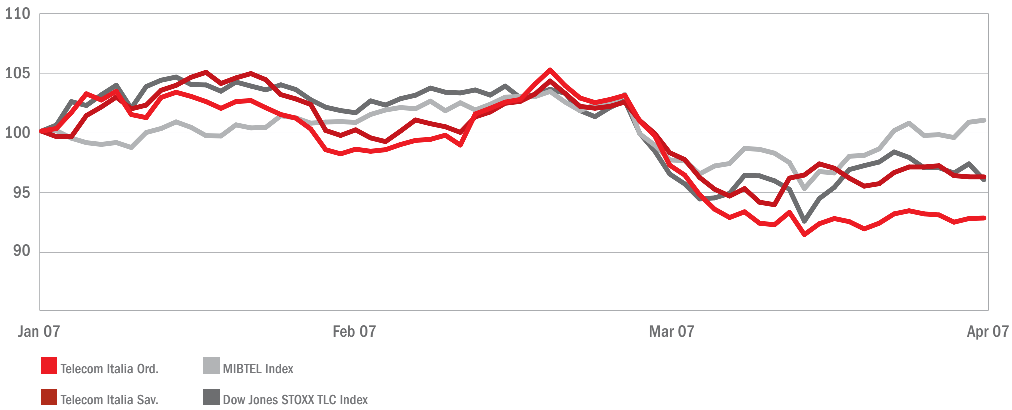
Composition of Telecom Italia S.p.A. shareholders according to the Shareholders Book at March 31, 2007, supplemented by communications received and other sources of information (ordinary shares)



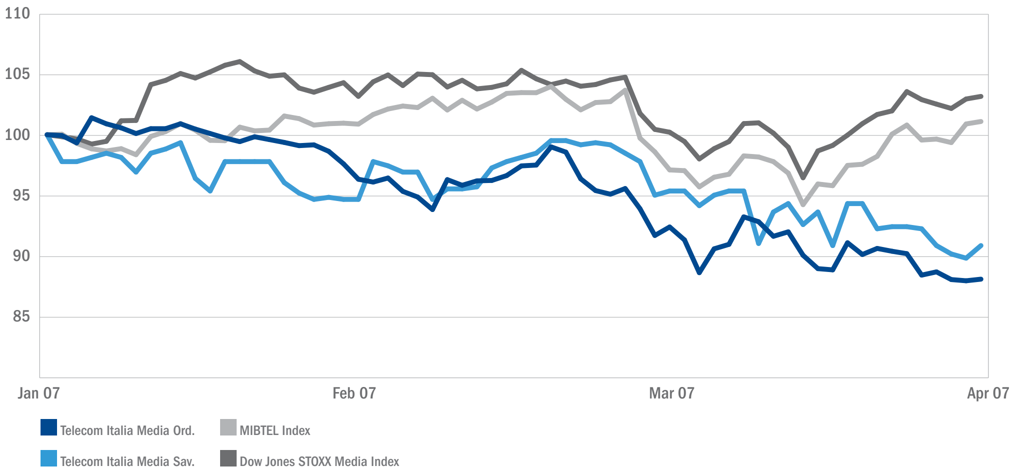
(*) On April 28, 2007, Pirelli & C. S.p.A., Sintonia S.p.A. and Sintonia S.A. announced that they had reached an agreement with leading financial institutional investors and industrial operators for the sale of 100% of the share capital of Olimpia S.p.A., a company 80%-owned by Pirelli & C. S.p.A. and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

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

Relative performance Telecom Italia S.p.A. 1.1.2007-3.31.2007 vs. MIBTEL and DJ Stoxx TLC Indexes
(Source: Reuters)



Relative performance Telecom Italia Media S.p.A. 1.1.2007-3.31.2007 vs. MIBTEL and DJ Stoxx Media Indexes
(Source: Reuters – Ordinary Shares)



Ratings at March 31, 2007

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

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

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

Selected operating and financial data - Telecom Italia Group

The First Quarter 2007 Report at March 31, 2007 of the Telecom Italia Group has been prepared, as permitted by article 82 of the Regulation for Issuers (CONSOB resolution 11971 dated May 14, 1999, as amended), in accordance with the format provided by Appendix 3D of the same regulation. The Quarterly Report is unaudited.
The operating and financial results of the Telecom Italia Group for the first three months of 2007 and the previous periods presented for comparison, 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 March 31, 2007, the scope of consolidation shows the following changes compared to March 31, 2006 and December 31, 2006:
- additions: the AOL internet activities in Germany (consolidated starting March 1, 2007);
- exclusions: Digitel Venezuela (sold in May 2006), already classified in discontinued operations/assets held for sale, Ruf Gestion (sold in March 2006), Eustema (sold in April 2006) and Telecom Italia Learning Services (sold in July 2006) and other minor companies.

In the balance sheet at March 31, 2007, as in the 2006 financial statements, Assets held for sale include the investments held in Solpart Participaçoes and Brasil Telecom Participaçoes following the decision to proceed with the disposal of these holdings.

Segment information

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

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

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

	1st Quarter 2007	1st Quarter 2006
Consolidated Operating and Financial Data (millions of euro)		
Revenues	7,540	7,482
EBITDA (*)	3,154	3,295
EBIT(*)	1,763	1,984
Income from continuing operations before taxes	1,336	1,417
Net income from continuing operations	775	761
Net income from discontinued operations/assets held for sale	–	11
Net income for the period	775	772
Net income attributable to the equity holders of the Parent	775	744
Capital expenditures:		
Industrial	1,160	1,025
Financial	669	–
Consolidated Profit Ratios		
EBITDA (*) / Revenues	41.8	44.0
EBIT (*) / Revenues (ROS)	23.4	26.5
Revenues/ Headcount (average number in the Group, thousands of euro)	95.4	93.0

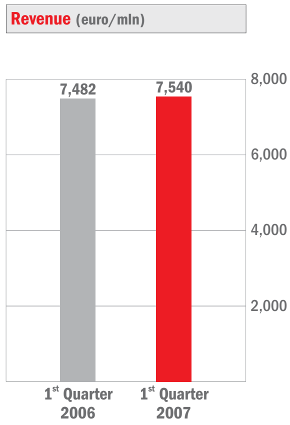
	3/31/2007	12/31/2006
Consolidated Balance Sheet Data (millions of euro)		
Total asset	88,501	89,457
Total equity	27,953	27,098
– attributable to the equity holders of the Parent	26,870	26,018
– attributable to the Minority interests	1,083	1,080
Total liabilities	60,548	62,359
Total equity and liabilities	88,501	89,457
Share capital	10,605	10,605
Net financial debt	37,182	37,301
Debt ratio (Net financial debt/Net invested capital (1))	57.1	57.9
Headcount, number in the Group at year-end (2)		
Headcount	84,191	83,209

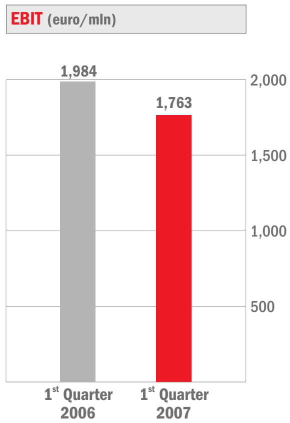
	1st Quarter 2007	1st Quarter 2006
Headcount, average number in the Group (2)		
Headcount (excluding headcount relating to discontinued operations /assets held for sale)	79,007	80,476
Headcount relating to discontinued operations/assets held for sale	–	832

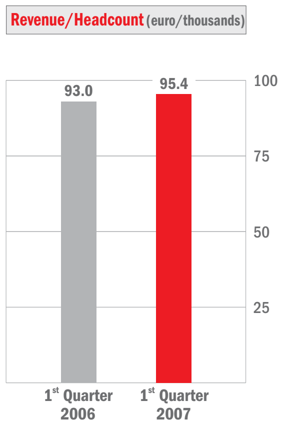
(*) For details, please refer to the section "Alternative performance measures".

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

(2) The number includes persons with temp work contracts.







Alternative performance measures

In this First Quarter 2007 Report of the Telecom Italia Group at March 31, 2007, in addition to the conventional financial performance measures established by IFRS, certain non-IFRS measures are presented for purposes of a better understanding of the trend of operations and the financial condition of the Telecom Italia Group.
However, such measures should not be construed as a substitute for the operating and financial information required by IFRS.

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

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

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

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

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

- **Organic growth of Revenues, EBITDA and EBIT**. This measure expresses changes (amount and/or percentage) in Revenues, EBITDA and EBIT, excluding, where applicable, the effects of the change in the scope of consolidation, exchange differences and non-organic components constituted by non-recurring items and other non-organic income/expenses. Telecom Italia deems that the presentation of such additional information allows the operating performance of the Group (as a whole and of the Business Units) to be interpreted in a more effective manner.
  The organic change in Revenues, EBITDA and EBIT is also used in presentations to analysts and investors. This report of the Telecom Italia Group provides details and a graphic representation of the economic amounts used to arrive at the organic change as well as an analysis of the major non-organic components for the first quarter of 2007 and 2006.

- **Net financial debt**. Telecom Italia maintains 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. A table is presented in this report that shows the amounts taken from the balance sheet and used to calculate the Net Financial Debt of the Group.

Comments on operating and financial performance - Telecom Italia Group

CONSOLIDATED STATEMENTS OF INCOME

(millions of euro)	1st Quarter 2007 (a)	1st Quarter 2006 (b)	Change (a-b)	Change %
Revenues	7,540	7,482	58	0.8
Other income	73	111	(38)	(34.2)
Total operating revenues and other income	**7,613**	**7,593**	**20**	**0.3**
Purchases of materials and external services	(3,239)	(3,090)	(149)	4.8
Personnel costs	(1,013)	(1,018)	5	(0.5)
Other operating expenses	(377)	(314)	(63)	20.1
Changes in inventories	35	12	23	°
Capitalized internal construction costs	135	112	23	20.5
OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) OF NON-CURRENT ASSETS (EBITDA)	**3,154**	**3,295**	**(141)**	**(4.3)**
Depreciation and amortization	(1,400)	(1,428)	28	(2.0)
Gains (losses) on disposals of non-current assets (1)	9	118	(109)	(92.4)
Impairment reversals (losses) on non-current assets	–	(1)	1	–
OPERATING INCOME (EBIT)	**1,763**	**1,984**	**(221)**	**(11.1)**
Share of profits (losses) of associates and joint ventures accounted for using the equity method	29	12	17	141.7
Financial income	1,057	793	264	33.3
Financial expenses	(1,513)	(1,372)	(141)	10.3
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	**1,336**	**1,417**	**(81)**	**(5.7)**
Income taxes	(561)	(656)	95	(14.5)
NET INCOME FROM CONTINUING OPERATIONS	**775**	**761**	**14**	**1.8**
Net income from discontinued operations/assets held for sale	–	11	(11)	–
NET INCOME FOR THE YEAR	**775**	**772**	**3**	**0.4**
of which:				
– **Net income attributable to equity holders of the Parent**	**775**	**744**	**31**	**4.2**
– Net income (loss) attributable to Minority interests	–	28	(28)	°

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

EARNINGS PER SHARE (EPS)

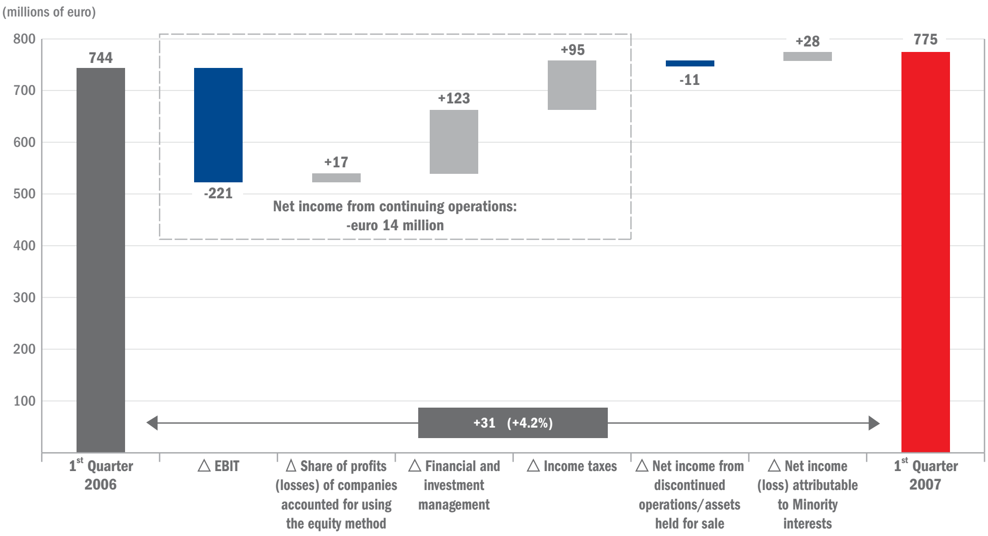
(euro)	1st Quarter 2007	1st Quarter 2006
Basic and Diluted EPS per:		
· Ordinary Share	0.04	0.04
· Savings Share	0.05	0.05
Of which:		
– From continuing operations		
· Ordinary Share	0.04	0.04
· Savings Share	0.05	0.05
– From discontinued operations/assets held for sale		
· Ordinary Share	–	–
· Savings Share	–	–

(**) Basic EPS is equal to Diluted EPS.

Consolidated net income attributable to the equity holders of the Parent is euro 775 million (the same as the net income before Minority interests). In the first quarter of 2006, the consolidated net income attributable to the equity holders of the Parent was euro 744 million (euro 772 million before Minority interests).
The increase of euro 31 million in the consolidated net income attributable to the equity holders of the Parent is due to the following:

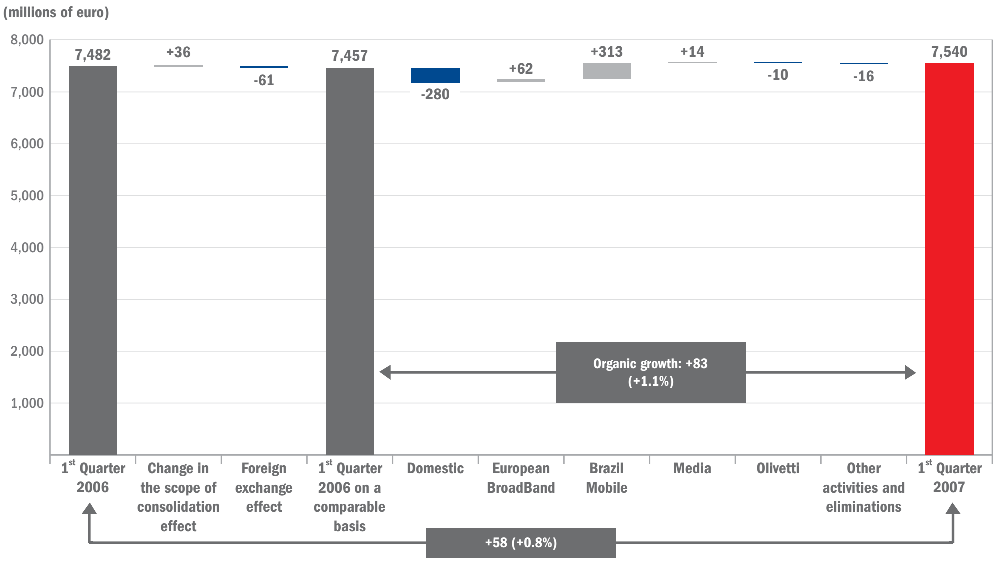
- *operating income*, – euro 221 million;
- *share of profits (losses) of associates and joint ventures accounted for using the equity method*, +euro 17 million;
- lower *financial expenses*, net of financial income, +euro 123 million;
- lower *income taxes*, +euro 95 million;
- lower *net income from discontinued operations/assets held for sale*, – euro 11 million.
- lower *net income attributable to Minority interests*, +euro 28 million.

The following chart summarizes the major items which had an impact on the consolidated net income in the first quarter of 2007:



Revenues amount to euro 7,540 million, with an increase of 0.8% compared to euro 7,482 million in the first quarter of 2006. Excluding the effect of the change in the scope of consolidation (+euro 36 million chiefly in reference to the entry of the AOL internet business in Germany) and the negative foreign exchange effect (euro 61 million, mainly referring to the Brazil Mobile Business Unit), the positive organic change is +1.1% (euro 83 million).
Revenues in the first quarter of 2007, compared to the corresponding period of the prior year, also reflect the effect of the change in termination rates which occurred in the second half of 2006 (euro 47 million) in addition to the application, starting from the month of March 2007, of the so-called Bersani Decree (estimated in about euro 30 million), as more fully described in the specific section "The Business Units of the Telecom Italia Group - Domestic".
Moreover, beginning from January 1, 2007, pursuant to the Resolution by the National Regulatory Authority (NRA) 417/06/CONS, relating to calls by customers to non-geographic numbers (NNG) of Other Operators (OLO), Telecom Italia only provides invoicing services, no longer assuming the risk of insolvency on the relative receivables. Therefore, starting from that date, the revenues and related interconnection costs do not take into account the traffic generated by such calls, which in the first quarter of 2006 had been recognized as revenues for a total amount of euro 119 million with the recognition of same amount of costs.

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



As for the organic change in revenues, the main trends are analyzed below by Business Unit.

The Domestic Business Unit shows a reduction in revenues of euro 280 million, which was also affected by the aforementioned contractual changes referring to non-geographic numbers. Apart from that impact:

- fixed telecommunications show an increase in internet revenues, particularly in the broadband segment, and in national wholesale revenues, which do not compensate the decline in the Telephone market owing to the contraction of traffic volumes and the number of customers in addition to the above change in termination rates;
- mobile telecommunications revenues are basically the same as the revenues in the first quarter of 2006, notwithstanding the application of new termination rates and the effect of the Bersani Decree. This performance was achieved also as a result of the increase in value-added services, particularly interactive services.

The European BroadBand Business Unit contributed to the change in revenues with a higher contribution of euro 62 million, thanks to the positive growth of the customer portfolio in France and Germany.

Growth by the Brazil Mobile Business Unit (+euro 313 million) was driven by the expansion of the customer base and the positive contribution of value-added services. In the month of July 2006, regulatory changes occurred (abolition of the “Bill and Keep” rule) which generated a positive impact on revenues in the first quarter of 2007 equal to euro 155 million and a similar increase in interconnection costs.

The Media Business Unit shows an increase in revenues of euro 14 million, reflecting higher advertising compared to the first quarter of 2006 and an increase in revenues from Digital Terrestrial TV.

The Olivetti Business Unit records a decline in invoicing (– euro 10 million) due to lower sales of traditional ink-jet products (faxes and printheads, in particular) and a downturn in Gaming product sales.

Revenues from telecommunications services are presented gross of the amount of revenues due to third-party operators of euro 1,368 million (euro 1,314 million in the first quarter of 2006). Foreign revenues amount to euro 2,113 million (euro 1,749 million in the first quarter of 2006); 51.4% of the total is localized in Brazil (47.7% in the first quarter of 2006).

Other income amounts to euro 73 million (euro 111 million in the first quarter of 2006) and includes:

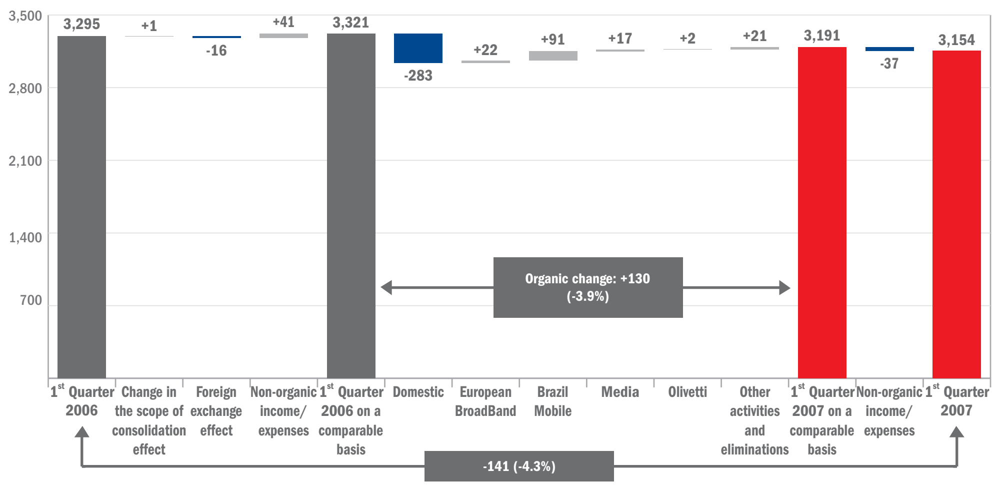
(millions of euro)	1st Quarter 2007 (a)	1st Quarter 2006 (b)	Change (a - b)
Late payment fees charged for regulated telephone services	22	23	(1)
Release of provisions and liability items	3	10	(7)
Recovery of costs of personnel and services rendered	8	13	(5)
Capital and operating grants	9	10	(1)
Damage and penalty compensation	16	8	8
Sundry income	15	47	(32)
Total	**73**	**111**	**(38)**

EBITDA amounts to euro 3,154 million and fell by euro 141 million (– 4.3%) compared to the first quarter of 2006. The organic change in EBITDA is a negative 3.9% (– euro 130 million) and is calculated as follows:

	1st Quarter 2007	1st Quarter 2006	Change	
(millions of euro)	(a)	(b)	(a-b)	%
HISTORICAL EBITDA	**3,154**	**3,295**	**(141)**	**(4.3)**
Effect of change in scope of consolidation		**1**		
Effect of change in exchange rates		**(16)**		
Non-organic (income) expenses	**37**	**41**		
Non-recurring (income) expenses:	–	9		
Corporate restructuring costs	–	*9*		
Other non-organic (income) expenses:	204	126		
Restructuring costs	*37*	*25*		
Other (income) expenses, net	–	*7*		
COMPARABLE EBITDA	**3,191**	**3,321**	**(130)**	**(3.9)**

The percentage of EBITDA to revenues went from 44.0% in the first quarter of 2006 to 41.8% in the first quarter of 2007; at the organic level, the percentage of EBITDA to revenues is equal to 42.3% in the first quarter of 2007 (44.5% in the first quarter of 2006).

The following chart summarizes the major changes in EBITDA:



In greater detail, in addition to the above variations in revenues, EBITDA in first quarter of 2007 is impacted by the following:

- **purchases of materials and external services**, euro 3,239 million, with an increase of euro 149 million (+4.8%) compared to the first quarter of 2006 (euro 3,090 million). The reduction in the costs for the purchase of products for sale and professional and consulting expenses is offset by the increase in selling expenses, building lease expenses, circuit rentals and interconnection costs. The increase in this last item is particularly due to the abolition of the "Bill and Keep" rule in the Brazil Mobile Business Unit which is only partly offset by the reduction in the Domestic market mostly by the above changes relating to non-geographic numbers. The percentage of purchases to sales is 43.0% (41.3% in the first quarter of 2006);

- **personnel costs**, euro 1,013 million, with a decrease of euro 5 million (– 0.5%) compared to the first quarter of 2006 (euro 1,018 million). The decrease is due to the contraction of the expenses of the Italian companies (– euro 14 million) as a result of a reduction in the average number of the salaried work force (– 2,741 people), and the change in other cost items, as well as the inclusion of foreign companies in the scope of consolidation (+euro 9 million) partly due to the addition of the internet activities of AOL in Germany;

  Headcount at March 31, 2007 is 84,191. Additional details are as follows

(number)	3/31/2007 (a)	12/31/2006 (b)	Change (a - b)
Italy	68,493	68,823	(330)
Outside Italy	15,698	14,386	1,312
Total headcount (1)	**84,191**	**83,209**	**982**

(1) Includes persons with temp work contracts: 2,468 at 3/31/2007 and 2,654 at 12/31/2006.

The increase in the headcount of 982 from December 31, 2006 is due to:
- the addition of 1,101 people following the acquisition of the AOL internet activities in Germany;
- the termination of 1,527 employees and the hiring of 1,594 employees, mainly abroad;
- the reduction of 186 people with temp work contracts.

- **other operating expenses**, euro 377 million (euro 314 million in the first quarter of 2006), include:

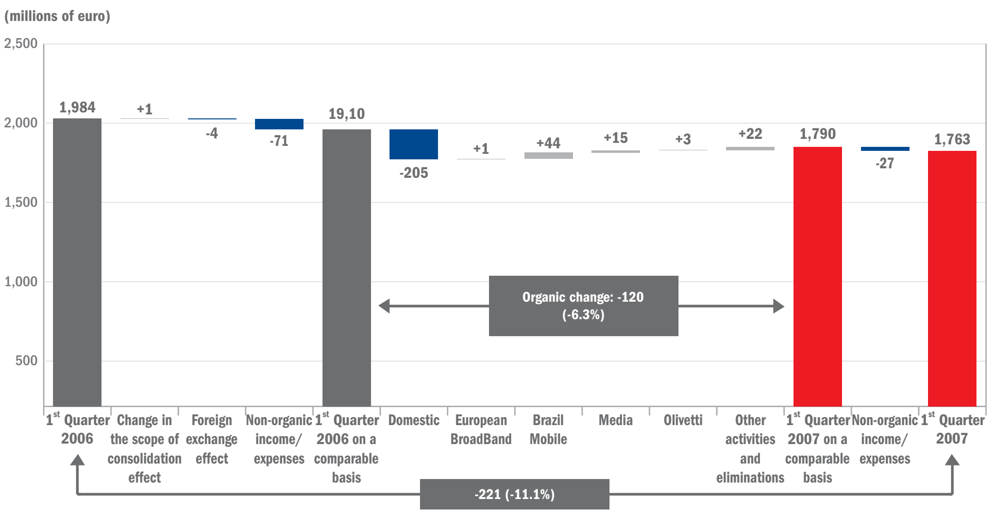
(millions of euro)	1st Quarter 2007 (a)	1st Quarter 2006 (b)	Change (a - b)
Impairments and expenses connected with non-financial receivables management	167	125	42
Accruals to provisions for risks and future charges	18	8	10
Telecommunications fees and charges	63	56	7
Taxes on revenues of South American companies	56	49	7
Indirect duties and taxes	41	38	3
Association dues	5	4	1
Other expenses	27	34	(7)
Total	**377**	**314**	**63**

EBIT amounts to euro 1,763 million, with a decrease of euro 221 million compared to the first quarter of 2006 (– 11.1%). The organic change in EBIT is a negative euro 120 million equal to – 6.3% and was calculated as follows:

(millions of euro)	1st Quarter 2007 (a)	1st Quarter 2006 (b)	Change (a-b)	%
HISTORICAL EBIT	**1,763**	**1,984**	**(221)**	**(11.1)**
Effect of change in scope of consolidation		**1**		
Effect of change in exchange rates		**(4)**		
Non-organic (income) expenses	**27**	**(71)**		
Non-organic (income) expenses already described under EBITDA	37	41		
Additional non-recurring (income) expenses	(10)	(112)		
Gains on sale of properties to funds	*(10)*	*(85)*		
Gain on sale of Ruf Gestion	*–*	*(27)*		
COMPARABLE EBIT	**1,790**	**1,910**	**(120)**	**(6.3)**

The percentage of EBIT to revenues went from 26.5% in the first quarter of 2006 to 23.4% in the first quarter of 2007. At the organic level, the percentage of EBIT to revenues is equal to 23.7% in the first quarter of 2007 (25.6% in the first quarter of 2006).

The following chart summarizes the changes in EBIT:



In greater detail, EBIT is impacted by:

- **depreciation and amortization** of euro 1,400 million (euro 1,428 million in the first quarter of 2006), with a decrease of euro 28 million.
  The amortization of intangible assets shows an increase of euro 43 million partly due to higher capital expenditures for the development of systems and new services, offset by the effect of the change in the exchange rates of the Brazilian companies in the Mobile Business Unit.
  The depreciation of tangible assets shows a decrease of euro 71 million. The increase due to higher capital expenditures for the development of infrastructures for the network and to support the business is offset by the change in the exchange rates of the Brazilian companies in the Mobile Business Unit as well as the integral assessment of the depreciation plan for the assets of the fixed and mobile networks at the end of 2006. This assessment, if adopted from the first quarter of 2006, would have led to a reduction in the depreciation charge of about euro 122 million;

- **gains (losses) on disposals of non-current assets**, equal to euro 9 million. These mainly refer to the release to income of the gain deferred at the time of the sale of the properties to Tiglio II. In the first quarter of 2006, the gains amounted to euro 118 million and included euro 85 million of gains, net of transaction costs, relating to the sale of properties to the closed-end real estate investment funds Raissa and Spazio Industriale, euro 27 million of gains on the sale of the entire investment in Ruf Gestion and euro 6 million of other net gains.

The **share of profits (losses) of associates and joint ventures accounted for using the equity method** is a profit of euro 29 million (a profit of euro 12 million in the first quarter of 2006). The line refers to:

(millions of euro)	1st Quarter 2007 (a)	1st Quarter 2006 (b)	Change (a - b)
ETECSA	15	14	1
Sofora Telecomunicaciones S.A.	3	(3)	6
Solpart Participaçoes S.A.	–	3	(3)
Other investments	11	(2)	13
Total	**29**	**12**	**17**

Other investments accounted for using the equity method show a profit of euro 11 million in the first quarter of 2007 compared to a loss of euro 2 million in the corresponding period of 2006. The increase is mainly due to the profit reported by Tiglio II, which includes the gain realized by the company on the sale of the property located in Milan - Piazza Affari.

Financial income and expenses show a net expense balance of euro 456 million (a net expense balance of euro 579 million in the first quarter of 2006). The improvement of euro 123 million, of which euro 93 million refers to the market value adjustment of the call options on 50% of the share capital of Sofora Telecomunicaciones and the reduction in the net exposure for the period has more than compensated the negative effect generated by the rise in interest rates on floating rate debt.

Income taxes amount to euro 561 million, with a decrease of euro 95 million compared to the first quarter of 2006.

Net income from discontinued operations/assets held for sale, with a nil balance in the first quarter of 2007, amounted to euro 11 million in the first quarter of 2006 and included the result of Digitel Venezuela which was sold in May 2006.

CONSOLIDATED BALANCE SHEETS			
(millions of euro)	3/31/2007 (a)	12/31/2006 (b)	Change (a-b)
ASSETS			
NON-CURRENT ASSETS			
Intangible assets			
Goodwill	44,453	43,739	714
Intangible assets with a finite life	6,691	6,740	(49)
	51,144	50,479	665
Tangible assets			
Property, plant and equipment owned	15,626	15,690	(64)
Assets held under finance leases	1,498	1,525	(27)
	17,124	17,215	(91)
Other non-current assets			
Investments in associates and joint ventures accounted for using the equity method	507	488	19
Other investments	756	776	(20)
Securities, financial receivables and other non-current financial assets	657	691	(34)
Miscellaneous receivables and other non-current assets	971	871	100
Deferred tax assets	625	912	(287)
	3,516	3,738	(222)
TOTAL NON-CURRENT ASSETS (A)	**71,784**	**71,432**	**352**
CURRENT ASSETS			
Inventories	328	291	37
Trade and miscellaneous receivables and other current assets	8,886	8,748	138
Current income tax receivables	34	287	(253)
Securities	253	812	(559)
Financial receivables and other current financial assets	484	433	51
Cash and cash equivalents	6,497	7,219	(722)
Current assets sub-total	**16,482**	**17,790**	**(1,308)**
Discontinued operations/assets held for sale			
of a financial nature	–	–	–
of a non-financial nature	235	235	–
	235	235	–
TOTAL CURRENT ASSETS (B)	**16,717**	**18,025**	**(1,308)**
TOTAL ASSETS (A+B)	**88,501**	**89,457**	**(956)**
EQUITY AND LIABILITIES			
EQUITY			
Equity attributable to equity holders of the Parent	26,870	26,018	852
Equity attributable to Minority Interests	1,083	1,080	3
TOTAL EQUITY (C)	**27,953**	**27,098**	**855**
NON-CURRENT LIABILITIES			
Non-current financial liabilities	39,125	40,803	(1,678)
Employee severance indemnities and other employee-related provisions	1,260	1,262	(2)
Deferred tax liabilities	196	194	2
Provisions for risks and charges	786	775	11
Miscellaneous payables and other non-current liabilities	1,836	1,857	(21)
TOTAL NON-CURRENT LIABILITIES (D)	**43,203**	**44,891**	**(1,688)**
CURRENT LIABILITIES			
Current financial liabilities	5,948	5,653	295
Trade and miscellaneous payables and other current liabilities	11,195	11,596	(401)
Current income tax payables	202	219	(17)
Current liabilities sub-total	**17,345**	**17,468**	**(123)**
Liabilities relating to discontinued operations/assets held for sale			
of a financial nature	–	–	–
of a non-financial nature	–	–	–
	–	–	–
TOTAL CURRENT LIABILITIES (E)	**17,345**	**17,468**	**(123)**
TOTAL LIABILITIES (F=D+E)	**60,548**	**62,359**	**(1,811)**
TOTAL EQUITY AND LIABILITIES (C+F)	**88,501**	**89,457**	**(956)**

Non-current assets, equal to euro 71,784 million (euro 71,432 million at December 31, 2006), increased by euro 352 million.

An analysis shows:

- **intangible assets** increased by euro 665 million, from euro 50,479 million at the end of 2006 to euro 51,144 million at March 31, 2007. This change is mainly due to:
  - the increase of euro 677 million as a result of the recognition of goodwill in connection with the acquisition of the AOL internet activities in Germany, including transaction costs. This amount was recognized temporarily, in accordance with IFRS, since the assessments are currently underway in order to allocate, at the date of February 28, 2007, the cost of the business combination to the assets and liabilities acquired;
  - additions to Intangible assets with a finite life (euro 478 million);
  - amortization charge for the period (– euro 567 million);
  - disposals, exchange differences, change in the scope of consolidation and other movements (positive for a total of euro 77 million);
- **property, plant and equipment** decreased by euro 91 million from euro 17,215 million at the end of 2006 to euro 17,124 million at March 31, 2007 as a result of:
  - additions (euro 682 million);
  - depreciation charge for the period (– euro 833 million);
  - disposals, exchange difference, change in the scope of consolidation and other movements (positive for a total of euro 60 million);
- **other non-current assets** decreased by euro 222 million from euro 3,738 million at the end of 2006 to euro 3,516 million at March 31, 2007. The reduction is mainly due to Deferred tax assets, following compensation with income taxes accrued in the first three months of 2007.

Current assets of euro 16,482 million decreased by euro 1,308 million compared to December 31, 2006. This contraction is mainly due to the reduction in Cash and cash equivalents for euro 722 million and in Securities for euro 559 million, used to repay financial liabilities.

Discontinued assets/assets held for sale, equal to euro 235 million, the same as at December 31, 2006, consist of the investment in Solpart Participaçoes (the controlling holding company of Brasil Telecom Participaçoes) and Brasil Telecom Participaçoes. These companies are included on this line following the decision to proceed with their sale and charge JP Morgan with their disposal.

Equity amounts to euro 27,953 million (euro 27,098 million at the end of 2006), of which euro 26,870 million is attributable to the equity holders of the Parent (euro 26,018 million at December 31, 2006) and euro 1,083 million to Minority interests (euro 1,080 million at December 31, 2006).

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

(millions of euro)	1/1-3/31 2007	1/1-12/31 2006
At the beginning of the period	**27,098**	**26,985**
Contribution by shareholders, bond conversions and stock options	–	24
Net income attributable to the equity holders of the Parent and the Minority interests	775	3,003
Dividends declared by:	(20)	(3,002)
– *Telecom Italia S.p.A.*		*(2,766)*
– *Other Group companies*	*(20)*	*(236)*
Translation differences, changes in the scope of consolidation and other changes	100	88
At the end of the period	**27,953**	**27,098**

"Translation differences, changes in the scope of consolidation and other changes", in particular, in the first quarter of 2007, include the positive effect of translation differences for euro 120 million in part offset by the negative change in "Other gains (losses) recognized directly in equity" for euro 12 million and other negative changes for euro 8 million.

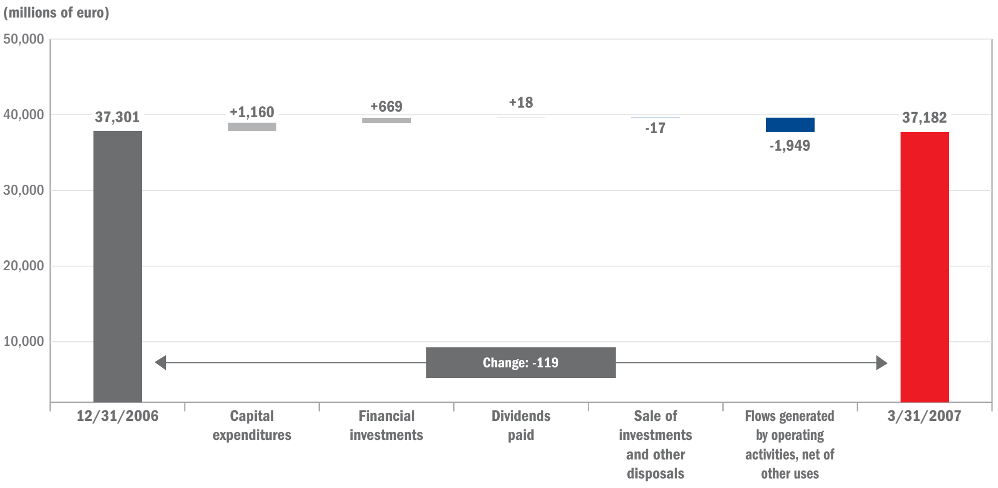
Net financial debt amounts to euro 37,182 million at March 31, 2007, with a decrease of euro 119 million compared to euro 37,301 million at the end of 2006. The improvement in net financial debt is due to positive operational changes which ensured the financing for capital expenditures and the acquisition of the assets relating to the internet access business in Germany from the Time Warner/AOL group.

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

(millions of euro)		3/31/2007 (a)	12/31/2006 (b)	Change (a-b)
Non-current financial liabilities (*)				
Financial payables		35,642	37,391	(1,749)
Finance lease liabilities		1,830	1,847	(17)
Non-current liabilities for hedging derivatives		1,540	1,451	89
Other financial liabilities		113	114	(1)
	(1)	39,125	40,803	(1,678)
Less:				
Non-current financial receivables for lessors' net investments		*(232)*	*(229)*	*(3)*
Non-current assets for hedging derivatives		*(243)*	*(276)*	*33*
		(441)	(472)	31
TOTAL NON-CURRENT FINANCIAL LIABILITIES (*)	**(A)**	**38,684**	**40,331**	**(1,647)**
Current financial liabilities (*)				
Financial payables		5,431	5,143	288
Finance lease liabilities		274	269	5
Current liabilities for hedging and non-hedging derivatives		234	231	3
Other financial liabilities		9	10	(1)
	(2)	5,948	5,653	295
Less:				
Current financial receivables for lessors' net investments		*(155)*	*(148)*	*(7)*
Current assets for hedging derivatives		*(255)*	*(207)*	*(48)*
		(410)	(355)	(55)
TOTAL CURRENT FINANCIAL LIABILITIES (*)	**(B)**	**5,538**	**5,298**	**240**
Financial liabilities relating to discontinued operations/assets held for sale	**(C) (3)**	**–**	**–**	**–**
TOTAL GROSS FINANCIAL DEBT (*)	**(D=A+B+C)**	**44,222**	**45,629**	**(1,407)**
Current financial assets (*)				
Securities		(253)	(812)	559
Financial receivables and other current financial assets		(484)	(433)	(51)
Cash and cash equivalents		(6,497)	(7,219)	722
	(4)	(7,234)	(8,464)	1,230
Less:				
Current financial receivables for lessors' net investments		*155*	*148*	*7*
Current assets for hedging derivatives		*255*	*207*	*48*
		410	355	55
	(E)	**(6,824)**	**(8,109)**	**1,285**
Financial assets relating to discontinued operations/assets held for sale	**(F) (5)**	**–**	**–**	**–**
TOTAL CURRENT FINANCIAL ASSETS (*)	**(G=E+F)**	**(6,824)**	**(8,109)**	**1,285**
NET FINANCIAL DEBT AS OF CONSOB COMMUNICATION N. DEM/6064293/2006	**(H=D+G)**	**37,398**	**37,520**	**(122)**
Non-current financial assets (*)				
Securities other than investments		(11)	(12)	1
Financial receivables and other non-current financial assets		(646)	(679)	33
	(6)	(657)	(691)	34
Less:				
Non-current financial receivables for lessors' net investments		*232*	*229*	*3*
Non-current assets for hedging derivatives		*209*	*243*	*(34)*
		441	472	(31)
TOTAL NON-CURRENT FINANCIAL ASSETS (*)	**(I)**	**(216)**	**(219)**	**3**
NET FINANCIAL DEBT	**(L=H+I)**	**37,182**	**37,301**	**(119)**
COMPOSITION OF THE NET FINANCIAL DEBT:				
Total gross financial debt:				
Non-current financial liabilities	(1)	39,125	40,803	(1,678)
Current financial liabilities	(2) + (3)	5,948	5,653	295
		45,073	**46,456**	**(1,383)**
Total gross financial assets				
Non-current financial assets	(6)	(657)	(691)	34
Current financial assets	(4) + (5)	(7,234)	(8,464)	1,230
		(7,891)	**(9,155)**	**1,264**
		37,182	**37,301**	**(119)**

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

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



In particular:

- **capital expenditures** in the first quarter of 2007 total euro 1,160 million and increased by euro 135 million compared to the first quarter of the prior year. Details are as follows:

(millions of euro)	1st Quarter 2007 (a)	1st Quarter 2006 (b)	Change (a - b)
Domestic	867	850	17
European BroadBand	142	95	47
Brazil Mobile	116	63	53
Media, Olivetti and Other activities	35	17	18
Total	**1,160**	**1,025**	**135**

- **financial expenditures** amount to euro 669 million in the first quarter of 2007 and refer to the acquisition of the AOL internet business in Germany. This amount includes transaction costs net of cash acquired.

* * *

The positive effect on net financial debt of the sale of receivables to factoring companies during the first quarter of 2007 is equal to euro 840 million (euro 1,499 million at December 31, 2006).

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

Bonds

Bonds at March 31, 2007 are carried for an amount of euro 32,240 million (euro 33,906 million at December 31, 2006). Instead, in terms of the nominal repayment amount, bonds total euro 31,753 million, with a decrease of euro 1,366 million compared to December 31, 2006 (euro 33,119 million), with the following breakdown: Telecom Italia S.p.A. euro 9,676 million, Telecom Italia Finance S.A. euro 12,616 million and Telecom Italia Capital S.A. euro 9,461 million.

Convertible bonds at March 31, 2007 are carried for an amount of euro 491 million (euro 489 million at December 31, 2006) and refer entirely to convertible bonds issued by Telecom Italia S.p.A.. Instead, in terms of the nominal repayment amount, convertible bonds total euro 574 million at March 31, 2007.

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

1) NEW ISSUES

- Telecom Italia S.p.A. 2002-2022 bonds, reserved for subscription by employees of the Group, total euro 272 million (nominal amount) at March 31, 2007 (euro 250 million at December 31, 2006).

2) REPAYMENTS AND CONVERSIONS

- **Repayment of Telecom Italia S.p.A. bonds 5.625% due 2007**
  On February 1, 2007, Telecom Italia duly repaid the euro 1,250 million bonds, 5.625% coupon, at maturity.

Revolving Credit Facility

On January 15, 2007, euro 2 billion of the remaining amount of the syndicated credit line expiring March 2007 was cancelled and at the same time the revolving credit facility (RCF) expiring August 2012 was increased by the same amount. The new revolving credit facility is therefore equal to euro 8 billion, of which euro 1.5 billion is utilized and euro 6.5 billion is available.

Period	**Revolving Credit Facility expiring 2007**		**Revolving Credit Facility expiring 2012**		**TOTAL**	
(billions of euro)	Agreed	Drawn down	Agreed	Drawn down	Agreed	Drawn down
Situation at 12/31/2006	2.0	–	6.0	1.5	8.0	1.5
Increase in the RFC maturing 2012 and cancellation of RCF 2007 commitment	–2.0	–	2.0			
Situation at 3/31/2007	–	–	8.0	1.5	8.0	1.5

Finally, at March 31, 2007, the total unused committed and available credit lines (revolving and bilateral) total euro 6.6 billion and do not contain financial covenants.

* * *

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

The average maturity of non-current financial liabilities is equal to 7.87 years.

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

	Maturing 3/31/						
(millions of euro)	**2008**	**2009**	**2010**	**2011**	**2012**	**Beyond 2012**	**Total**
Bonds	4,154	3,597	3,669	1,529	4,451	15,331	32,731
Loans and other financial liabilities	1,027	385	3,344	271	212	4,506	9,745
Finance lease liabilities	274	172	155	141	118	1,244	2,104
Total	**5,455**	**4,154**	**7,168**	**1,941**	**4,781**	**21,081**	**44,580**
Current financial liabilities	493						493
Total	**5,948**						**45,073**

(1) Carrying amounts take into account fair value adjustments and amortized cost.
(2) Financial commitments include accrued expenses and deferred income, which increase the amount of non-current financial liabilities by euro 113 million, non-current financial liabilities due within 12 months by euro 1,054 million and current financial liabilities by euro 28 million.

Maturities of financial liabilities - nominal repayment amount

(millions of euro)	Maturing 3/31/ 2008	2009	2010	2011	2002	Beyond 2012	Total
Bonds	3,379	3,610	3,723	1,576	4,451	15,588	32,327
Loans and other financial liabilities	779	465	3,346	241	210	3,869	8,910
Finance lease liabilities	255	172	155	141	118	1,244	2,085
Total	**4,413**	**4,247**	**7,224**	**1,958**	**4,779**	**20,701**	**43,322**
Current financial liabilities	471						471
Total	**4,884**						**43,793**

To meet these short-term commitments, there are current financial assets amounting to euro 7,234 million (euro 6,963 million at nominal amounts) to cover the maturities arising in 2008, without taking into account the unused committed credit lines mentioned above for euro 6.6 billion.

Current financial assets include:

- *cash and cash equivalents* which amount to euro 6,497 million at March 31, 2007 (euro 7,219 million at December 31, 2006). The different technical forms used for the investment of available resources at March 31, 2007 can be analyzed as follows:
  - maturities: 98% of deposits have a maximum maturing date of one month;
  - counterpart risk: deposits are made with leading banks and financial institutions with high creditworthiness with at least an A rating;
  - country risk: the geographical location of deposits is principally in major European markets;

- *financial receivables and other current financial assets* which amount to euro 484 million at March 31, 2007 (euro 433 million at December 31, 2006). This line includes the current portion of loans from employees for euro 15 million, the current portion of financial receivables for lessors' net investments for euro 155 million, hedging derivatives relating to hedged items classified as current assets/liabilities of a financial nature for euro 255 million referring to the accrued income relating to the derivatives, non-hedging derivatives for euro 18 million and other receivables for 41 million;

- *securities*, maturing beyond three months, equal to euro 253 million at March 31, 2007 (euro 812 million at December 31, 2006) which refer to bonds issued by counterparts with at least an A rating with different maturities, but all with an active reference market and therefore readily convertible into cash.

The repayment of financial liabilities maturing during the first quarter led to a reduction in current financial assets of euro 1,230 million.

Net financial debt

As required by Consob Communication No. DEM/6064293 dated July 28, 2006, the previous table presents the net financial debt at March 31, 2007 and December 31, 2006 calculated in accordance with the criteria indicated in the Recommendation of CESR (Committee of European Securities Regulators) dated February 10, 2005 "Recommendations for the uniform implementation of the European Commission regulation on disclosures" and also introduced by Consob itself. This table also includes the reconciliation of net financial debt determined according to the criteria indicated by CESR and the net financial debt calculated according to the criteria of the Telecom Italia Group adopted in previous years.

Net financial debt determined according to the criteria of Consob amounts to euro 37,398 million at March 31, 2007 (euro 37,520 million at December 31, 2006) and, compared to the corresponding amount determined according to the criteria of the Group, is higher by euro 216 million compared to March 31, 2007 (higher by euro 219 million at December 31, 2006).

The net financial debt determined according to the criteria of the Group amounts to euro 37,182 million at March 31, 2007, with a reduction of euro 119 million compared to euro 37,301 million at December 31, 2006.

For purposes of determining net financial debt in accordance with Consob criteria, “Non-current financial assets (excluding the current portion) totaling euro 216 million are not considered as a deduction from gross financial debt. Such assets principally consist of the following:

- euro 69 million for the non-current portion of low-rate loans made to employees;
- euro 11 million for the non-current portion of the residual receivable on the sale of the investment in Telekom Srbija to PTT Srbija on July 7, 2003, due in 2008;
- euro 76 million for the non-current portion of cash collateral with Goldman Sachs to guarantee two of Telecom Italia S.p.A.’s Cross Currency Interest Rate Swaps;
- euro 24 million for the non-current portion of loans made to Aree Urbane S.r.l.;
- euro 11 million for securities other than investments included in non-current assets and relating to the investment by Telecom Italia Finance S.A. in the closed-end investment fund Clessidra, registered under Italian law, for euro 9 million.

Covenants and negative pledges relating to outstanding positions at March 31, 2007

Bonds

Bonds issued by companies of the Group to third parties do not contain either financial covenants or clauses that would force the early redemption of the bonds in relation to events other than the insolvency of the Telecom Italia Group. Furthermore, the redemption of the bonds and the payment of interest are not covered by specific guarantees nor are there commitments provided relative to the assumption of future guarantees, except for the full and unconditional guarantees provided by Telecom Italia S.p.A. for the bonds issued by Telecom Italia Finance S.A. and Telecom Italia Capital S.A..

Step-up and step-down mechanisms affecting the coupons of certain notes as a result of a change in the rating refer to the following notes:

- Telecom Italia Finance S.A. notes – “Euro Notes”: euro 2,000 million, 7.250%, maturing April 2011. A parameter change of 0.25% for each downgrade in the rating by one notch by Moody’s or S&P’s.
- Telecom Italia Finance S.A. notes – euro 1,500 million, 5.150%, maturing February 2009. Parameter changes of 0.5% - 1.5% in relation to the minimum rating.
- Telecom Italia Finance S.A. notes – euro 2,210 million 6.5750%, maturing July 2009. Parameter changes of 0.45% - 1.95% in relation to the minimum rating.

Loans other than bonds

As for loans other than bonds, it should be stressed that all of the contracts for loans granted directly by the European Investment Bank (EIB), which are recorded in the financial statements at March 31, 2007 for euro 1,903 million (euro 1,895 million at nominal amounts), 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 rating assigned by other agencies. The loan contracts contain negative pledge clauses, that is, restrictions on the activities of the company which could negatively affect its ability to generate income and therefore meet its commitments, yet leaving ample operating possibilities in line with international contract best practices.
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 ratios), negative pledge clauses and other covenants.

With reference to the above EIB loan for euro 350 million which is not secured by bank guarantees, there are covenants which cover the following:

- in the event the company becomes the target of a merger, demerger or contribution of a business segment outside the Group, or sells, disposes or transfers assets or business segments, it shall immediately inform EIB which shall have the right to ask for guarantees to be provided or changes to be made to the loan contract;
- starting from Telecom Italia’s rating situation (at March 31, 2007: BBB+ for S&P’s; Baa2 for Moody’s and BBB+ for Fitch), if the company’s rating is downgraded by Standard &

Poor's or Fitch Ratings, it shall immediately inform EIB which shall have the right to ask for suitable guarantees to be provided, indicating a date for setting up these guarantees. After that date and if Telecom Italia fails to provide the guarantees, EIB shall have the right to demand immediate repayment of the amount disbursed.

Bank lines

The syndicated bank loans of Telecom Italia do not contain financial covenants which would oblige Telecom Italia to automatically repay the outstanding loan if the covenants are not observed. Mechanisms are provided for adjusting the cost of funding in relation to Telecom Italia's credit rating, with a spread compared to the Euribor of between a minimum of 0.15% and a maximum of 0.425% for the line expiring in 2010, and a minimum of 0.0875% and a maximum of 0.2625% for the line expiring in 2012.

The syndicated bank lines contain the usual negative pledge clauses consisting of the commitment not to change the business purpose or sell the assets of the company unless specific conditions exist (e.g. the sale takes place at fair market value). The same negative pledge conditions are also found in the export credit loan agreements.

The syndicated bank lines (as well as an export credit agreement for a residual nominal amount of euro 162.8 million at December 31, 2006) consider the case where a party, other than the current relative majority shareholder or permitted acquiring shareholders acquire control of Telecom Italia, individually or jointly. In that case, a 30-day period is established during which the parties shall negotiate the terms with which to continue the relationship.

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

Finally, at March 31, 2007, none of the covenants, negative pledge clauses or other clauses regarding the above-described debt positions have been breached or violated in any way.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of euro)	1st Quarter 2007	1st Quarter 2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income from continuing operations	775	761
Adjustments to reconcile net income from continuing operations to cash flows generated by (used in) operating activities:		
Depreciation and amortization	1,400	1,428
Impairment (reversals) losses of non-current assets (including investments)	(93)	4
Net change in deferred tax assets and liabilities	289	238
Net (gains) losses realized on disposals of non-current assets (including investments)	(9)	(118)
Share of (profits) losses of associates and joint ventures accounted for using the equity method	(29)	(12)
Change in employee severance indemnities and other employee-related provisions	(8)	(16)
Change in other operating assets/liabilities:		
Change in inventories	(37)	(16)
Change in trade receivables and net receivables on construction contracts	56	(35)
Change in trade payables	(411)	(624)
Net change in miscellaneous receivables/payables and other assets/liabilities	382	187
CASH FLOWS GENERATED BY (USED IN) OPERATING ACTIVITIES (A)	**2,315**	**1,797**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of intangible assets on an accrual basis	*(478)*	*(411)*
Acquisitions of tangible assets on an accrual basis	*(682)*	*(614)*
Total acquisitions of intangible and tangible assets on an accrual basis	(1,160)	(1,025)
Change in amounts due to fixed asset suppliers	*(367)*	*(370)*
Total acquisitions of intangible and tangible assets on a cash basis	(1,527)	(1,395)
Acquisitions of investments in subsidiaries and businesses, net of cash acquired (I)	(669)	–
Acquisitions of other investments	–	–
Change in financial receivables and other financial assets	543	215
Proceeds from sale of investments in subsidiaries, net of cash disposed of (II)	2	111
Proceeds from sale/repayments of intangible, tangible and other non-current assets (II)	15	256
CASH FLOWS GENERATED BY (USED IN) INVESTING ACTIVITIES (B)	**(1,636)**	**(813)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in current financial liabilities and others liabilities	(381)	(343)
Proceeds from non-current financial liabilities (including current portion)	182	89
Repayments of non-current financial liabilities (including current portion)	(1,298)	(4,218)
Proceeds from equity instruments	–	2
Share capital increases/repayments	–	–
Dividends paid (distribution of reserves included)	(18)	(37)
CASH FLOWS GENERATED BY (USED IN) FINANCING ACTIVITIES (C)	**(1,515)**	**(4,507)**
CASH FLOWS GENERATED BY (USED IN) DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE (D)	**–**	**9**
AGGREGATE CASH FLOWS (E=A+B+C+D)	**(836)**	**(3,514)**
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD (F)	**6,960**	**9,958**
Net effect of foreign currency translation on net cash and cash equivalents (G)	10	29
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (H=E+F+G)	**6,134**	**6,473**

ADDITIONAL CASH FLOW INFORMATION:

(millions of euro)	1st Quarter 2007	1st Quarter 2006
Income taxes (paid) received	(29)	(5)
Interest expense paid	(1,217)	(1,006)
Interest income received	345	167
Dividends received	5	12

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

ANALYSIS OF NET CASH AND CASH EQUIVALENTS:

(millions of euro)	1st Quarter 2007	1st Quarter 2006
NET CASH AND CASH EQUIVALENTS AT THE BEGINNING OF THE PERIOD:		
Cash and cash equivalents - from continuing operations	7,219	10,323
Bank overdraft repayable on demand - from continuing operations	(259)	(383)
Cash and cash equivalents - from discontinued operations/ assets held for sale	–	37
Bank overdraft repayable on demand - from discontinued operations/ assets held for sale	–	(19)
	6,960	**9,958**
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD:		
Cash and cash equivalents - from continuing operations	6,497	6,734
Bank overdraft repayable on demand - from continuing operations	(363)	(304)
Cash and cash equivalents - from discontinued operations/ assets held for sale	–	43
Bank overdraft repayable on demand - from discontinued operations/ assets held for sale	–	–
	6,134	**6,473**

Related party disclosure

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 following tables present balances relating to transactions with related parties and the effects of such amounts on the consolidated statement of income, balance sheet and statement of cash flows.
The statement of income and the capital expenditure figures are compared with the first three months of 2006, while the balance sheet figures are compared with those at December 31, 2006.

(millions of euro)	Transactions with related parties (amount)		Corresponding caption in financial statements (amount)		% impact of related parties	
	1st Quarter 2007	1st Quarter 2006	1st Quarter 2007	1st Quarter 2006	1st Quarter 2007	1st Quarter 2006
Revenues						
Of which attributable to transactions with:						
– associates and jointly controlled companies	67	64				
– subsidiaries of associates and jointly controlled companies	4	55				
– other related parties through directors, statutory auditors and key managers	5	3				
– pension funds	–	–				
Net of discontinued operations	**76**	**122**	**7,540**	**7,482**	**1.0**	**1.6**
Other income						
Of which attributable to transactions with:						
– associates and jointly controlled companies	–	1				
– subsidiaries of associates and jointly controlled companies	–	–				
– other related parties through directors, statutory auditors and key managers	–	–				
– pension funds	–	–				
	–	**1**	**73**	**111**	**...**	**0.9**
Purchases of materials and external services						
Of which attributable to transactions with:						
– associates and jointly controlled companies	21	26				
– subsidiaries of associates and jointly controlled companies	4	13				
– other related parties through directors, statutory auditors and key managers	12	32				
– pension funds	–	–				
Net of discontinued operations	**37**	**71**	**3,239**	**3,090**	**1.1**	**2.3**
Personnel costs						
Of which attributable to transactions with:						
– associates and jointly controlled companies						
– subsidiaries of associates and jointly controlled companies						
– other related parties through directors, statutory auditors and key managers						
– pension funds	7	5				
– remuneration to key managers	7	6				
	14	**11**	**1,013**	**1,018**	**1.4**	**1.1**
Other operating expenses						
Of which attributable to transactions with:						
– associates and jointly controlled companies	–	–				
– subsidiaries of associates and jointly controlled companies	–	–				
– other related parties through directors, statutory auditors and key managers	–	–				
– pension funds	–	–				
	0	**0**	**377**	**314**	**...**	**...**

(millions of euro)	Transactions with related parties (amount)		Corresponding caption in financial statements (amount)		% impact of related parties	
	1st Quarter 2007	1st Quarter 2006	1st Quarter 2007	1st Quarter 2006	1st Quarter 2007	1st Quarter 2006
Financial income						
Of which attributable to transactions with:						
– associates and jointly controlled companies	–	–				
– subsidiaries of associates and jointly controlled companies	–	–				
– other related parties through directors, statutory auditors and key managers	3	–				
– pension funds	–	–				
	3	**0**	**1,057**	**793**	**0.3**	**...**
Financial expenses						
Of which attributable to transactions with:						
– associates and jointly controlled companies	7	6				
– subsidiaries of associates and jointly controlled companies	–	–				
– other related parties through directors, statutory auditors and key managers	4	–				
– pension funds	–	–				
	11	**6**	**1,513**	**1,372**	**0.7**	**0.4**
Capital expenditures for intangible and tangible assets						
Of which attributable to transactions with:						
– associates and jointly controlled companies	16	26				
– subsidiaries of associates and jointly controlled companies	53	109				
– other related parties through directors, statutory auditors and key managers	27	19				
– pension funds	–	–				
	96	**154**	**1,160**	**1,025**	**8.3**	**15.0**
Dividends paid to third parties						
Of which attributable to transactions with:						
– associates and jointly controlled companies	–	–				
– subsidiaries of associates and jointly controlled companies	–	–				
– other related parties through directors, statutory auditors and key managers	–	–				
– pension funds	–	–				
	–	**–**	**18**	**37**	**...**	**...**

(millions of euro)	Transactions with related parties (amount) 3/31/2007	12/31/2006	Corresponding caption in financial statements (amount) 3/31/2007	12/31/2006	% impact of related parties 3/31/2007	12/31/2006
NET FINANCIAL DEBT:						
Securities, financial receivables and other non-current financial assets						
Of which attributable to transactions with:						
– associates and jointly controlled companies	24	24				
– subsidiaries of associates and jointly controlled companies	–	–				
– other related parties through directors, statutory auditors and key managers	–	–				
– pension funds	–	–				
	24	**24**	**657**	**691**	**3.7**	**3.5**
Securities (Current assets)						
Of which attributable to transactions with:						
– associates and jointly controlled companies	–	–				
– subsidiaries of associates and jointly controlled companies	–	–				
– other related parties through directors, statutory auditors and key managers	8	–				
– pension funds	–	–				
	8	**0**	**253**	**812**	**3.2**	**...**
Financial receivables and other current financial assets						
Of which attributable to transactions with:						
– associates and jointly controlled companies	–	1				
– subsidiaries of associates and jointly controlled companies	–	–				
– other related parties through directors, statutory auditors and key managers	–	–				
– pension funds	–	–				
	0	**1**	**484**	**433**	**...**	**0.2**
Cash and cash equivalents						
Of which attributable to transactions with:						
– associates and jointly controlled companies	1	1				
– subsidiaries of associates and jointly controlled companies	–	–				
– other related parties through directors, statutory auditors and key managers	–	–				
– pension funds	–	–				
	1	**1**	**6,497**	**7,219**	**...**	**...**
Financial assets relating to discontinued operations/assets held for sale						
Of which attributable to transactions with:						
– associates and jointly controlled companies	–	–				
– subsidiaries of associates and jointly controlled companies	–	–				
– other related parties through directors, statutory auditors and key managers	–	–				
– pension funds	–	–				
	0	**0**	**–**	**–**	**...**	**...**
Non-current financial liabilities						
Of which attributable to transactions with:						
– associates and jointly controlled companies	244	239				
– subsidiaries of associates and jointly controlled companies	–	–				
– other related parties through directors, statutory auditors and key managers	219	–				
– pension funds	–	–				
	463	**239**	**39,125**	**40,803**	**1.2**	**0.6**
Current financial liabilities						
Of which attributable to transactions with:						
– associates and jointly controlled companies	159	148				
– subsidiaries of associates and jointly controlled companies	–	–				
– other related parties through directors, statutory auditors and key managers	–	–				
– pension funds	–	–				
	159	**148**	**5,948**	**5,653**	**2.7**	**2.6**
Financial liabilities relating to discontinued operations/assets held for sale						
Of which attributable to transactions with:						
– associates and jointly controlled companies	378	361				
– subsidiaries of associates and jointly controlled companies	–	–				
– other related parties through directors, statutory auditors and key managers	211	–				
– pension funds	–	–				
	589	**361**	**37,182**	**37,301**	**1.6**	**1.0**

(millions of euro)	Transactions with related parties (amount)		Corresponding caption in financial statements (amount)		% impact of related parties	
	3/31/2007	12/31/2006	3/31/2007	12/31/2006	3/31/2007	12/31/2006
OTHER BALANCE SHEET CAPTIONS:						
Miscellaneous receivables and other non-current assets						
Of which attributable to transactions with:						
– associates and jointly controlled companies	10	10				
– subsidiaries of associates and jointly controlled companies	–	–				
– other related parties through directors, statutory auditors and key managers	–	–				
– pension funds	–	–				
	10	**10**	**971**	**871**	**1.0**	**1.1**
Trade and miscellaneous receivables and other current assets						
Of which attributable to transactions with:						
– associates and jointly controlled companies	194	201				
– subsidiaries of associates and jointly controlled companies	16	14				
– other related parties through directors, statutory auditors and key managers	4	5				
– pension funds	–	–				
	214	**220**	**8,886**	**8,748**	**2.4**	**2.5**
Miscellaneous payables and other non-current liabilities						
Of which attributable to transactions with:						
– associates and jointly controlled companies	–	–				
– subsidiaries of associates and jointly controlled companies	23	23				
– other related parties through directors, statutory auditors and key managers	–	–				
– pension funds	–	–				
	23	**23**	**1,836**	**1,857**	**1.3**	**1.2**
Trade and miscellaneous payables and other current liabilities						
Of which attributable to transactions with:						
– associates and jointly controlled companies	63	99				
– subsidiaries of associates and jointly controlled companies	73	58				
– other related parties through directors, statutory auditors and key managers	34	27				
– pension funds	20	20				
	190	**204**	**11,195**	**11,596**	**1.7**	**1.8**

The following tables present the major economic, balance sheet and financial transactions and balances between companies consolidated line-by-line on one hand and associates and jointly controlled companies on the other.

(millions of euro)	1st Quarter 2007	1st Quarter 2006	
Revenues	67	64	These mainly refer to revenues from Teleleasing S.p.A. euro 57 million (euro 50 million in the first quarter of 2006), LI.SIT. S.p.A. euro 2 million (euro 5 million in the first quarter of 2006), Shared Service Center Scrl euro 5 million (euro 6 million in the first quarter of 2006), ETECSA euro 1 million (euro 2 million in the first quarter of 2006) and Telbios S.p.A. euro 1 million.
Other income	0	1	This mainly refers to cost recoveries for off-site personnel by certain subsidiaries and associates.
Purchases of materials and external services	21	26	These refer mainly to costs for rent from Tiglio I S.r.l. euro 1 million (euro 1 million in the first quarter of 2006), Tiglio II S.r.l. euro 1 million (euro 1 million in the first quarter of 2006), for TLC services from ETECSA euro 2 million, for maintenance and assistance contracts from Shared Service Center Scrl euro 6 million (euro 5 million in the first quarter of 2006), for TLC equipment from Teleleasing S.p.A. euro 3 million (euro 6 million in the first quarter of 2006), for sponsorship costs from Luna Rossa Challenge 2007 S.L. euro 5 million (euro 4 million in the first quarter of 2006 for accessories and consumables from Baltea S.r.l. euro 1 million (euro 1 million in the first quarter of 2006), for remote medicine services from Telbios S.p.A. euro 2 million (euro 1 million in the first quarter of 2006). In the first quarter of 2006 there were costs for software and computer materials as well as maintenance and assistance contracts from Siemens Informatica S.p.A. euro 5 million, no longer a related party.
Financial expenses	7	6	These mainly refer to interest expenses to Teleleasing S.p.A. euro 6 million (euro 6 million in the first quarter of 2006) for finance leases.
Capital expenditures in tangible and intangible assets	16	26	These refer mainly to acquisitions of computer projects from Shared Service Center Scrl euro 16 million (euro 19 million in the first quarter of 2006). In the first quarter of 2006 there were purchases from Siemens Informatica S.p.A. euro 7 million, no longer a related party.

(millions of euro)	**3/31/2007**	**12/31/2006**	
Securities, financial receivables and other non-current financial assets	24	24	These refer to medium/long-term loans made to Aree Urbane S.r.l. euro 24 million (euro 24 million at 12/31/2006).
Miscellaneous receivables and other non-current assets	10	10	These refer to receivables from LI.SIT S.p.A. euro 10 million for the residual additional paid-in capital paid (euro 10 million at 12/31/2006).
Trade and miscellaneous receivables and other current assets	194	201	These refer mainly to receivables from LI.SIT. S.p.A. euro 116 million (euro 120 million at 12/31/2006), Teleleasing S.p.A. euro 58 million (euro 64 million at 12/31/2006), Luna Rossa Challenge 2007 S.L. euro 7 million (euro 10 million at 12/31/2006), Shared Service Center Scrl euro 6 million (euro 2 million at 12/31/2006), ETECSA euro 3 million (euro 2 million at 12/31/2006), Telbios S.p.A. euro 2 million (euro 1 million at 12/31/2006), Im.Ser S.r.l. euro 1 million (euro 1 million at 12/31/2006).
Financial receivables and other current financial assets	0	1	At 12/31/2006 these refer to loans made to Aree Urbane S.r.l.
Cash and cash equivalents	1	1	These refer to treasury accounts with associates.
Non-current financial liabilities	244	239	These refer to non-current financial payables (i) to Teleleasing S.p.A. euro 235 million (euro 231 million at 12/31/2006) for finance leases (ii) to Tiglio I S.r.l. euro 8 million (euro 7 million at 12/31/2006) and Tiglio II S.r.l. euro 1 million (euro 1 million at 12/31/2006) for sale and leaseback transactions.
Current financial liabilities	159	148	These refer to current financial payables (i) to Teleleasing S.p.A. euro 158 million (euro 143 million at 12/31/2006) for finance leases and (ii) to Tiglio I S.r.l. euro 1 million (euro 4 million at 12/31/2006). At 12/31/2006 there were financial payables to Tiglio II S.r.l. euro 1 million for sale and leaseback transactions.
Trade and miscellaneous payables and other current liabilities	63	99	These mainly refer to payables, for supply transactions connected with operating and investment activities, to Shared Service Center Scrl euro 21 million (euro 16 million at 12/31/2006), Teleleasing S.p.A. euro 6 million (euro 3 million at 12/31/2006), ETECSA euro 13 million (euro 12 million at 12/31/2005), Telbios S.p.A. euro 3 million (euro 2 million at 12/31/2006), Baltea S.r.l. euro 1 million (euro 1 million at 12/31/2006), Luna Rossa Challenge 2007 S.L. euro 1 million (euro 1 million at 12/31/2006), Asscom S.r.l. euro 1 million (euro 1 million at 12/31/2006), NordCom S.p.A. euro 1 million (euro 1 million at 12/31/2006) and Tiglio I S.r.l. euro 1 million, and deferred income from LI.SIT S.p.A. euro 15 million relating to the accrued portion of investment income (euro 14 million at 12/31/2006). At 12/31/2006 there were also trade payables to Siemens Informatica S.p.A. euro 48 million, no longer a related party

The Telecom Italia Group has also provided guarantees on behalf of associates for a total of euro 99 million (euro 102 million at December 31, 2006) of which euro 54 million is on behalf of Tiglio I S.r.l. (euro 54 million at December 31, 2006), euro 11 million on behalf of Aree Urbane S.r.l. (euro 11 million at December 31, 2006), euro 22 million on behalf of Italtel group (euro 25 million at December 31, 2006) and euro 12 million on behalf of other companies (euro 12 million at December 31, 2006).

The following table presents the major economic, balance sheet and financial transactions and balances between companies consolidated line-by-line on one hand and companies controlled by associates and by jointly controlled companies on the other (the companies of the Italtel group, a related party through the investment in the parent Italtel Group S.p.A. and the companies of the Telecom Argentina group related through Sofora Telecomunicaciones S.A.).

(millions of euro)	1st Quarter 2007	1st Quarter 2006	
Revenues	4	55	These refer to revenues from the Telecom Argentina group euro 4 million (euro 4 million in the first quarter of 2006). In the first quarter of 2006 there were revenues from the Brasil Telecom Participaçoes group euro 51 million relating to telecommunications services, no longer a related party.
Purchases of materials and external services	4	13	These refer to costs for maintenance and assistance contracts from the Italtel group euro 2 million (euro 4 million in the first quarter of 2006), the Telecom Argentina group euro 2 million (euro 4 million in the first quarter of 2006). In the first quarter there were costs for TLC services from the Brasil Telecom Participaçoes group euro 5 million, no longer a related party
Capital expenditures in tangible and intangible assets	53	109	These refer to the purchase of telephone exchanges from the Italtel group.

(millions of euro)	3/31/2007	12/31/2006	
Trade and miscellaneous receivables and other current assets	16	14	These refer to telephone services rendered to the Italtel group euro 1 million (euro 1 million at 12/31/2006) and receivables from the Telecom Argentina group connected with TLC activities for euro 15 million (euro 13 million at 12/31/2006).
Miscellaneous payables and other non-current liabilities	23	23	These refer to the medium/long-term portion of the deferral relating to the supply of “IRU” transmission capacity to Telecom Argentina S.A.
Trade and miscellaneous payables and other current liabilities	73	58	These refer to payables, for the supply transactions connected with investment and operating activities, to the Italtel group euro 70 million (euro 54 million at 12/31/2006) and to the Telecom Argentina group for TLC activities euro 3 million (euro 4 million at 12/31/2006) of which euro 2 million represents the short-term portion of the deferral relating to the supply of “IRU” transmission capacity to Telecom Argentina S.A.

The following table presents the major economic, balance sheet and financial transactions and balances between companies consolidated line-by-line on one hand and parties related to Telecom Italia S.p.A. through directors, statutory auditors and key managers of the company on the other.

(millions of euro)	1st Quarter 2007	1st Quarter 2006	
Revenues	5	3	These refer to telephone services and information system and computer services supplied to the Pirelli group euro 2 million (euro 2 million in the first quarter of 2006); to the Edizione Holding group euro 2 million (euro 1 million in the first quarter of 2006) and to related companies through Mr. Moratti euro 1 million.
Purchases of materials and external services	12	32	These refer to R&D expenditures, purchases of ADSL modems and equipment, consulting and services regarding intellectual property rights and real estate activities from the Pirelli group euro 10 million (euro 25 million in the first quarter of 2006), sponsorship and content provider costs from F.C. Internazionale Milano S.p.A. – a related company through Mr. Moratti, euro 1 million (euro 1 million in the first quarter of 2006), sponsorships and commissions paid for the sale of prepaid telephone cards to Autogrill S.p.A (Edizione Holding group) euro 1 million (euro 1 million in the first quarter of 2006). In the first quarter of 2006 there were also Document Management services from Telepost euro 5 million, no longer a related party.
Financial income	3	0	These refer income from derivative contracts with Mediobanca.
Financial expenses	4	0	These refer expenses on derivative contracts with Mediobanca.
Capital expenditures in tangible and intangible	27	19	These basically refer to purchases of ADSL modems and equipment from the Pirelli group.

(millions of euro)	3/31/2007	12/31/2006	
Trade and miscellaneous receivables and other current assets	4	5	These mainly refer to the above-mentioned services for revenues from sales and services from the Pirelli group euro 2 million (euro 3 million at 12/31/2006), to the Edizione Holding group euro 2 million (euro 1 million at 12/31/2006). At 12/31/2006 there were receivables from other companies for euro 1 million.
Securities (current assets)	8	0	These refer to securities issued by Mediobanca.
Non-current financial liabilities	219	0	These refer (i) for euro 194 million to non-current financial payables relating to the Term Loan Facility (euro 136 million expiring 1/28/2010), and the Revolving Credit Facility (euro 58 million expiring 8/4/2012) where Mediobanca is one of the Initial Mandated Lead Arrangers and Bookrunners; (ii) for euro 25 million to fair value derivative hedging contracts relating to CCIRS on Telecom Italia Capital S.A. bonds, USD 1 billion 4% due 11/15/2008 subscribed to with Mediobanca.
Trade and miscellaneous payables and other current liabilities	34	27	These mainly refer to payables, for supply transactions connected to the performance of services and investment activities, to the Pirelli group euro 33 million (euro 20 million at 12/31/2006) and to transactions with the Edizione Holding group euro 1 million. At 12/31/2006 there were payables relating to sponsorship activities from F.C. Internazionale Milano S.p.A. – a related party through Mr. Moratti, euro 2 million and costs for Document Management services by Telepost euro 4 million, no longer a related party.

The following table presents the major economic, balance sheet and financial transactions and balances between companies consolidated line-by-line on one hand and pension funds for employees of the companies of the Telecom Italia Group on the other.

(millions of euro)	1st Quarter 2007	1st Quarter 2006	
Personnel costs	7	5	These refer to the contribution made to pension funds of which euro 4 million for Telemaco (euro 4 million in the first quarter of 2006), euro 2 million for Fontedir (euro 1 million in the first quarter of 2006) and euro 1 million for other Italian and foreign pension funds.

(millions of euro)	3/31/2007	12/31/2006	
Trade and miscellaneous payables and other current liabilities	20	20	These refer to contributions payable to pension funds of which euro 13 million for Telemaco (euro 15 million at 12/31/2006), euro 5 million for Fontedir (euro 4 million at 12/31/2006) and euro 2 million for other Italian and foreign pension funds (euro 1 million at 12/31/2006).

The following is a brief description of the contents of the main contracts between the Telecom Italia Group and associates, jointly controlled companies, companies controlled by associates, companies controlled by companies subject to joint control and related parties through directors, statutory auditors and key managers.

Contracts with:

Baltea S.p.A
Expense related
The contracts refer to purchases of accessories and consumable stores for Olivetti S.p.A. photocopiers destined for resale.

EtecSA
Revenue related
The main contracts relate to:
- Telecom Italia Sparkle data traffic;
- technical assistance supplied by Telecom Italia S.p.A.;
- recovery of costs for off-site personnel.

Expense related
The main contracts relate to roaming traffic originated by Telecom Italia customers on the EtecSA network.

IN.VA S.p.A.
Revenue related
The main contracts refer to 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, by supplying:
- cards with microchips for all citizens and health operators in Lombardy;
- outsourcing services for the management of the Internet Data Center and hardware and software systems;
- professional and applications consulting for the implementation and management of the system.

Luna Rossa Challenge 2007 S.L.

Revenue related
The main contracts cover the supply of telephone and data transmission services.
Expense related
The main contracts refer to the sponsorship of the Luna Rossa sailboat during the XXXII America's Cup. According to these contracts, Telecom Italia Group has become the Main Sponsor of Luna Rossa and Partner and Official Sponsor of the race. It also acquired the sublicense rights on the "Luna Rossa" trademark for certain categories of goods.

Nordcom S.p.A.

Revenue related
The main contracts refer to the supply of data network connections and software applications.
Expense related
The contract refers to the development of systems and computer solutions.

Shared Service Center S.c.a.r.l.

Revenue related
The main contracts refer to:
- the supply of telephone and data transmission services;
- the operation of the client's software applications at the Telecom Italia S.p.A. data center;
- the recovery of costs of off-site personnel and centralized expenses.

Expense related
The main contracts refer to:
- the supply of computer and information services relating to:
  - design, implementation, release, operation and management of portals, institutional sites, SAP and dedicated solutions;
  - SAP application maintenance and service management services;
- lease of a building.

Teleleasing S.p.A.

Revenue related
The contracts relate to the application of the cooperation agreement signed in 2000.
By virtue of this agreement, Telecom Italia S.p.A. assigned Teleleasing S.p.A. the role of financial partner for its commercial offerings to customers purchasing by lease instead of by outright purchase. Telecom Italia S.p.A. sells the equipment to Teleleasing S.p.A. which, in turn, signs the lease contract with the customer; Telecom Italia S.p.A. sees to the collection of the lease payments after having acquired the rights.
Expense related
The main contracts refer both to the finance lease of telephone systems to Telecom Italia S.p.A. and its subsidiaries and the finance lease of a building.

Telbios S.p.A.

Revenue related
The main contracts cover the supply of telephone services and services for WBS activities.
Expense related
The main contracts refer to the supply of services, products and hardware systems and software for the remote medicine offering.

Tiglio I S.r.l.

Revenue related
The main contracts call for the supply of telephone services.
Expense related
The main contracts refer to:
- the lease of buildings (also premises housing telecommunications equipment) with an expiration date in 2021 and the possibility of tacit renewal, unless notice of termination is given by Telecom Italia S.p.A., for successive periods of six years, at the same terms and conditions as originally agreed;
- the lease of buildings solely for office use, for standard lease periods.

Tiglio II S.r.l.
Expense related
The main contracts refer to:
- the lease of buildings (also premises housing telecommunications equipment) with an expiration date in 2021 and the possibility of tacit renewal, unless notice of termination is given, by Telecom Italia 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.

* * *

Telecom Argentina group
Revenue related
The main contracts refer to technical assistance provided by Telecom Italia for broadband development and for the study and implementation of Value Added Services, as well as data transmission and voice services and the supply of “IRU” transmission capacity by Telecom Italia Sparkle.
Expense related
The main contracts relate to international telecommunications services and roaming.

Italtel group
Revenue related
The main contracts provide for the supply of telephone and data transmission services.
Expense related
The main contracts provide for the supply and maintenance of traditional switching and innovative switching (VoIP) equipment and the relative services, as well as the supply of innovative devices and their maintenance for the data networks using CISCO technology.

* * *

Camfin S.p.A.
Revenue related
The main contracts refer to the supply of telephone and data transmission services.
Expense related
The contract refers to the supply of gas with the company Cam Gas S.p.A..

Edizione Holding group
Revenue related
The main contracts provide for the supply of telephone and data transmission services that are operated by outsourcing with dedicated assistance.
Expense related
The main contracts refer to commissions paid to Autogrill S.p.A. for the sale of prepaid telephone cards, occupancy charges for the public telephones located at their structures and sponsorships of companies and sports events.

F.C. Internazionale Milano S.p.A.
Revenue related
The main contracts call for the supply of telephone and data transmission services.
Expense related
The main contracts refer to costs for the sponsorship and the rights to diffuse content regarding the sports events of the company F.C. Internazionale Milano (Inter) by Telecom Italia. The sponsorship contract particularly provides for the possibility of using the Inter brand and logo for all advertising activities and the sale of mobile telephone products, the participation of Inter in the Trofeo TIM and the visibility of the TIM brand during the Inter championship and Coppa Italia/TIM Cup games at home.

Mediobanca group
Revenue related
These refer to bonds issued by Mediobanca subscribed to by companies of the Telecom Italia Group and fair value hedging derivatives relating to hedged elements included in current assets of a financial nature.

Expense related

The contracts refer to the following:

- Term Loan Facility and Revolving Credit Facility where Mediobanca is one of the Initial Mandated Lead Arrangers and Bookrunners;
- Fair value hedging derivatives referring to hedged elements classified in non-current liabilities of a financial nature, relating to CCIRS on Telecom Italia Capital S.A. bonds for USD 1 billion, 4%, maturing November 15, 2008.

Pirelli & C. S.p.A.

Revenue related

The contracts refer to:

- assistance and consulting services rendered for economic analyses and sector studies
  The purpose of this contract is the performance of assistance and consulting services for economic analyses and sector studies by Telecom Italia on behalf of Pirelli.
- supply of telecommunications and computer and information services

Expense related

The following contracts are worthy of note:

- Contract for consulting and services for patent rights
  The contract refers to:
  – consulting and end-to-end services regarding patent rights and trademarks;
  – defining strategies regarding patent rights;
  – litigation and analyses of patents of the competition;
  – management of a database for patent data and relative reports;
  – training of technicians.
  During the quarter, a mutual resolution of the relationship was agreed starting from April 1, 2007 and continuing to the end of the year (natural expiration date of the contract) for certain initiatives in progress (such as the management of the rights to the "Luna Rossa" brand) and support in the transfer of the activities.
- Contract for research and development
  The contract, signed in 2002, covers research projects and product development projects, but differently.
  – Research projects

The contract provides:

1. with regard to the results of research for which patents are not filed, three areas of competence which have been identified as follows:
   – simple and complex devices, competence of Pirelli;
   – networks and services, competence of Telecom Italia S.p.A.;
   – subsystems, joint competence of Telecom Italia S.p.A. - Pirelli.

2. with regard to patents resulting from research, ownership is joint, with the understanding that each party must give the other a license on the respective portion of ownership according to the following format:
   – Pirelli grants Telecom Italia S.p.A. an exclusive license which can be sublicensed for patents for use in the "Networks and Services" area;
   – Telecom Italia S.p.A. grants Pirelli an exclusive license which can be sublicensed for patents for use in the "Devices" area.

   Each of the parties is required to pay the other party 50% of the consideration from any sublicenses granted. Furthermore, Pirelli is obliged to sell to Telecom Italia and the companies it controls, under an exclusive arrangement, any optical devices for telecommunications that use patents deriving from the research projects, for a period of one year from the completion of the single project.
   However, the parties may agree upon alternative solutions which ensure a similar or substitute advantage to Telecom Italia S.p.A..

- Product development projects
  The main points of the new contract are as follows:
  – at the start of every project, the activities are planned, the requisites of the anticipated product and the increase in value from the relative development are agreed, in addition to a target price for the product under development;

- as the project progress, if the product under development is no longer of interest to Telecom Italia due to changes in market conditions or technology, Telecom Italia may discontinue the project at pre-set times;
- Telecom Italia shall acquire exclusive ownership of the rights to the outcome of the projects and, should it decide to buy the product, will assign Pirelli the first lot supplied.

- Contract for the supply of apparatus
  These contracts call for the supply or user apparatus for network access and broadband services.

- Cooperation contract concerning joint initiatives
  Under this contract, Pirelli is working on two research projects for Telecom Italia: one relating to the "Distributed Sensor Network" and the second to "Third-generation poles for the wireline network". The agreements state that Telecom Italia S.p.A. is entitled to ownership of the rights to the intellectual properties deriving from the work established in the contracts where they are: a) exclusively applicable to telecommunications networks and/or telecommunications services or components of telecommunications networks which technical appendices of the projects identify as their specific objective, 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, building leases and electrical energy.
Expense related
The contracts refer to project management (development of real estate projects), property management (administrative management of lease contracts) and agency services (commercial management of owned and leased buildings), supply of electrical/thermal energy and total facility management (management and operation of plants, security and cleaning services).
Furthermore, Pirelli & C. Real Estate has a 35% stake in the capital of the companies which hold the closed-end real estate investment funds Raissa and Spazio Industriale (to which properties were contributed as part of the real estate transaction approved by the board of directors on December 21, 2005) and holds control of the management companies (Pirelli & C. Real Estate SGR and Pirelli & C. Real Estate SGR Opportunities) of the above real estate funds.

* * *

Pension funds

Expense related
Transactions regarding supplementary pension funds refer to:
- payment of contributions both by the employer and the employee;
- supply of personal information records of the associated employees with the relative contribution details.

* * *

Compensation to key managers

The "key managers", that is, those who have the power and responsibility, directly or indirectly, for the planning, direction and control of the operations of Telecom Italia, including the directors, are the following:

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

(*) Executive Officers since February 16, 2007.

The total compensation recorded for the period by Telecom Italia S.p.A. or by companies controlled by the Group in respect of key managers amounts to euro 7 million, divided as follows:

(millions of euro)	1st Quarter 2007	1st Quarter 2006
Short-term compensation	5	4
Long-term compensation	2	
	7	**6**

Business outlook: for the current year in progress

With regard to the current year operating performance, the actual figures for the first quarter of 2007 confirm the trend described in the 2006 annual report. In particular, compared to the prior year, forecasts are for an organic growth in revenues of the Group of between +1% and +2%. The percentage of EBITDA to revenues is expected to be 2 to 2.5 percentage points lower while the percentage of operating income (EBIT) to revenues is expected to decrease between 2.5 and 3 percentage points.
Moreover, net financial debt is expected to decrease and at year-end will be less than three times EBITDA.

Events subsequent to March 31, 2007

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

The Business Units of the Telecom Italia Group

On January 22, 2007, in light of important technological, market and regulatory changes, Telecom Italia introduced a new organizational structure aimed at ensuring greater operational flexibility and facilitating the implementation of the strategic guidelines for the convergence of the various areas of business (fixed, mobile and broadband internet communications and media content).
Accordingly, the disclosure by business segment was changed and the accounting representation is now the following:

- Domestic
- European BroadBand
- Brazil Mobile
- Media
- Olivetti
- Other activities

In particular:

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

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

(millions of euro)		Domestic	European Broad Band	Brazil Mobile	Media	Olivetti	Other activities (1)	Adjustments and eliminations	Total consolidated
Revenues	**1st Quarter 2007**	**6,009**	**304**	**1,100**	**58**	**83**	**60**	**(74)**	**7,540**
	1st Quarter 2006	6,297	204	837	44	94	64	(58)	7,482
EBITDA	**1st Quarter 2007**	**2,853**	**30**	**269**	**(11)**	**(10)**	**23**	**–**	**3,154**
	1st Quarter 2006	3,148	2	181	(28)	(12)	10	(6)	3,295
EBIT	**1st Quarter 2007**	**1,790**	**(31)**	**16**	**(26)**	**(14)**	**15**	**13**	**1,763**
	1st Quarter 2006	2,081	(38)	(36)	(41)	(17)	28	7	1,984
Capital expenditures	**1st Quarter 2007**	**867**	**142**	**116**	**30**	**2**	**3**	**–**	**1,160**
	1st Quarter 2006	850	95	63	45	2	1	(31)	1,025
Headcount at	**3/31/2007**	**66,479**	**4,390**	**9,509**	**973**	**1,400**	**1,440**	**–**	**84,191**
	12/31/2006	66,835	3,066	9,531	919	1,428	1,430	–	83,209

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

(millions of euro)	Digitel Venezuela	Adjustments and eliminations	Total
Revenues	95	(1)	94
EBITDA	25	–	25
EBIT	12	–	12
Net income (loss) from discontinued operations/assets held for sale	11	–	11
Capital expenditures	8	–	8

It should also be mentioned that in the balance sheet at March 31, 2007 and in the 2006 financial statements, Assets held for sale comprised the investments held in Solpart Participaçoes and Brasil Telecom Participaçoes following the decision to proceed with their sale.

Operating highlights of the Business Units of the Telecom Italia Group

	3/31/2007	12/31/2006	3/31/2006
DOMESTIC FIXED			
Fixed network connections in Italy (thousands)	23,205	23,698	24,867
Physical accesses (Consumer + Business) (thousands)	20,118	20,540	21,502
Voice pricing plans (thousands)	6,465	6,468	6,397
Broadband accesses in Italy (thousands)	7,095	6,770	5,982
Alice (ex-Virgilio) page views - (millions)	3,794	13,283	3,184
Alice (ex-Virgilio) average monthly single visitors - (millions)	21.0	19.1	19.2
Network infrastructure in Italy:			
– access network in copper (millions of km - pair)	105.8	105.7	105.2
– access network and transport in optical fibers (millions of km of fiber optics)	3.8	3.7	3.7
Network infrastructure abroad:			
– European backbone (km of optical fibers)	51,000	51,000	51,000
DOMESTIC MOBILE			
Mobile telephone lines in Italy (at period-end, thousands)	33,569	32,450	29,664
EUROPEAN BROADBAND			
Broadband accesses in Europe (at period-end, thousands)	3,113	1,890	1,471
BRAZIL MOBILE			
Mobile telephone lines in Brazil (at period-end, thousands)	26,307	25,410	21,018
MEDIA			
La 7 audience share Free to Air (analog mode) (period average, in %)	3.0	3.0	2.9
La 7 audience share Free to Air (analog mode) (March, in %)	2.9	3.1	3.0

Domestic

The Business Unit

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

The structure of the Business Unit

The Domestic Business Unit is organized as follows:

DOMESTIC		
FIXED	**MOBILE**	**INTERNATIONAL**
Telecom Italia S.p.A. - Fixed telecommunications services Loquendo S.p.A. Matrix S.p.A. Path.Net S.p.A. Telecontact Center S.p.A. Telsy Elettronica e Telecomunicazioni S.p.A. Telecom Italia Group Sparkle: Telecom Italia Sparkle S.p.A. Latin American Nautilus Group Med-1 Group Mediterranean Nautilus Group TMI Group Pan European Backbone Telecom Italia Sparkle Singapore Telecom Italia San Marino S.p.A. Telecom Italia Sparkle of North America Inc. Telefonia Mobile Sammarinese S.p.A. Thinx.sm S.r.l. TIS France S.A.S.	**Telecom Italia S.p.A.** - Mobile telecommunications services	**Telecom Italia S.p.A.** - Group functions Olivetti Multiservices S.p.A. Progetto Italia S.p.A. Tecnoservizi Mobili S.r.l. Telecom Italia Audit and Compliance Services Scarl Telenergia S.r.l.

Major corporate events/scope of consolidation

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

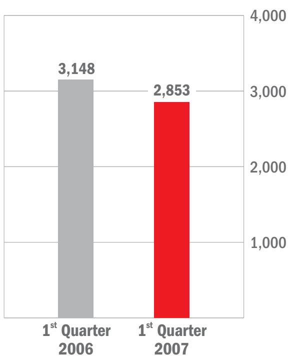
Main operating and financial data

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

(millions of euro)	1st Quarter 2007	1st Quarter 2006 (1)	Change amount	Change %
Revenues	6,009	6,297	(288)	(4.6)
EBITDA	2,853	3,148	(295)	(9.4)
% of Revenues	*47.5*	*50.0*		
EBIT	1,790	2,081	(291)	(14.0)
% of Revenues	*29.8*	*33.0*		
Capital expenditures	867	850	17	2.0
Headcount at period-end (number)	66,479	66,835	(356)	(0.5)

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

EBITDA (euro/mln)



Revenues totaling euro 6,009 million, record a contraction of 4.6% (– euro 288 million) compared to the first quarter of 2006. In organic terms, on a comparable consolidation basis and excluding the foreign exchange effect, the reduction is equal to euro 280 million (– 4.5%). This result was affected by the cut in the fixed-mobile termination rates (euro 47 million), the application of the Bersani Decree with effect from March 2007 (estimated at approximately euro 30 million), self-regulation with regard to the price of International Roaming (in keeping with the proposals of the European Commission) and, more significantly, the impact of the new accounting treatment as a result of the contractual changes regarding non-geographic numbers referring to Premium services (euro 119 million).

In particular, with regard to calls made by customers towards non-geographic numbers (NNG) of Other Operators (OLOs), with effect from January 1, 2007, in line with Resolution 417/06/CONS of the National Regulatory Agency, Telecom Italia will only provide billing services and no longer assume the risk of insolvency on the relative receivables. Therefore, with effect from the same date, revenues and related interconnection costs will not take into account traffic generated by such calls which, in the first quarter of 2006 had led to the recognition of revenues and costs totaling euro 119 million.

A description of the trend in revenues by Strategic Area of Business follows:

(millions of euro)	1st Quarter 2007	1st Quarter 2006	Change amount	Change %
Revenues	6,009	6,297	(288)	(4.6)
of which				
Fixed telecommunications	*3,989*	*4,286*	*(297)*	*(6.9)*
Mobile telecommunications	*2,365*	*2,370*	*(5)*	*(0.2)*
Elminations and central functions contribution	*(345)*	*(359)*	*14*	*(3.9)*

Fixed Telecommunications

Revenues from Fixed Telecommunications amount to euro 3,989 million, of which euro 2,161 million is from Retail Telephone, euro 353 million from the Internet segment, euro 393 million from Business Data, euro 992 million from the Wholesale segment and euro 90 million from other consolidated companies of the Business Unit and other revenues.
The performance of major business areas is reported below.

Retail telephone
Revenues from the Retail Telephone area are equal to euro 2,161 million and – net of the effect deriving from the above-mentioned contractual changes relating to Non-geographic Numbers – show a reduction of 7.8% compared to the first quarter of 2006, due to a contraction in volumes of traffic and a decline in the customer base as a result of the switch to mobile traffic, discontinuity owing to changes in the regulatory framework (fixed-mobile termination) and competitive price pressure, especially in the Top Customer segment.

Internet
Revenues generated by the Internet area, equal to euro 353 million, – net of the effect deriving from the above-mentioned contractual changes relating to Non-geographic Numbers – increased by 7.6% (+euro 25 million) compared to the first quarter of 2006, thanks to the continuous strong growth of broadband revenues (+euro 30 million; +10% compared to the first quarter of 2006).
At March 31, 2007, the overall portfolio of retail broadband customers of Fixed telecommunications in Italy total more than 5.9 million (+18.7% compared to the first quarter of 2006 and +4.3% compared to December 2006). Focus continues to be placed on developing Flat rate offers which now account for about 53% of the Alice Consumer client portfolio; the increase in the VoIP customer portfolio is significant, with 549,000 customers representing 9.3% of total Broadband accesses.

Data Business
Overall, revenues from the Data Business area, equal to euro 393 million, show a contraction of euro 50 million compared to the first quarter of 2006 (– 11.3%). This decline, due to ever-fiercer competition on the market of Corporate customers and the contract price revision with the Public Administration, is particularly evident in leased line services (– euro 19 million) and traditional Data Transmission services (– euro 26 million). Conversely, there was a positive trend in ICT services, which showed a continuous trend of growth (+euro 7 million; +5.2% compared to the first quarter of 2006).

Wholesale
Overall, revenues from Wholesale services, equal to euro 992 million, show an increase of euro 47 million compared to the first quarter of 2006 (+5.0%).
Revenues from national wholesale services amount to euro 561 million and record a gain of euro 57 million compared to the first quarter of 2006 (+11.3%). International wholesale services reported revenues of euro 431 million with a contraction of euro 10 million compared to the first quarter of 2006 (– 2.3%).

Mobile Telecommunications

Revenues in the first quarter of 2007 amount to euro 2,365 million, basically in line with the first quarter of 2006 (– euro 5 million). However, this performance was affected by the negative impact of the new termination price list which came into force (euro 36 million), the effect of the Bersani Decree (estimated at approximately euro 30 million) and the above-mentioned self-regulation with regard to the price of International Roaming traffic. If these regulatory changes are not considered, total revenues of Domestic Mobile would have increased by 1.4% and revenues from services by 2.2% in comparison to the first quarter of 2006. Domestic Mobile revenues were also hurt by the new termination price list (euro 36 million). If this item and the regulatory changes are not considered, total revenues of the Domestic Mobile would have increased by 2.9% and revenues from services by 3.8% compared to the first quarter of 2006.

The strong growth in revenues during the first quarter of 2007 was particularly driven by the segment of Value-Added Services (VAS), equal to euro 451 million (+euro 45 million, +11.1%), thanks to the continuous innovation of the offering portfolio with regard to interactive services (+euro 32 million; +21%). The percentage of VAS to total revenues is now 19.1% (compared to 17.1% in the first quarter of 2006) and VAS to revenues from services is 20% (compared to 18% in the first quarter of 2006). “Telephone” revenues, equal to euro 1,741 million, show an increase in outgoing traffic (+1.4%; +euro 19 million) and a decrease in incoming traffic (– 7.9%; – euro 35 million) which was hurt by the above negative impact of the new termination price list (euro 36 million); if the new price list is not considered, the change in incoming voice revenues compared to 2006 would be nil.

Revenues from the sale of terminals total euro 91 million, a decrease of euro 16 million (– 15.0%) compared to the first quarter of 2006. A total of 1.2 million terminals was sold (+0.1 million compared to the first quarter of 2006), of which more than 0.4 million are UMTS (+0.1 million compared to the first quarter of 2006).

EBITDA of the Domestic Business Unit, equal to euro 2,853 million, records a decrease of 9.4% (– euro 295 million) compared to the first quarter of 2006, with the percentage of EBITDA to revenues at 47.5% (50.0% in the first quarter of 2006). EBITDA, compared to 2006, was highly influenced by the different mix of revenues and the ever-greater competitive pressure in Italy, impacting both prices and sales costs. Added to this is the acknowledged regulatory effects and the impact caused by the Bersani Decree.

The organic change in EBITDA compared to the first quarter of 2006 is a negative 8.9% (– euro 283 million), with the percentage of EBITDA to revenues at 48.1% (50.4% in the first quarter of 2006). Details are as follows:

(millions of euro)	1st Quarter 2007	1st Quarter 2006	Change amount	%
HISTORICAL EBITDA	**2,853**	**3,148**	**(295)**	**(9.4)**
Effect of change in scope of consolidation		(5)		
Effect of change in exchange rates		(1)		
Non-organic (income) expenses:	36	30		
Corporate restructuring costs		*5*		
Restructuring costs	*36*	*24*		
Other		*1*		
COMPARABLE EBITDA	**2,889**	**3,172**	**(283)**	**(8.9)**

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

- purchases of materials and external services total euro 2,327 million, with a decrease of 0.9% compared to the first quarter of 2006, mainly due to the reduction in the portion to be paid to other operators following the previously mentioned contractual changes relating to non-geographic numbers. This effect was partially offset by the increase in the costs for the purchase of products for sale, commercial expenses and lease payments (for buildings, circuits and satellite systems).
- personnel costs amount to euro 878 million, a reduction of euro 6 million compared to the first quarter of 2006 (– 0.7%); this falloff is primarily related to the reduction in the number of the work force;
- other operating expenses amount to euro 175 million (+euro 22 million compared to the first quarter of 2006, +14.4%); the change is principally the result of higher expenses connected with credit management.

EBIT of the Domestic Business Unit, totaling euro 1,790 million, decreased by 14.0% (– euro 291 million) compared to the first quarter of 2006; the percentage of EBIT to revenues is 29.8% (33.0% in the first quarter of 2006).

In organic terms, the reduction in EBIT against the first quarter of 2006 is 10.1% (– euro 205 million); the percentage of EBIT to revenues is 30.2% (32.1% in the first quarter of 2006). Details are as follows:

(millions of euro)	1st Quarter 2007	1st Quarter 2006	Change amount	%
HISTORICAL EBIT	**1,790**	**2,081**	**(291)**	
Effect of change in scope of consolidation		(5)		
Effect of change in exchange rates				
Non-organic (income) expenses:	26	(55)		
Non-organic (income) expenses already described under EBITDA	36	30		
Additional non-organic (income) expenses	(10)	(85)		
Gains on sale of non-current assets	*(10)*	*(85)*		
COMPARABLE EBIT	**1,816**	**2,021**	**(205)**	**(10.1)**

EBIT performance was affected by the decrease in depreciation charges (euro 80 million) mainly on account of the assessment of the useful life of the assets of the fixed and mobile networks conducted by Telecom Italia at the end of 2006. This assessment, if applied from the first quarter of 2006 would have resulted in a reduction of the relative depreciation charge of about euro 122 million.

Capital expenditures total euro 867 million (+euro 17 million over the same period of 2006). The percentage of capital expenditures to revenues is equal to 14.4% (13.5% in the first quarter of 2006). Higher investments indicate the constant attention paid by the Group to the continual modernization of the network, technologies and services.

Headcount is 66,479 and shows a reduction of 356 compared to December 31, 2006.

Key factors in Italy

Fixed Telecommunication

- The Domestic Fixed Services Function focused on encouraging its customers to migrate towards innovative access solutions, which provide access to a new generation of IP services and applications. The aim is to expand the penetration of ADSL into the Retail Broadband market through its range of "Alice" products to consumers, SOHOs and SMEs. At March 31, 2007 this strategy enabled Telecom Italia to have a Broadband Retail + Wholesale portfolio of 7.1 million accesses (compared to about 6.8 million accesses at December 31, 2006), of which about 5.9 million for Retail Broadband. In the first quarter of 2007, Telecom Italia's commercial strategy was again directed to encourage customers with pay-per-use rate plans to migrate towards Flat rate plans and voice/data bundle packages, which now constitute about half Telecom Italia's Retail Broadband customers.
  Furthermore, the Domestic Fixed Services function is continuing to develop new services to limit the erosion taking place in traditional services. On the Consumer market, the IPTV service was launched with a geographical coverage of 250 cities by the end of 2006.
  In addition, Telecom Italia continued to develop its range of content and services on the Internet and its range of Advanced Telephony such as Video-communication and VAS.
  In the Telecom Italia Business market, increasing efforts are being made to offer ICT solutions to customers, as a tool to promote customer retention and increase revenues.
  In the traditional Telephone business, the main strategy was to increase the penetration of flat rate voice packages with the aim of increasing retention of its own customers and luring back others who had switched to other operators.

Mobile Telecommunications

- In 2006, the Domestic Mobile Services Function concentrated on regaining and stabilizing its market share of customers, which, in recent years, had been eroded by increasing competition on the part of other operators, and on augmenting the penetration of UMTS handsets within its customer base. This strategy, which is continuing in 2007, has enabled the Business Unit to guarantee stable revenues, despite strong pressure from the competition and new regulations (in 2006 there was a marked reduction in termination rates).
  In order to strengthen its competitive position on the Italian market, the Domestic Mobile Services Function adopted an ever-more segmented business strategy, approaching specific segments with dedicated offers (for example, Elite, Giovani…) in areas where, in recent years, the positioning had been weaker. New rate plans were introduced to the Business segment to stimulate on-net traffic and new flat rate packages were offered which included voice, messaging and hi-speed data services.

Main operating data

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

	3/31/2007	12/31/2006	3/31/2006
Fixed telecommunications			
Fixed network connections in Italy (thousands)	23,205	23,698	24,867
Physical accesses (*Consumer* + *Business*) (*thousands*)	20,118	20,540	21,502
Voice pricing plans (thousands)	6,465	6,468	6,397
Broadband accesses in Italy (thousands)	7,095	6,770	5,982
Alice (ex-Virgilio) page views - (millions)	3,794	13,283	3,184
Alice (ex-Virgilio) average monthly single visitors - (millions)	21.0	19.1	19.2
Network infrastructure in Italy:			
– access network in copper (millions of km - pair)	105.8	105.7	105.2
– access network and transport in optical fibers (millions of km of fiber optics)	3.8	3.7	3.7
Network infrastructure abroad:			
– European backbone (km of optical fibers)	51,000	51,000	51,000
Total traffic:			
Minutes of traffic on the fixed network (billions)	41.7	173.8	46.0
– domestic traffic	38.1	160.1	42.8
– international traffic	3.6	13.7	3.2
Mobile Telecommunications			
Number of lines at the end of the period	33,569	32,450	29,664
Prepaid lines (1)	28,972	28,080	26,191
Growth of the clientele (%)	3.5	13.6	3.8
Churn rate (2)	3.5	16.4	4.3
Total outgoing traffic per month (millions of minutes)	2,419	2,443	2,364
Total outgoing and incoming traffic per month (millions of minutes)	3,677	3,730	3,619
Average monthly revenue per line (3)	23.1	25.6	25.8

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

At March 31, 2007, the Domestic Business Unit has approximately 23.2 million fixed connections. The decline, however, is offset by the growth in Broadband which, at March 31, 2007, reached a portfolio of more than 7 million accesses, of which about 5.9 million were retail broadband accesses, confirming the continuous expansion trend of ADSL technology.

At March 31, 2007, Telecom Italia has about 33.6 million mobile GSM and UMTS lines (of which 4.7 million are UMTS lines) with an increase of 3.5% compared to December 31, 2006. This figure includes 29.0 million prepaid lines, which represent 86.3% of all lines.

At March 31, 2007, Telecom Italia’s market share settled at 40.4%, in line with the figure at December 31, 2006. In particular, during the first three months of 2007, Telecom reached a market share of 42% in terms of the net increase of GSM and UMTS lines, corresponding to about 1.1 million lines.

During the first quarter of 2007, traffic volumes increased by 1.6% in terms of minutes compared to 2006, whereas revenues from voice services, net of the impact of new termination list prices and the Bersani Decree, rose by 1.1%. Monthly Average Revenues Per User (ARPU) (which include revenues from traffic and VAS) declined from about euro 25.8 in the first three months of 2006 to about euro 23.1 in the first quarter of 2007 (including revenues from services for non-TIM customers).

With regard to the international wholesale segment, during the first three months of 2007, actions continued to support the growth and profitability of voice traffic. In fact, volumes of international wholesale traffic (outgoing + incoming + transit) reported an overall increase of 487 million minutes (+15.5% compared to the corresponding period of 2006).
This performance stems mainly from the trend of international transit traffic which reported an increase in volumes of 377 million minutes (+25.9% compared to the first quarter of 2006). This is mainly the result of the acquisition of other wholesale customers (16 new interconnections, of which 11 in Voice Over IP and two with mobile operators) and the consolidation of privileged commercial relations with customers/suppliers in Africa, the Middle East and Eastern Europe.

In the first quarter of 2007, outgoing international traffic increased by 16.2% compared to the first quarter of 2006. Outgoing international traffic is mainly concentrated towards the following traffic areas and represents about 39% of the total number of minutes in the first quarter of 2007: Romania, Germany, France, Albania, Switzerland, the United Kingdom, the United States and Ukraine. Incoming international traffic reported a decrease of about 30 million minutes (– 3.6%).

The protection of profit margins was achieved by:
- increasing use of VoIP technology (920 million minutes, +141% compared to the first quarter of the prior year) with a consequent reduction in unit costs;
- cost efficiencies based on partnerships with customers/suppliers in Africa, the Middle East and Eastern Europe.

The table below shows incoming and outgoing international traffic in the first quarter of 2007 compared to the first quarter of 2006 (including traffic dialed directly by the caller, traffic connected by an operator and mobile traffic.

	1st Quarter 2007	1st Quarter 2006
Outgoing traffic (millions of minutes)	1,004	864
Percentage change in outgoing traffic (%) (1)	*16.2*	*(17.6)*
Incoming traffic (millions of minutes)	795	825
Percentage change in incoming traffic (%) (1)	*(3.6)*	*(1.8)*
Traffic in transit (millions of minutes)	1,832	1,455
Percentage change in traffic in transit (%) (1)	*25.9*	*(8.2)*

(1) Percentage change in traffic compared to first quarter of 2006.

During the first quarter of 2007, the Data/IP market again reported substantial growth of bandwidth sold (+127% for IP bandwidth and +67% for Managed Bandwidth compared to the corresponding period of 2006). This phenomenon offsets the trend of lower prices.
This led to an increase in revenues from innovative services of about 16.5% compared to the first quarter of 2006.

Effects of the recent Bersani Legislative Decree on rate plans and prices for domestic services

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

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

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

Furthermore, with the aim of keeping its customers informed, a Press campaign has been planned entitled "TIM: transparency you can see" for publication in the main national and local newspapers.

The aim of the Press campaign is to define the position of the company following the Bersani Decree and to emphasize the leadership of the operator by interpreting and re-launching the pact with its customers with regard to transparency, fair business and simplified rates.

European broadband

The Business Unit

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

The structure of the Business Unit

EUROPEAN BROADBAND		
GERMANY	**FRANCE**	**THE NETERLANDS**
Telecom Italia Deutschland Holding HanseNet Telekommunikation GmbH AOL Deutschland Gmbh & Co. KG AOL Erste Beteiligungsgesellschaft GmbH AOL Zweite Beteiligungsgesellschaft GmbH AOL Service Germany GmbH	Liberty Surf Group Liberty Surf Group S.A.S. Intercall S.A. Telecom Italia S.A.S.	BBNed Group BBned N.V. BBeyond B.V.

Major corporate events/scope of consolidation

On February 28, 2007, Telecom Italia Deutschland Holding finalized the purchase of the AOL Germany access business (broadband and narrowband) from the Time Warner Group. The consideration paid amounts to euro 665 million, plus about euro 6 million in transaction costs, net of cash acquired of euro 2 million at the time of purchase.

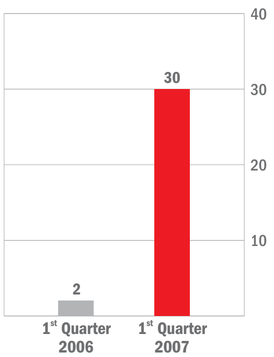
Main operating and financial data

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

(millions of euro)	1st Quarter 2007	1st Quarter 2006 (1)	Change amount	Change %
Revenues	304	204	100	49.0
EBITDA	30	2	28	
% of Revenues	9.9	1.0		
EBIT	(31)	(38)	7	18.4
% of Revenues	(10.2)	(18.6)		
Capital expenditures	142	95	47	49.5
Headcount at period-end	4,390	3,066	1,324	43.2

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

EBITDA (euro/mln)



Revenues during the first quarter of 2007 amount to euro 304 million, with an increase of 49.0% compared to the first quarter of 2006 (+euro 100 million). Organic growth for the period, that is, on a comparable consolidation basis, is euro 62 million, +25.6%.
This result is supported by the increase, for both internal lines and the acquisition of AOL Internet activities, of the Broadband customer portfolio, which, at March 31, 2007, exceeded 3.0 million accesses (of which 1.1 million from the acquisition of AOL Germany). Similarly, at the end of the first quarter of 2007, the Narrowband portfolio reached 1.2 million accesses (of which 1.0 million from the acquisition of AOL) compared to 0.4 million in the corresponding period of the prior year.

In greater detail, revenues from business conducted in Germany, equal to euro 198 million, reported an increase of 78.4% compared to the first quarter of 2006 (+euro 87 million); organic growth is 32.9%. This result is supported by the increase in the Broadband customer portfolio which, in Germany, at March 31, 2007 reached 2.1 million users, an increase of about 1.5 million compared to March 31, 2006 or almost 0.4 million excluding external lines.
With regard to the French area, in the first quarter of 2007, revenues amount to euro 88 million, an increase of 22.2% compared to the corresponding period of the prior year (+euro 16 million). In the Broadband area, there was an increase in both access revenues (+euro 11 million) and "Voice over IP" revenues (+euro 6 million).
Compared to the first quarter of 2006, the Broadband customer portfolio increased by 31.4% (+190,000 new customers).
The Netherlands contributed euro 18 million to total revenues, with a reduction compared to the first quarter of 2006 of euro 3 million due to the loss of lines in Wholesale ADSL (– 40,000 lines). This was only partly compensated by the increase in the number of customers in the Retail, Voice and Wholesale Fiber area (+17,000 lines).

EBITDA is euro 30 million and recorded an increase of euro 28 million compared to the first quarter of 2006. The percentage of EBITDA to revenues is 9.9% against 1.0% in the first quarter of 2006. At the organic level, EBITDA grew over the first quarter of 2006 by euro 22 million (+275%). Details are as follows:

(millions of euro)	1st Quarter 2007	1st Quarter 2006	Change amount	Change %
HISTORICAL EBITDA	**30**	**2**	**28**	
Effect of change in scope of consolidation		6		
COMPARABLE EBITDA	**30**	**8**	**22**	

With regard to changes in costs, the following is noted:
- purchases of materials and external services total euro 238 million, with an increase of 38.4% compared to 2006 (+euro 66 million), on a par with the growth of business;
- personnel costs amount to euro 39 million and increased by euro 10 million compared to 2006 (+34.5%), partly due to the increase in the headcount as a result of the acquisition of the AOL Germany access business.

EBIT is a negative euro 31 million, an improvement of euro 7 million (+18.4%) compared to the first quarter of 2006.
At the organic level, EBIT grew by 3.1% compared to the first quarter of 2006.
Details are as follows:

(millions of euro)	1st Quarter 2007	1st Quarter 2006	Change amount	Change %
HISTORICAL EBIT	**(31)**	**(38)**	**7**	**(18.4)**
Effect of change in scope of consolidation		6		
COMPARABLE EBIT	**(31)**	**(38)**	**1**	**(3.1)**

The improvement in EBIT was achieved despite a considerable increase in depreciation and amortization charges (+euro 18 million) due to both significant investments in network infrastructures and hardware and information systems and to commercial development where subscriber acquisition costs on contracts binding the customer to the company for 12 months, otherwise a penalty is applied in the event of early cancellation (as in the French case), are capitalized and amortized.

Capital expenditures amount to euro 142 million, an increase over the same period of 2006 (+euro 47 million). This increase is mainly due to technical projects (network and IT) and higher customer activations associated with the change in activations.

Headcount at March 31, 2007 is 4,390, an increase of 1,324 compared to December 31, 2006 including 764 people with temp work contracts (626 at December 31, 2006).
The increase is principally due to the AOL Germany acquisition (1,101 people) with the remaining number attributable to the growth of the operating departments (call centers and networks) of Telecom Italia S.A.S. and the BBNed Group.

Key factors

FRANCE

France is one of Europe's largest broadband markets and has high growth potential, with 5 million new lines anticipated over the period 2006-2009.
During the first quarter of 2007, the French market was again highly competitive with a bundled offering with rich content at some of the lowest prices on the European market: about euro 30 a month for dual and triple play rate plans (Video, Voice and Data).
The technological evolution of the offering continued with the launch of the first "trial" of Ultra-broadband fiber services by France Telecom and the announcement of the next development in this field by the Iliad and Neuf Cegetel groups. In this context, the Telecom Italia Group's French subsidiary again focused its strategy on organic growth and improving the quality of its services, with the aim of achieving excellence both in terms of operations and profitability. This objective will be achieved by:

- developing the product range, with particular reference to triple play content. The main achievements during the first quarter of 2007, in partnership with Canal+, included the introduction of a bundled triple play rate plan offering enhanced content and which is innovative from the technological point of view; the extension of the Video on Demand offering and the extension of the service nationwide; and the launch of the "Naked ADSL" offering in areas not covered by Unbundling;
- increasing the extent of the network, accelerating its expansion for the offering of LLU services. During the first quarter of 2007, the company extended coverage of the Unbundling service to 636 new sites ready for delivery;
- focusing commercial activities on the LLU offering, partly by a repositioning of prices;
- launching of a new development plan to improve the efficiency of the network and its processes and systems to ensure excellent standards of quality;
- developing Group synergies for the wholesale offering and towards the Corporate Multinational clientele.

GERMANY

The German market is Europe's largest in terms of broadband lines, and continues to have high growth potential (+15% in terms of new lines over the period 2006-2009). Technological evolution is also producing new development features as a result of the moves made by the incumbent Deutsche Telekom with regard to the VDSL offering.
The market is now concentrated in the hands of four or five players. Hansenet is the second-largest ISP and the third-largest broadband operator in Germany. In order to consolidate the positive results achieved and reinforce its position on the market, its strategy is based on the following factors:

- maximizing synergies with AOL; at the end of March, the new organizational structure was already operational, integrating the resources and expertise of the two companies, and integration has also begun on a commercial level. In particular, there is a new joint Alice-AOL portal; AOL's commercial channels have been integrated with the Alice multichannel strategy; upselling of Alice rate plans has started with the existing AOL customer base (broadband and narrowband);
- innovating the offering, where Hansenet was the first operator to launch the ADSL2+ rate plans and IPTV services. In this context, the main lines of development are geared to the IPTV offering, the content of which was enhanced during the first quarter of 2007, thanks to an agreement with Warner Bros, and the launch of a mobile offering as an MVNO - Mobile Virtual Network Operator.

Other area developed are:

- Group synergies for the wholesale offering and towards the MNC - Multi National Customer clientele;
- expanding of LLU coverage through the proprietary network which, at March 31, 2007, had 598 sites ready for delivery. 936 sites are open to the wholesale offering through the Group's partners Telefonica and QSC. Similarly, a new nationwide offering was launched based on wholesale DT;
- keeping an ever-watchful eye on the quality of service with particular reference to VoIP services.

THE NETHERLANDS

The Dutch market has undergone an important process of consolidation within the sphere of the wholesale offering, due to the fact that KPN has acquired numerous ISPs; there is also a significant offering of cable services (about 38% of the Retail Broadband market).
The incumbent KPN's announcement of a plan to develop the VDSL offering fits into this context. It led to moves by the Dutch regulator (OPTA) to reach agreements with operators about how the technological change of the offering and the consequent period of transition should be managed.
The response of the subsidiary BBNed is moving in the direction of rationalizing its offering on the market and developing new technological platforms. During the first quarter of 2007, action to reposition the company vis à vis the competition concentrated on the goal-oriented development of the retail optical services offering.

Brazil Mobile

The structure of the Business Unit

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

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

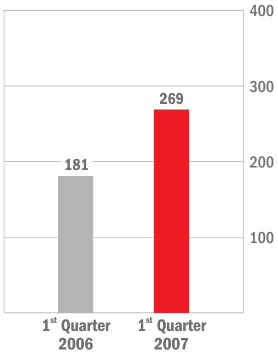
Main operating and financial data

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

	(millions of euro)		(millions of BRL)		
	1st Quarter 2007 (a)	1st Quarter 2006 (b) (1)	1st Quarter 2007 (c)	1st Quarter 2006 (d) (1)	Change % (c-d)/d
Revenues	1,100	837	3,040	2,213	37.4
EBITDA	269	181	745	478	55.9
% of Revenues	*24,5*	*21,6*	*24,5*	*21,6*	
EBIT	16	(36)	46	(94)	
% of Revenues	*1,5*	*(4,2)*	*1,5*	*(4,2)*	
Capital expenditures	116	63	321	166	93.4
Headcount at period-end	9,509	9,531	9,509	9,531	(0.2)

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

EBITDA (euro/mln)



Consolidated revenues of the Tim Brasil group in the first quarter of 2007 total BRL 3,040 million and grew by 37.4% compared to the first quarter of 2006 (+40.8% for revenues from services alone). The increase is due to the strong growth of voice services and value-added services sustained by the sharp expansion of the customer base (+25.2% compared to the same period of 2006).

In July 2006, Anatel (the Brazilian regulatory agency) eliminated the “Bill and Keep” regulation under which the Mobile Operators, until that date, had not received or paid interconnection charges on the minutes of local mobile-mobile traffic when the balance between the incoming and outgoing minutes exchanged with the Operator fell within a 45-55 range.
This change generated a positive impact on sales in the first quarter of 2007 equal to BRL 427 million and a similar increase in interconnection charges.
The growth of consolidated revenues in the first quarter of 2007 on a comparable regulatory basis would have been 19.1% for total revenues and 20.4% for revenues from services.

Consolidated EBITDA in the first quarter of 2007 totaling BRL 745 million increased by BRL 267 million compared to the first quarter of 2006 (+55.9%). As a percentage of revenues, EBITDA is 24.5% and shows an improvement of 2.9% compared to the corresponding period of 2006.

The organic growth of EBITDA compared to the same period of 2006 is equal to 48.7%, with EBITDA as a percentage of revenues at 24.5% (22.6% in the first quarter of 2006). Details are as follows:

(millions of euro)	1st Quarter 2007	1st Quarter 2006	Change amount	Change %
HISTORICAL EBITDA	**745**	**478**	**267**	**55.9**
Non-organic (income) expenses:	0	23		
Corporate restructuring costs		*11*		
Other		*12*		
COMPARABLE EBITDA	**745**	**501**	**244**	**48.7**

Consolidated EBIT in the first quarter of 2007 is a positive BRL 46 million (a negative BRL 94 million in the first quarter of 2006). The improvement in the result compared to 2006 was achieved despite higher depreciation and amortization charges, from BRL 573 million in 2006 to BRL 698 million in 2007, mainly relating to capital expenditures for network infrastructures, computer and information systems and subscriber acquisition costs.

At the organic level, EBIT in the first quarter of 2007 is equal to BRL 46 million and is BRL 117 million higher than the corresponding period of the prior year. The organic growth is analyzed as follows:

(millions of euro)	1st Quarter 2007	1st Quarter 2006	Change amount	Change %
HISTORICAL EBIT	**46**	**(94)**	**140**	**–**
Non-organic (income) expenses:		23		
Non-organic (income) expenses already described under EBITDA		23		
COMPARABLE EBIT	**46**	**(71)**	**117**	**–**

Capital expenditures for the period amount to BRL 321 million (BRL 166 million in the first quarter of 2006), an increase of BRL 155 million, partly as a result of expenditures (BRL 65 million) for the development of the customer base described above.

Headcount at March 31, 2007 is 9,509, basically stable compared to December 31, 2006 (9,531).

Key factors

At March 31, 2007, on the Brazilian market there were 102.2 million lines (54.2% of penetration of the population), compared to 99.9 million at the end of 2006 (53.2% penetration). The Tim Brasil group continued efforts to consolidate its position as the second-largest operator on the market, increasing its market share of lines to 25.8% (compared to 25.4% at December 31, 2006) reaching a total of 26.3 million lines at the end of the period.

During the first quarter of 2007, TIM Brasil again pursued its strategy of giving high priority to the quality of its end-to-end services; innovating its offering both for the consumer market and for the business market; investing in promotion of the brand image to increase the use of both voice and value-added services; constant supervision of efficiency in terms of industrial and sales expenses and business support.

Media

The Business Unit

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

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

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

The structure of the Business Unit

The Business Unit is organized as follows:

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

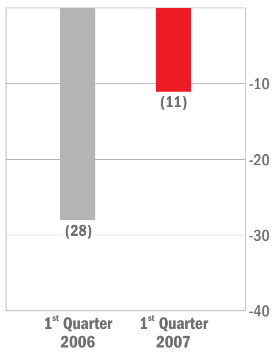
Main operating and financial data

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

	1st Quarter	1st Quarter	Change	
(millions of euro)	2007	2006 (1)	amount	%
Revenues	58	44	14	31.8
EBITDA	(11)	(28)	17	60.7
% of Revenues	*(19.0)*	*(63.6)*		
EBIT	(26)	(41)	15	36.6
% of Revenues	*(44.8)*	*(93.2)*		
Capital expenditures	30	45	(15)	(33.3)
Headcount at period-end	973	919	54	5.9

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

EBITDA (euro/mln)



Revenues in the first quarter of 2007 total euro 58 million, with an increase of 31.8%, compared to euro 44 million in the corresponding period of 2006. The positive trend in revenues can be attributed to the increase in the national advertising business (+14.9%) (contrary to the trend of the market which reported a contraction of 5.9% in the first two months of 2007) (source Nielsen), the affirmation of the editorial content of the broadcasting of the two channels and increased revenues from the Digital Terrestrial TV platform for the broadcasting of Serie A soccer games. In particular:

– in the first quarter of 2007, revenues from the analog Free to Air activities total euro 38 million, an increase of 17.7%;
– revenues from the Multimedia activities amount to euro 5 million, an increase of 27.5% compared to the corresponding period of the prior year, and benefit from the considerable contribution from advertising, especially on internet platforms;
– revenues from Digital Terrestrial TV activities stand at euro 12 million, compared to euro 5 million in the corresponding period of 2006. The increase in revenues benefited from development of the commercial “La7 Cartapiù” offering and was achieved partly as a result of the positive contribution deriving from the agreements reached with Mediaset and Telecom Italia on the broadcasting of the audio-visual content of Serie A soccer games on the DTT and DVBH platforms;
– revenues from the News Business Area amount to euro 2 million and are virtually unchanged compared to the first quarter of 2006.

EBITDA in the first quarter of 2007 is a negative euro 11 million compared to a negative EBIT in the corresponding period of 2006 of euro 28 million, with an improvement of euro 17 million (+60.7%).

Organic growth, compared to the first quarter of 2006 is equal to 63.0% (+euro 17 million). Organic growth was calculated by excluding non-organic expenses of euro 1 million in the first quarter of 2007 referring to termination benefit expenses. Details are as follows:

(millions of euro)	1st Quarter 2007	1st Quarter 2006	Change amount	Change %
HISTORICAL EBITDA	**(11)**	**(28)**	**17**	**60.7**
Non-organic (income) expenses:	1	1		
Restructuring costs	*1*			
Other		*1*		
COMPARABLE EBITDA	**(10)**	**(27)**	**17**	**63.0**

In particular, operating profitability during the first quarter of 2007 shows an improvement in analog Free to Air broadcasting of euro 5 million, driven by the growth of national advertising (+13.5%). 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 to develop new multi-channel/multi-platform strategies. The activities of Digital Terrestrial TV, which improved by euro 12 million compared to the first quarter of 2006, also reflect the above-mentioned increase in revenues (+euro 7 million), more efficient management of the platform and the effect of rationalizing costs on the digital Free to Air channels (La7 Sport and QOOB).

EBIT in the first quarter of 2007 is a negative euro 26 million (– euro 41 million in the corresponding period of 2006), improving by euro 15 million. This improvement in operating income was reduced in part by higher depreciation and amortization charges during the period (euro 2 million) as a consequent of both capital expenditures during the first quarter of 2007 for digital network infrastructures and higher utilization of television rights in the programs of the first part of the year.

The organic change compared to the first quarter of 2006 is a positive 37.5%, calculated as follows:

(millions of euro)	1st Quarter 2007	1st Quarter 2006	Change amount	Change %
HISTORICAL EBIT	**(26)**	**(41)**	**15**	**36.6**
Non-organic (income) expenses already described under EBITDA	1	1	–	
COMPARABLE EBIT	**(25)**	**(40)**	**15**	**37.5**

Capital expenditures total euro 30 million (euro 45 million in the first quarter of 2006) and mainly refer to investments in the Television area in connection with Digital Terrestrial Television (euro 19 million) and the acquisition of television rights (euro 8 million).

Headcount at March 31, 2007 is 973 (919 at December 31, 2006) and includes 75 people with temp work contracts (47 at December 31, 2006). The increase is principally attributable to the Television sector to meet commitments for the new TV productions and the new multimedia channels for the IPTV and DVBH platforms.

Key factors

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

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

Olivetti

The Business Unit

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

The structure of the Business Unit

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

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

Major corporate events/scope of consolidation

In the month of January 2007, the company Olivetti Tecnost Nederland B.V. was put into a wind-up and canceled from the register of companies.

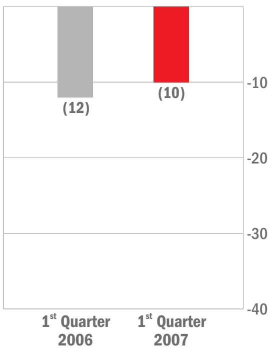
Main operating and financial data

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

(millions of euro)	1st Quarter 2007	1st Quarter 2006 (1)	Change amount	Change %
Revenues	83	94	(11)	(11.7)
EBITDA	(10)	(12)	2	16.7
% of Revenues	*(12.0)*	*(12.8)*		
EBIT	(14)	(17)	3	17.6
% of Revenues	*(16.9)*	*(18.1)*		
Capital expenditures	2	2		
Headcount at period-end	1,400	1,428	(28)	(2.0)

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

EBITDA (euro/mln)



Revenues in the first quarter of 2007 amount to euro 83 million and record a reduction of euro 11 million (– 11.7%) compared to the first quarter of 2006.
On a comparable consolidation basis and excluding the effects of the variation in exchange rates and the consideration for the sale of research activities, the organic change is a negative euro 10 million (– 10.8%). From the standpoint of business lines, a decrease is reported in revenues from gaming products (– euro 8 million, associated with an important order during the first quarter of 2006) and traditional ink-jet products (– euro 4 million) owing specifically to a reduction in fax and printhead volumes.

EBITDA in the first quarter of 2007 is a negative euro 10 million, an improvement of euro 2 million compared to the same period of 2006, mainly associated with the effects of the reconversion and rationalization actions put into place last year.

The organic change is a positive euro 2 million and was calculated as follows:

(millions of euro)	1st Quarter 2007	1st Quarter 2006	Change amount	%
HISTORICAL EBITDA	**(10)**	**(12)**	**2**	**16.7**
Effect of change in excange rate	–	(1)		
Non-organic (income) expenses:	–	1		
Restructuring costs		*1*		
COMPARABLE EBITDA	**(10)**	**(12)**	**2**	**16.7**

EBIT in the first quarter of 2007 is a negative euro 14 million, an improvement of euro 3 million compared to the corresponding period of 2006. The organic change is a positive euro 3 million and was calculated as follows:

(millions of euro)	1st Quarter 2007	1st Quarter 2006	Change amount	%
HISTORICAL EBIT	**(14)**	**(17)**	**3**	**17.6**
Effect of change in excange rate	–	(1)		
Non-organic (income) expenses:	–	(1)		
Non-organic (income) expenses already described under EBITDA	–	(1)		
COMPARABLE EBIT	**(14)**	**(17)**	**3**	**17.6**

Capital expenditures in the first quarter of 2007 amount to euro 2 million, unchanged compared to the corresponding period of the prior year.

Headcount at March 31, 2007 is 1,400, of whom 1,252 are in Italy and 148 outside Italy; the figure includes 1 person with a temp work contract. The reduction of 28 people, compared to December 31, 2006, is mainly attributable to the termination of employment.

Key factors

During the first quarter of 2007, Olivetti presented “Linea”, the first series of multi-functional printers based on ink-jet technology destined for the small offices market and professional offices (SOHOs), combining Olivetti technology and Jasper Morrison design.

Other Activities

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

Entel Bolivia Group
Held by: Telecom Italia International through ICH/ETI 50%
The Entel Bolivia group (consolidated line-by-line) operates in the fixed telephone sector (particularly long-distance national and international telephone segments) and also in the mobile, internet and data transmission sectors in Bolivia.

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

With regard to fixed telephony, there were no significant commercial offers during the first quarter of 2007. At March 31, 2007, there were 74,434 lines, much in line with the figure at December 31, 2006.

During the first quarter of 2007, Internet and Data activities were supported by special promotions on both rates and terms for activating new Broadband ADSL lines.
At March 31, 2007, Broadband customers numbered 9,654, an increase of about 15% compared to December 31, 2006 (about 8,400).
As for mobile telephony, the 2 for 1 promotion (offering users the chance of doubling their traffic capacity) begun in November 2006, was extended until the end of January 2007, as a result of which there was a net increase in mobile customers during the first quarter of about 109,500, contrary to the trend in the whole of 2006, when there was a slight contraction in their numbers.
At March 31, 2007, there were 1,552,742 mobile customers, an increase of about 8% compared to December 31, 2006 (1,443,000).

* * *

For the latest on relations between Telecom Italia, through its subsidiary ETI (which holds 50% of the capital of Entel Bolivia) and the Bolivian government, please refer to the section entitled "Events subsequent to March 31, 2007".

Telecom Argentina Group
Held by Telecom Italia and Telecom Italia International through Sofora/Nortel Inversora 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.

At March 31, 2007, land lines in service (also including installed public telephones) are about 4,117,000, with an increase of about 0.5% compared to December 31, 2006 (4,095,000).
At March 31, 2007, there are about 517,000 broadband accesses, with an increase of 15.3% compared to December 31, 2006 (448,000).

At March 31, 2007, in the mobile business, the Group's customer base totals about 10,639,000 (of whom about 12.5% in Paraguay), with an increase of 10.9% compared to December 31, 2006 (9,589,000). The number of post-paid customers is 4.8% higher than at December 31, 2006 and represents 29.9% of the total customer base (compared to 31.6% at the end of 2006). Customers using GSM services represented 89.7% of the total customer base.

ETECSA

Held by: Telecom Italia International 27%

The company operates a monopoly in the sectors of fixed and mobile telephony, internet and data transmission in Cuba.

The number of fixed lines installed (also including installed public telephones) is about 982,500 at March 31, 2007, an increase of about 1% compared to December 31, 2006.
Of the lines installed, 49,500 are invoiced in U.S. dollars and the others, associated with the social development of Cuban telecommunications, in pesos.
At the end of 2007, the number of internet and data customers increased slightly to about 20,500 (compared to 20,000 at December 31, 2006).

In the mobile telephony business, at March 31, 2007, the customer base totals 164,200, an increase of about 8% compared to December 31, 2006 (152,700). The increase is mainly concentrated on the prepaid clientele, which represents 90% of the total. During the first quarter of 2007, the migration of customers from TDMA towards GSM technology continued and is now used by more than 84% of the total customer base (compared to 81% at December 31, 2006).

Significant non-recurring events and transactions

The effect of non-recurring events and transactions on the individual lines of the statement of income of the Telecom Italia Group is set out below in accordance with Consob communication DEM/6064293 dated July 28, 2006:

(millions of euro)	1st Quarter 2007 (a)	1st Quarter 2006 (b)	Change (a - b)
Purchases of materials and external services, Other operating expenses:			
Corporate reorganization costs	–	(9)	9
Impact of non-recurring income (expenses) on EBITDA	**–**	**(9)**	**9**
Gains (losses) realized on non-current assets:			
Gains on sales of properties	10	85	(75)
Gain on sale of Ruf Gestion	–	27	(27)
Impact of non-recurring income (expenses) on EBIT	**10**	**103**	**(93)**
Impact of non-recurring income (expenses) on income before taxes from continuing operations	**10**	**103**	**(93)**
Effect of income taxes	(2)	(29)	27
Impact of non-recurring income (expenses) on net income for the period	**8**	**74**	**(66)**

Positions or transactions deriving from atypical and/or unusual transactions

In accordance with Consob Communication dated July 28, 2006, a statement is made to the effect that in 2006 there were no atypical and/or unusual transactions, as defined by the Communication itself.

Other information

Disputes, litigation and legal proceedings pending

The information given in the 2006 Annual Report on the main disputes involving the Telecom Italia Group is updated below. Unless expressly indicated, no allocations have been made to provisions for liabilities and charges for lack of a definite and objective basis and/or because an adverse outcome of the dispute is at present considered unlikely.

Fastweb

In a judgment handed down on March 27, 2007 the Milan Court of Appeal dismissed the appeal filed by Telecom Italia in August 2006 against the precautionary injunction issued by the same court upholding the appeal filed by Fastweb in March 2006 (after the Rome Court of Appeal had declared it was not territorially competent to hear the case) to obtain urgent measures to counter Telecom Italia's alleged illegitimate win-back strategy in the residential retail market for broad-band Internet access services.

Since Fastweb had not initiated the trial on the merits of the case within the time limits laid down by Article 669-octies of the Code of Civil Procedure, Telecom Italia had applied to the Court for the annulment of the above-mentioned injunction under Article 669-*novies*.

Specifically, the Milan Court of Appeal ruled that the substance of Telecom Italia's application was unfounded since the new rules of procedure in force as of March 1, 2006 made it optional and no longer obligatory to initiate the trial on the merits of the case after the issue of a precautionary measure under Article 700 of the Code of Civil Procedure.

Wind

On 23 April 2007 Wind notified Telecom Italia of an appeal to the Lazio Regional Administrative Court for the suspension and subsequent annulment of the resolution adopted by the Communications Regulatory Authority that, by approving the Telecom Italia offer of "single access ADSL wholesale flat with downstream velocities up to 20 Mbit/s using Ethernet/IP technology" (marked by technical access parameters corresponding to those of the "Alice 20 Mega" retail service), authorized the continuation of Telecom Italia's "Alice 20 Mega" product on the grounds that the wholesale ADSL offers present on the market allowed the offer in question to satisfy the replicability requirement.

According to Wind, the failure to disaggregate Telecom Italia's wholesale offer, the narrow profit margins granted to competing operators wishing to take it up and the impossibility of providing final clients with services equivalent to those proposed by Telecom Italia implied a loss of chance and market shares for Wind and all of Telecom Italia's competitors.

Telecom Italia will take part in the proceedings as an adverse party.

Brazil

In relation to the various disputes in which Telecom Italia and Telecom Italia International were involved, it should be noted that:

- following the annulment of the agreement regarding the merger of Brasil Telecom Celular into Tim Brasil, Telecom Italia International, TIM International and TIM Brasil applied for the closure of the related proceedings since the matter at issue no longer existed. In one case the judge upheld the request, whereas in the second case the judge asked the parties whether they intended to reach a settlement. With reference to the same facts, in 2006 Brasil Telecom and Brasil Telecom Celular had initiated arbitration proceedings against TIM International and Tim Brasil before the International Chamber of Commerce in Paris. Following a request by Brasil Telecom, the arbitration board suspended the proceedings in April 2007 pending the decision in other arbitration proceedings under way between the parties.

- the arbitration proceedings between Telecom Italia International and Techold (in one of which, initiated by Techold, Telecom Italia is involved) are still in the discovery stage.

Cuba
As regards the dispute between ETECSA and Banco Nacional de Comercio Exterior ("BancoMext"), described in detail in the 2006 Annual Report, it should be noted that in November 2006 the Paris Court of Appeal upheld ETECSA's request to declare the arbitration award of August 5, 2004 null and that ETECSA accordingly applied to the Turin Court of Appeal for the revocation of the provisional enforceability of the judgment of the Court of Turin. ETECSA's appeal has been dismissed.

Greece
On January 23, 2007 Telecom Italia was served with a summons by TCS Capital Management LLC (TCS) in the action brought by the latter before the United States District Court for the Southern District of New York.

TCS (formerly a minority shareholder of Tim Hellas) has applied for the indemnification of the losses it allegedly incurred following the sale of Tim International's interest in Tim Hellas to some investment funds (which are also cited) and the subsequent cash-out merger carried out by the funds, allegedly to the detriment of the interests of the minority shareholders of Tim Hellas.

TCS has requested the court to ascertain Telecom Italia's violation of US law, which is applicable because Tim Hellas was listed on NASDAQ and to order it to pay punitive damages and legal expenses in an amount to be established during the trial.

The proceedings are still at the preliminary stage.

Regulatory framework

The following is a description of the developments in the regulatory framework in the first quarter of 2007 in Italy and Brazil compared with the situation in the 2006 Annual Report.

Regulatory framework in Italy

Mobile telecommunications market
As regards the setting of the maximum termination prices on mobile operators' networks, it should be noted that in the case of the fourth Italian operator, H3G, the Communications Regulatory Authority proceeding initiated on July 17, 2006 is still under way. In February 2007 the Authority issued a public consultation document with a proposal for a maximum termination price of euro 16.26 cents/minute to apply from July 1, 2007. The Authority has extended the time limit for the completion of the proceeding by 90 days.

Interconnection
In Resolution no. 83/06/CIR "Assessment and possible amendment of Telecom Italia's 2006 basic offering of wholesale local loop unbundling services and for co-location services referred to in Resolution no. 4/06/CONS", the Communications Regulatory Authority approved, subject to some conditions, the economic and technical terms for local loop unbundling services not subject to a network cap, such as co-location, energy and conditioning, proposed by Telecom Italia for 2006 in the basic offering published on October 28, 2005.
The Authority has also approved the economic and technical terms for the above services proposed by Telecom Italia for the year 2006 in the basic offering published on March 2, 2006 under Resolution no. 4/06/CONS.

As regards Telecom Italia's basic offering for 2007, the Authority informed Telecom Italia that, in view of the adoption of the above-mentioned Resolution no. 83/06/CIR, notified to Telecom Italia on February 19, 2007 (which required the Company to republish the 2006 basic offering for local loop unbundling within 30 days of the notification date), it had extended the time limit for sending written briefs in connection with the proceeding "Assessment of Telecom Italia S.p.A.'s reference offer for 2007" by 30 days with effect from March 15, 2007.

Structure of the access network
On May 2, 2007 the Council of the Communications Regulatory Authority launched a public consultation on he "regulatory aspects concerning the structure of the fixed access network and the prospects for next generation wideband networks".

The aim of the consultation, which it is expected will be completed by the middle of July 2007, is to obtain the comments of all the interested parties, with special reference to the structural characteristics of the market, the technological evolution of networks and services, and the prospective development of competition and regulation in the sector.

In the first place, the results of the consultation will be used to assess the regulatory options with regard to the development of fixed public telecommunications network access to final clients. In the second place, the Authority considers it necessary to assess the new regulatory problems that arise in connection with the development of Next Generation Access Networks (NGANs). In fact on the one hand there is the problem of applying a regulatory approach that will not hinder but stimulate investment in next generation networks, while on the other there is the need to ensure non-discrimination and equal treatment of all operators in the new competitive and market environment.

Universal service
The Communications Regulatory Authority is currently carrying out inquiry proceedings to determine the net cost to Telecom Italia of the universal service provided in the years 2004 and 2005. To date the Authority has not yet notified Telecom Italia of the start of verification activity for those years.

With reference to 2003, the Authority concluded the procedure with the adoption of Resolution no. 28/07/CIR, with which it recognized the applicability of the mechanism for the allocation of the net cost, approved in the amount of euro 41 million. The Resolution provided for Telecom Italia to receive total compensation of approximately euro 29 million, of which approximately euro 12 million from the former Tim.

Lastly, in compliance with the time limits indicated in the electronic communications code, Telecom Italia has sent the Communications Regulatory Authority the evaluation of the net cost of the universal service for 2006.

Communications Regulatory Authority 2007 fee
With Resolution no. 696/06/CONS the Communications Regulatory Authority established the amount and manner of paying the fee due to it by operators.

Article 1.66 of Law 266/2005 provides for a fee of 1.5 per thousand to be paid to the Authority by operators in the communications sector that are specified in Resolution no. 110/06/CONS. For 2007 this fee is to be calculated on the basis of the revenues included in the last annual accounts approved by the shareholders' meeting before the adoption of Resolution no. 696/06/CONS.

Regulatory framework in Brazil

Main regulatory developments in the first quarter of 2007
In March 2007 ANATEL approved the new regulation on portability and drew up a plan for its implementation by the firms concerned.

The introduction of portability, for which clients may be charged (approximately euro 8), will apply to fixed and mobile telephony and non-geographic numbers; marketing is to begin in the main cities by December 2008 and be extended to the rest of the country by March 2009.

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 function – in the sphere of the Technology area, 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 quarter of 2007, the innovative investments of the Telecom Italia Group in tangible and intangible assets amount to a total of approximately euro 700 million. Group employees devoted to these and research activities number approximately 6,300, representing an overall commitment of approximately euro 140 million (of which about euro 35 million is already included under investments).

In particular, the R&D centers of the Telecom Italia Group conducted the following activities in the first quarter of 2007.

TILAB

TILAB, a function of the Technology area, 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 and to make it rapidly and economically accessible to the Group's customers.

Work on technological innovation is concentrated on activities and expertise geared to **basic research, the evaluation of emerging technologies and "in-house" development also at the company's operational and business units**.

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 and with the top research centers of the most highly qualified academic institutions**, both in Italy and abroad (the Politecnico of Turin, the Politecnico of Milan, the University of Pisa, Genoa, Florence, Rome, Naples, Bologna, Reggio Emilia, Brescia and Verona, the University of Berkeley and MIT).

In the field of technological innovation, 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**

Rights (IPR) and business with the aim of augmenting the number of patents. In this context, during the first quarter of 2007, 6 new patents were filed (compared to 5 in the first quarter of 2006 and 63 in the whole year of 2006), of which 4 in the mobile segment and 2 in the fixed/mobile segment.

Work currently in progress includes **advancements in mobile communications** and the **spread of broadband**, with the aim of **innovating the network and services** with a time frame up to the year 2015. The main results achieved by Telecom Italia Lab in collaboration with other Group functions in the first quarter of 2007 are described in greater detail below.

In the field of **mobile access**, the bid has been completed to establish the suppliers for mobile UMTS access, based on a table of technical and economic criteria, which, in turn, is based both on technical performance and on the pursuit of "Total Cost Ownership". In this way, a significant reduction of prices has been achieved, with the entry of Huawei as the third supplier of equipment for Telecom Italia's mobile network, after Ericsson and Nokia-Siemens. The most important technological feature is the introduction to the network of "Radio Over Fiber/ROF" technology, thanks to which it will be possible to have a better quality of mobile signal, with benefits both in terms of capacity of the amount of traffic handled and coverage of the territory.

Within the sphere of the development of Network Architectures for the **Next Generation Network-2/NGN2** and with a view to the deployment of the new technology scheduled for the end of 2007 in the city of Milan, a tender for bids has been called, which will be completed in the next few months, to supply systems able to support bit-rates of up to 100 Mbit/s (ultra-Broadband technology). The aim of the bid is to acquire the systems and the infrastructure for creating a FTTB (Fiber-to-the-Building) architecture. The main network will be based on optical fibers and G-PON (Passive Optical Network) technology, while the last section in copper cables will be based on VDSL2 technology. This will allow a level of connectivity of high performance which will lead to a dramatic development of broadband services, both for residential customers and for the small business segment.

Finally, within the sphere of developing **services content-based services**, technical consultancy has been supplied to define a contract with Microsoft with regard to a new generation TV platform. The new platform, which is excepted to generate 1.5 million licenses in 5 years, will offer services such as: Time-Shift TV (the possibility of creating a pause during a live event), Personal Video Recording (the possibility of recording a live event on SetTopBoxes with a hard disk) and Multi-User (the possibility of having 2 or more SetTopBoxes in the same house). Furthermore, thanks to the new SetTopBoxes based on hardware of the latest generation, it will also be possible to benefit from high-definition content on the NGN2 network.

Olivetti S.p.A.

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, 18% 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, from the processing of the silicon to the mounting of the printer cartridges. During the first quarter of 2007, Olivetti's research centers developed new models of multi-functional printers and continued work to research and develop new generations of ink-jet printheads.