Telecom Italia S.p.A.

Third-Quarter 2007

Contents

Corporate boards at September 30, 2007

Board of Directors

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

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

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

Remuneration Committee	Luigi Zingales - Chairman Stefano Cao Renzo Capra Luigi Fausti
Committee for Internal Control and Corporate Governance	Paolo Baratta - Chairman Diana Bracco Domenico De Sole Luigi Fausti Cesare Giovanni Vecchio
Strategies Committee	Pasquale Pistorio Carlo Orazio Buora Riccardo Ruggiero Paolo Baratta Domenico De Sole Jean Paul Fitoussi Renato Pagliaro

(1) On October 25, 2007, the directors Claudio De Conto and Carlo Alessandro Puri Negri tendered their resignations. They were replaced by César Alierta Izuel and Julio Linares López, appointed by the board of directors in the meeting held on November 8, 2007, after approval of the quarterly report.

Board of Statutory Auditors

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

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

Common representatives

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

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

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

– Bondholders — Francesco Pensato
"Telecom Italia S.p.A. euro 750,000,000 4.50% notes 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 5.375% notes due 2019"
Appointed by the April 10, 2006 decree of the Milan Court, after failure to establish the corresponding bondholders' meeting.

Manager responsible for financial reporting

On November 8, 2007, the board of directors appointed Enrico Parazzini (General Manager of the Company and head of the Finance, Administration and Control Function of the Group) the manager responsible for Telecom Italia's financial reporting.

Independent auditors

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

Managers with strategic responsibilities

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

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

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

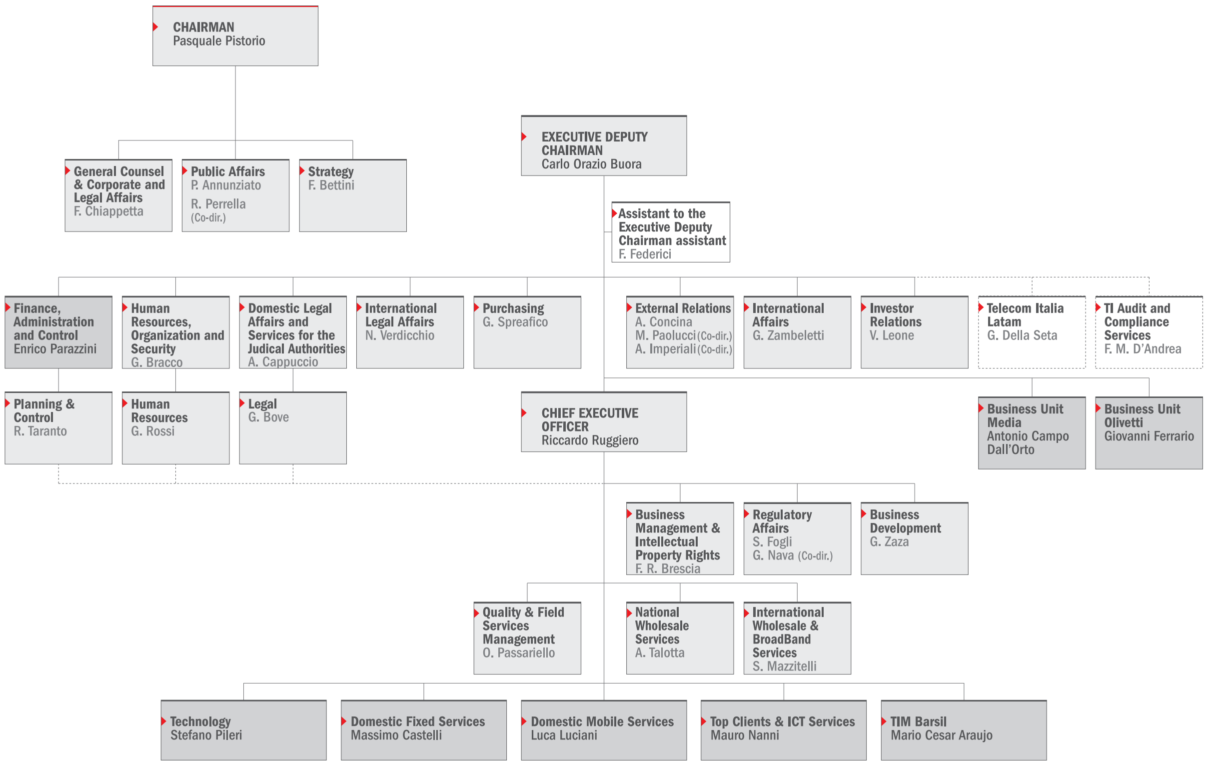
Managerial Committees

The ***Committee System of the Group*** is currently undergoing a review and comprises:

- the *Risk Management Committee*, which ensures the identification, the assessment and the management of the risks of the Group as well as the policy regarding IT security and information, coordinating preventive action plans designed to ensure the operating continuity of the business and monitoring the effectiveness of the countermeasures adopted;
- the *IT Governance Committee*, which defines the guidelines for the information strategies of the Group, guides IT strategic decisions and investments consistently with business needs, monitors progress on the most important IT projects, the quality of solutions and cost effectiveness;
- the *Security Committee*, which ensures the integrated coordination of security and crisis management activities of the Group, monitoring the progress on major projects and the effectiveness of the solutions adopted.

Other Committees are being reorganized in light of the changes in the organizational structure.

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



Note should be taken that on October 11, 2007, responsibility for the Regulatory Affairs function was entrusted to Gilberto Nava. At the same time, Sergio Fogli was put in charge of the new Business Analysis & Support function reporting directly to the CEO.

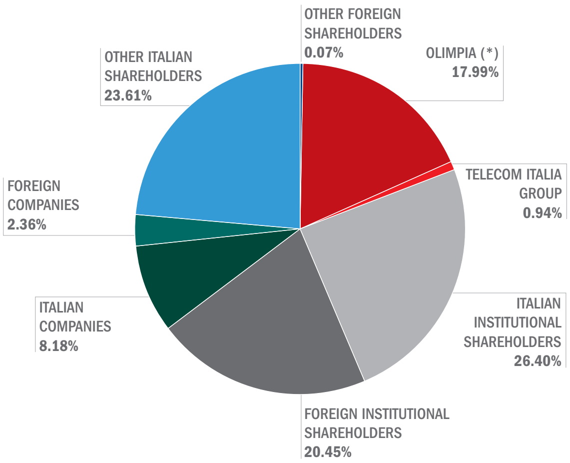
Information for investors

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

Share capital (issued)	euro 10,673,779,602.75
Number of ordinary shares (par value of euro 0.55 each)	13,380,751,344
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 September 2007 average prices)	euro 38,602 million

Shareholders

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

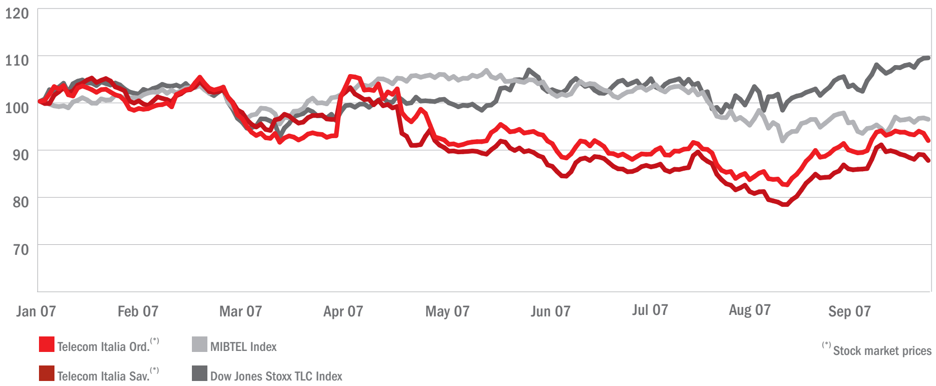


(*) On April 28, 2007, Pirelli & C. S.p.A., Sintonia S.p.A. and Sintonia S.A. announced that they had reached an agreement with leading financial institutional investors and industrial operators for the sale of 100% of the share capital of Olimpia S.p.A., a company 80%-owned by Pirelli & C. S.p.A. and 20%-owned together by Sintonia S.p.A. and Sintonia S.A..
The acquisition was executed on October 25, 2007 by a vehicle company, Telco S.p.A., to which Telecom Italia ordinary shares equal to 5.6% of the class of shares were conferred on the same date by Mediobanca S.p.A. and companies of the Generali Group. The total investment held by Telco S.p.A. is therefore currently equal to 23.59% of Telecom Italia ordinary share capital, of which 17.99% through Olimpia S.p.A..
Telco S.p.A. is held by Assicurazioni Generali S.p.A. Group (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%).

(Sources: joint press release by Pirelli & C. S.p.A., Sintonia S.p.A. and Sintonia S.A. on April 28, 2007; joint press release by Assicurazioni Generali S.p.A., Mediobanca S.p.A., Intesa San Paolo S.p.A. and Sintonia S.A. on April 28, 2007; joint press release by Assicurazioni Generali S.p.A., Mediobanca S.p.A., Intesa San Paolo S.p.A. and Sintonia S.A. on October 25, 2007; announcement by Telco S.p.A under. ex art. 120, of Legislative Decree 58/1998 on October 31, 2007; extract of the joint investment agreement and the shareholders' agreement published by Telefonica S.A., Assicurazioni Generali S.p.A., Mediobanca S.p.A., Intesa San Paolo S.p.A., Sintonia S.A., Alleanza Assicurazioni S.p.A., INA Assitalia S.p.A., Volksfürsorge Deutsche Lebensversicherung A.G. and Generali Vie S.A. in accordance with art. 122 of Legislative Decree 58/1998 on November 4, 2007).

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

Relative performance Telecom Italia S.p.A. 1/1/2007-9/30/2007 vs. MIBTEL and DJ Stoxx TLC Indexes
(Source: Reuters)



Relative performance Telecom Italia Media S.p.A. 1/1/2007-9/30/2007 vs. MIBTEL and DJ Stoxx Media Indexes
(Source: Reuters)

Rating at september 30, 2007

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

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

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

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

Selected operating and financial data - Telecom Italia Group

The Third-Quarter 2007 Report at September 30, 2007 of the Telecom Italia Group has been prepared, as permitted by article 82 of the Regulation for Issuers (promulgated by CONSOB in Resolution 11971 dated May 14, 1999, as amended), using the format provided in Appendix 3D of the same regulation. The Quarterly Report is unaudited.
The operating and financial results of the Telecom Italia Group for the third quarter of 2007 and for the first nine months of 2007 and the previous periods presented for comparison, have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board and endorsed by the European Union.

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

In the interim balance sheet at September 30, 2007, Discontinued operations/assets held for sale include the investments held in Solpart Participações, Brasil Telecom Participações and Mediobanca following the decision to proceed with the disposal of these holdings.
At June 30, 2007, Discontinued operations/assets held for sale included not only the holdings listed above but also the investment in Oger Telecom (sold on July 3, 2007) and the residual investment in Capitalia (entirely sold during the third quarter of 2007).

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 strategic guidelines for the convergence of the various areas of business (fixed and mobile telecommunications, broadband internet and media content).

Accordingly, starting from the first quarter of 2007, the disclosure by business segment was changed and the accounting representation is now the following:
- Domestic
- European Broadband
- Brazil Mobile
- Media
- Olivetti
- Other Operations

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

	3rd Quarter 2007	3rd Quarter 2006	9 months to 9/30/2007	9 months to 9/30/2006
Consolidated Operating and Financial Data (millions of euro)				
Revenues	7,737	7,769	23,207	23,104
EBITDA (*)	3,139	3,268	9,433	9,786
EBIT (*)	1,689	1,820	5,138	5,621
Income from continuing operations before taxes	1,242	1,429	3,766	4,161
Net income from continuing operations	706	878	2,212	2,305
Net income (loss) from discontinued operations /assets held for sale	–	–	(4)	46
Net income for the period	706	878	2,208	2,351
Net income attributable to the equity holders of the Parent	720	880	2,220	2,376
Capital expenditures:				
Industrial	1,214	1,083	3,688	3,299
Financial	2	197	671	198

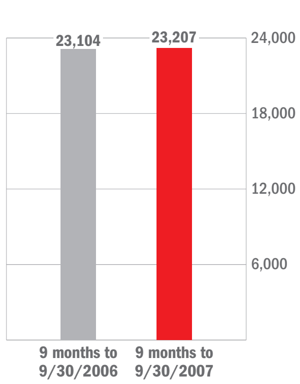
	9/30/2007	12/31/2006
Consolidated Balance Sheet Data (millions of euro)		
Total assets	85,753	89,457
Total equity	26,744	27,098
– attributable to the equity holders of the Parent	25,695	26,018
– attributable to the Minority interests	1,049	1,080
Total liabilities	59,009	62,359
Total equity and liabilities	85,753	89,457
Share capital	10,605	10,605
Net financial debt	37,443	37,301
Debt Ratio (Debt ratio (Net financial debt / Net invested capital (1))	58.3	57.9
Headcount, number in the Group at period-end (2)		
Headcount	83,691	83,209

	9 months to 9/30/2007	9 months to 9/30/2006
Headcount, average number in the Group (2)		
Headcount (excluding headcount relating to discontinued operations/assets held for sale)	79,295	80,130
Headcount relating to discontinued operations/assets held for sale	–	372

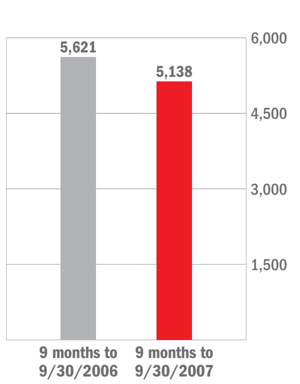
	3rd Quarter 2007	3rd Quarter 2006	9 months to 9/30/2007	9 months to 9/30/2006
Consolidated Profit Ratios				
EBITDA (*)/Revenues	40.6%	42.1%	40.6%	42.4%
EBIT (*)/Revenues (ROS)	21.8%	23.4%	22.1%	24.3%
Revenues/Headcount (average number in the Group, thousands of euro)		292.7	288.3	

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

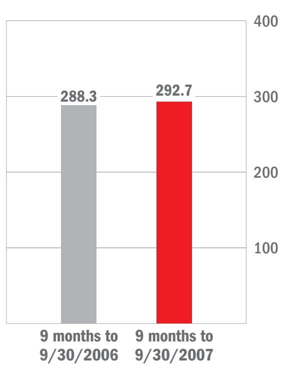
Revenues (millions of euro)



EBIT (millions of euro)



Revenues/Emplyees (thousands of euro)



Alternative performance measures

In this third-quarter report at September 30, 2007 of the Telecom Italia Group, in addition to the conventional financial performance measures established by IFRS, certain non-IFRS measures are presented for purposes of a better understanding of the trend of operations and the financial condition of the Telecom Italia Group. Such measures are also presented in the report on operations in other periodical reports (annual financial statements, first-half report and quarterly reports), however, they should not be construed as a substitute for the operating and financial information required by IFRS.

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

- **EBITDA**. This financial measure is used by Telecom Italia as the financial target in internal presentations (business plans) and in external presentations (to analysts and investors). It represents a useful unit of measurement for the evaluation of the operating performance of the Group (as a whole and at the level of the Business Units), 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**. These measures express changes (amount and/or percentage) in Revenues, EBITDA and EBIT, excluding, where applicable, the effects of the change in the scope of consolidation, exchange differences and non-organic components constituted by non-recurring items and other non-organic income/expenses.
  Telecom Italia deems that the presentation of such additional information allows the operating performance of the Group (as a whole and of the Business Units) to be interpreted in a more effective manner.
  The organic change in Revenues, EBITDA and EBIT is also used in presentations to analysts and investors.

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

Comments on operating and financial performance - Telecom Italia Group

INTERIM CONSOLIDATED STATEMENTS OF INCOME

(millions of euro)	3rd Quarter 2007	3rd Quarter 2006	9 months to 2007 (a)	9 months to 2006 (b)	Change (a-b)	Change %
Revenues	7,737	7,769	23,207	23,104	103	0.4
Other income	86	85	251	396	(145)	(36.6)
Total operating revenues and other income	**7,823**	**7,854**	**23,458**	**23,500**	**(42)**	**(0.2)**
Purchases of materials and external services	(3,450)	(3,489)	(10,336)	(10,258)	(78)	0.8
Personnel costs	(901)	(863)	(2,826)	(2,855)	29	(1.0)
Other operating expenses	(499)	(336)	(1,331)	(1,002)	(329)	32.8
Changes in inventories	44	(4)	65	65	–	0.0
Capitalized internal construction costs	122	106	403	336	67	19.9
OPERATING RESULT BEFORE DEPRECIATION AND AMORTIZATION, CAPITAL GAINS (LOSSES) REALIZED AND IMPAIRMENT REVERSALS (LOSSES) OF NON-CURRENT ASSETS (EBITDA)	**3,139**	**3,268**	**9,433**	**9,786**	**(353)**	**(3.6)**
Depreciation and amortization	(1,448)	(1,435)	(4,301)	(4,278)	(23)	0.5
Gains (losses) on disposals of non-current assets (1)	(2)	(13)	6	114	(108)	(94.7)
Impairment reversals (losses) on non-current assets	–	–	–	(1)	1	–
OPERATING INCOME (EBIT)	**1,689**	**1,820**	**5,138**	**5,621**	**(483)**	**(8.6)**
Share of profits (losses) of associates and joint ventures accounted for using the equity method	17	8	75	33	42	127.3
Financial income	1,022	721	2,265	2,370	(105)	(4.4)
Financial expenses	(1,486)	(1,120)	(3,712)	(3,863)	151	(3.9)
INCOME FROM CONTINUING OPERATIONS BEFORE TAXES	**1,242**	**1,429**	**3,766**	**4,161**	**(395)**	**(9.5)**
Income taxes	(536)	(551)	(1,554)	(1,856)	302	(16.3)
NET INCOME FROM CONTINUING OPERATIONS	**706**	**878**	**2,212**	**2,305**	**(93)**	**(4.0)**
Net income from discontinued operations/assets held for sale	–	–	(4)	46	(50)	°
NET INCOME FOR THE PERIOD	**706**	**878**	**2,208**	**2,351**	**(143)**	**(6.1)**
of which:						
– **Net income attributable to equity holders of the Parent**	**720**	**880**	**2,220**	**2,376**	**(156)**	**(6.6)**
– Net income (loss) attributable to Minority Interests	(14)	(2)	(12)	(25)	13	°

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

BASIC AND DILUTED EARNINGS PER SHARE (EPS) (*)

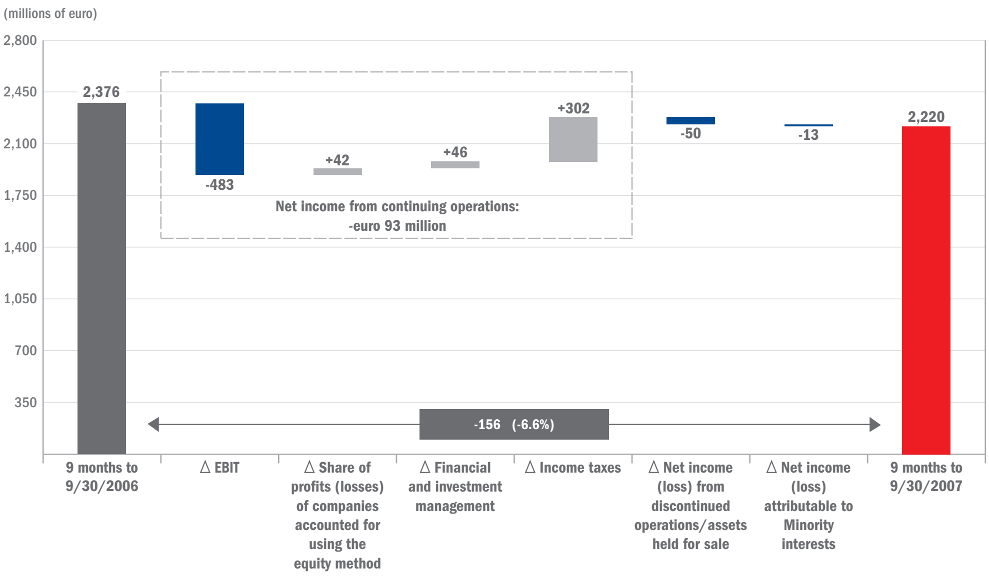
(euro)	9 months to 9/30/2007	9 months to 9/30/2006
Basic and Diluted EPS per:		
· Ordinary Share	0.11	0.12
· Savings Share	0.12	0.13
Of which:		
– From continuing operations		
· Ordinary Share	0.11	0.12
· Savings Share	0.12	0.13
– From discontinued operations/assets held for sale		
· Ordinary Share	–	–
· Savings Share	–	–

(*) Basic EPS is equal to Diluted EPS.

Consolidated net income attributable to the equity holders of the Parent is euro 2,220 million (euro 2,208 million before Minority interests). In the first nine months of 2006, consolidated net income attributable to the equity holders of the Parent was euro 2,376 million (euro 2,351 million before Minority interests).

The decrease in consolidated net income attributable to the equity holders of the Parent compared to the first nine months of 2006 is due to the following:
- lower *operating income*, euro 483 million;
- higher *share of profits (losses) of associates and joint ventures accounted for using the equity method*, euro 42 million;
- lower *financial expenses*, net of financial income, euro 46 million;
- lower *income taxes*, euro 302 million;
- lower *net income from discontinued operations/assets held for sale*, euro 50 million.
- lower *net loss attributable to Minority interests*, euro 13 million.

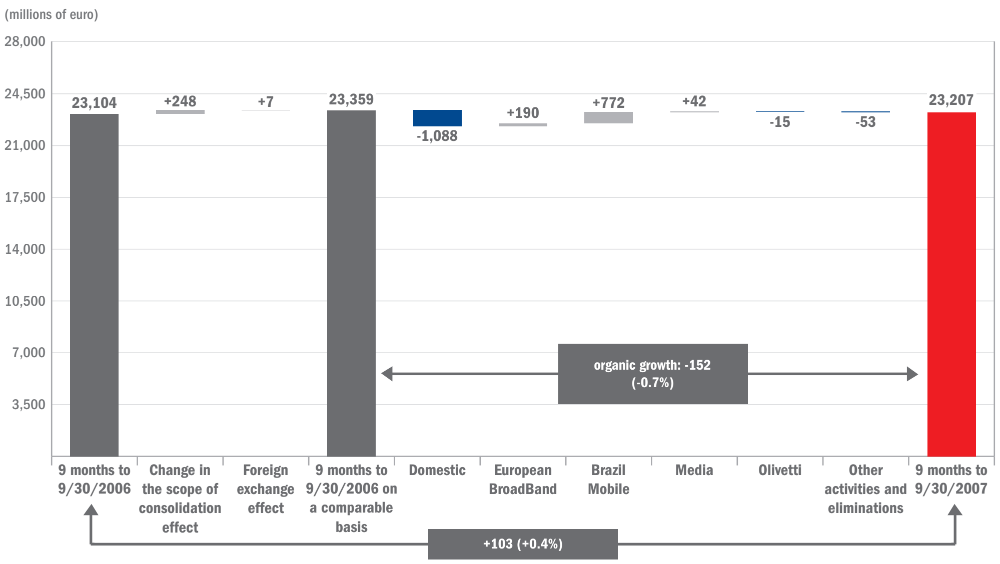
The following chart summarizes the major items which had an impact on the consolidated net income attributable to the equity holders of the Parent in the first nine months of 2007:



In the ***third quarter of 2007****, the consolidated net income attributable to the equity holders of the Parent is euro 720 million (euro 706 million before the result attributable to Minority interests). This is euro 160 million lower than the net income of euro 880 million reported in the third quarter of 2006 (euro 878 million before the result attributable to Minority interests).*

Revenues amount to euro 23,207 million in the first nine months of 2007, with an increase of 0.4% (+ euro 103 million) compared to euro 23,104 million in the same period of the prior year. The organic change in revenues is – 0.7% (– euro 152 million) and is calculated by excluding the effect of the change in the scope of consolidation (+ euro 248 million, chiefly in reference to the inclusion of the AOL internet business in Germany) and the positive foreign exchange effect (+ euro 7 million) calculated as the balance of the positive exchange rate effect of the Brazil Mobile Business Unit (euro 39 million) and the negative effect of the Domestic and Olivetti Business Units and Entel Bolivia (euro 32 million).

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 1,088 million, which was partly affected by the following regulatory changes:

- change in the termination rates which occurred in the second half of 2006, with a negative impact of euro 152 million;
- application of the "Bersani Decree" starting from March 2007, the effect of which is estimated at about euro 273 million in lower revenues, which is already net of about euro 171 million due to the positive impact of flexibility (effect of higher traffic volumes as a result of the reduction in average price rate pressure owing to the elimination of top-up charges without increasing the minute rate);
- rate adjustments for international roaming traffic within the EU, in accordance with European Commission rulings (– euro 47 million);
- change, as a result of which, starting on January 1, 2007, pursuant to the Resolution by the National Regulatory Authority (NRA) 417/06/CONS, relating to calls by customers to non-geographical 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 nine months of 2006 had been recognized as revenues for a total amount of euro 373 million with the recognition of the same amount of costs.

Overall, compared to the first nine months of 2006, these regulatory changes generated an effect of euro 845 million.

Besides the effects mentioned above:

- in fixed telecommunications, the increase in Internet revenues as a result of the continual and strong growth of Broadband and national Wholesale services did not compensate for the contraction in Retail Telephone revenues, generated by the decrease in volumes and prices (reduction in termination rates) on fixed-mobile traffic, the migration of market volumes from fixed to mobile traffic and competitive price pressure, especially in the Top Clients segment. Data Business revenues are also down due to ever-fiercer competition on the Corporate client market and the revision of contract prices with the Public Administration. A contraction is also recorded in international Wholesale services due to the reduction in revenues from transit, with practically a nil impact on margins.
- as for mobile telecommunications revenues, there is a positive trend in value-added service revenues, particularly interactive services, countered by the effects of the application of the new termination rates, the Bersani Decree and the adjustment of international roaming rates.

The **European Broadband** Business Unit contributed to the change in revenues with a higher contribution of euro 190 million, thanks to the positive growth of the customer portfolio in France and Germany.

Growth of the **Brazil Mobile** Business Unit (+euro 772 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 nine months of 2007 equal to euro 489 million (euro 132 million up to September 2006).

The **Media** Business Unit shows an increase in revenues of euro 42 million, reflecting higher advertising compared to the first nine months of 2006 and an increase in revenues from Digital Terrestrial TV.

The **Olivetti** Business Unit shows a decrease in revenues (– euro 15 million) due to a reduction in the sales of traditional ink-jet products and accessories and the Gaming area.

Revenues from telecommunications services are presented gross of the amount of revenues due to third-party operators, equal to euro 3,809 million (euro 4,013 million in the first nine months of 2006). The reduction is due, among other things, to the aforementioned change relating to non-geographical numbering and the end of certain international wholesale contracts.

Foreign revenues amount to euro 6,762 million (euro 5,789 million in the first nine months of 2006); 52.9% is localized in Brazil (47.9% in the first nine months of 2006).

(millions of euro)		**9 months to 9/30/2007** (a)	**9 months to 9/30/2006** (b)	**Change** (a - b)
Italy	**(A)**	**16,445**	**17,315**	**(870)**
Other European countries		2,265	2,209	56
Latin America		3,822	2,988	834
Other countries		675	592	83
Total outside Italy	**(B)**	**6,762**	**5,789**	**973**
Total	**(A+B)**	**23,207**	**23,104**	**103**

In the third quarter of 2007, revenues total euro 7,737 million (euro 7,769 million in the third quarter of 2006), with a decrease of 0.4% compared to the same period of 2006. Excluding the exchange rate effect and the change in the scope of consolidation, the organic change is a negative – 2.2%. Third-quarter revenues were also affected by the aforementioned regulatory changes for a total amount of euro 337 million.

Other income amounts to euro 251 million (euro 396 million in the first nine months of 2006), and includes:

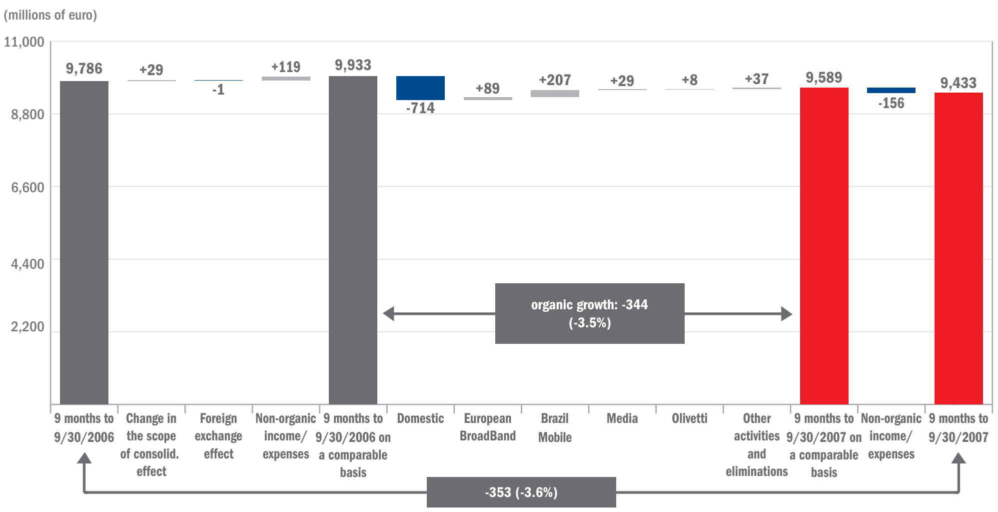
(millions of euro)	**9 months to 9/30/2007** (a)	**9 months to 9/30/2006** (b)	**Change** (a - b)
Late payment fees charged for regulated telephone services	68	67	1
Release of provision and liability items	13	93	(80)
Recovery of costs of personnel and services rendered	34	34	–
Capital and operating grants	25	32	(7)
Damage and penalty compensation	32	32	–
Sundry income	79	138	(59)
Total	**251**	**396**	**(145)**

EBITDA amounts to euro 9,433 million and fell by euro 353 million (– 3.6%) compared to the first nine months of 2006. The organic change in EBITDA is a negative 3.5% (– euro 344 million) and is calculated as follows:

(millions of euro)	9 months to 9/30/2007 (a)	9 months to 9/30/2006 (b)	Change (a-b)	%
HISTORICAL EBITDA	**9,433**	**9,786**	**(353)**	**(3.6)**
Effect of change in scope of consolidation		**29**		
Effect of change in exchange rates		**(1)**		
Non-organic (income) expenses	**156**	**119**		
Non-recurring (income) expenses:	20	17		
Corporate restructuring costs	–	*10*		
In dustrial reconversion expenses	–	*7*		
Accrual for Antitrust fine	*20*	–		
Other non-organic (income) expenses:	136	102		
Restructuring costs	*102*	*92*		
Accruals for disputes and settlements	*33*	–		
Other (income) expenses, net	*1*	*10*		
COMPARABLE EBITDA	**9,589**	**9,933**	**(344)**	**(3.5)**

The percentage of EBITDA to revenues went from 42.4% in the first nine months of 2006 to 40.6% in the first nine months of 2007. At the organic level, the percentage of EBITDA to revenues is equal to 41.3% in the first nine months of 2007 (42.5% in the first nine months of 2006).

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



In greater detail, in addition to the negative effects, described earlier under Revenues, as a result of the application of the "Bersani Decree" (– euro 273 million net of the recovery due to the positive effect of flexibility), the change in the termination rates in the second half of 2006 (– euro 42 million) and the rate adjustment for international roaming traffic (– euro 8 million), EBITDA in the first nine months of 2007 is impacted by the following:

- **purchases of materials and external services**, euro 10,336 million, with an increase of euro 78 million (+0.8%) compared to the first nine months of 2006 (euro 10,258 million). The reduction in costs for the purchase of products for sale, professional and consulting expenses and interconnection costs (offset, as mentioned, by lower revenues) was countered by an increase in selling and advertising expenses, property lease installments and circuit rentals. The percentage of purchases to sales is 44.5% (44.4% in the first nine months of 2006);

- **personnel costs**, euro 2,826 million, with a decrease of euro 29 million (– 1.0%) compared to the first nine months of 2006 (euro 2,855 million). The reduction is due to the contraction of euro 86 million (– 3.4%) relating to employees in Italy and the increase of 57 million (+19.8%) relating to employees outside Italy (as a result of the inclusion of the AOL internet business in Germany).
  In greater detail, the reduction relating to employees in Italy is primarily attributable to the profit bonus (– euro 79 million) accrued in the second half of 2006 and no longer due as a result of the agreements reached with the unions in June 2007. Such agreements authorized the alignment of the profit bonus of the Parent, Telecom Italia, and other Group companies with the payment criteria established for ex-TIM Italia. Other factors which contributed to the reduction are the positive effects of the actuarial calculation of the provision for employee severance indemnities owing to the application of the new law dealing with pension benefits (– euro 31 million); a reduction in the average number of the salaried work force (2,608 people) offset by the increase resulting from higher minimum contract terms for economic two-year period 2005/2006, starting from October 2006, as envisaged by the December 3, 2005 collective national labor contract for telecommunications.

Headcount at September 30, 2007 is 83,691, broken down as follows:

(number)	9/30/2007 (a)	12/31/2006 (b)	Change (a - b)
Italy	67,520	68,823	(1,303)
Outside Italy	16,171	14,386	1,785
Total headcount (1)	**83,691**	**83,209**	**482**

(1) Includes persons with temp work contracts: 2,223 at 9/30/2007 and 2,654 at 12/31/2006.

The increase in the headcount of 482 since December 31, 2006 is due to:
– the addition of 1,101 people following the acquisition of the AOL internet business in Germany and the termination of 8 persons following the sale of the company Domus Academy;
– the hiring of 5,363 people: 1,146 in Italy and 4,217 outside Italy;
– the termination of 5,543 people: 2,268 in Italy and 3,275 outside Italy;
– the reduction of 431 people with temp work contracts;

- **other operating expenses**, euro 1,331 million (euro 1,002 million in the first nine months of 2006), can be analyzed as follows:

(millions of euro)	9 months to 9/30/2007 (a)	9 months to 9/30/2006 (b)	Change (a - b)
Impairments and expenses connected with non-financial receivables management	605	392	213
Accruals to provisions for risks and charges	71	29	42
Telecommunications fees and charges	204	176	28
Taxes on revenues of South American companies	193	160	33
Indirect duties and taxes	112	109	3
Association dues	13	12	1
Other expenses	133	124	9
Total	**1,331**	**1,002**	**329**

Other operating expenses in the first nine months of 2007 include:
– an accrual made in June 2007 in respect of the fine levied on Telecom Italian by the Antitrust Authority in August 2007 (euro 20 million), in addition to accruals for disputes and settlements with Eutelia and with other operators (euro 33 million);
– impairments and expenses connected with the management of the receivable referring mainly to the Domestic and Brazil Mobile Business Units.

*In the **third quarter of 2007**, EBITDA is euro 3,139 million (euro 3,268 million in the third quarter of 2006), with a decrease of 3.9%. The organic change in EBITDA is – 4.8% (– euro 158 million). Specifically, the improvement is attributable to the European Broadband Business Unit (euro 33 million) and the Olivetti, Media and Other Business Units (for a total of euro 17 million) and is offset by the reduction in the Domestic Business Unit (– euro 188 million, euro 132 million of which is due to regulatory changes) and the Brazil Mobile Business Unit (– euro 20 million, euro 64 million of which is due to the impairment of receivables following the implementation of the new credit and collection system in the third quarter which brought to light the uncollectibility of some trade receivables).*

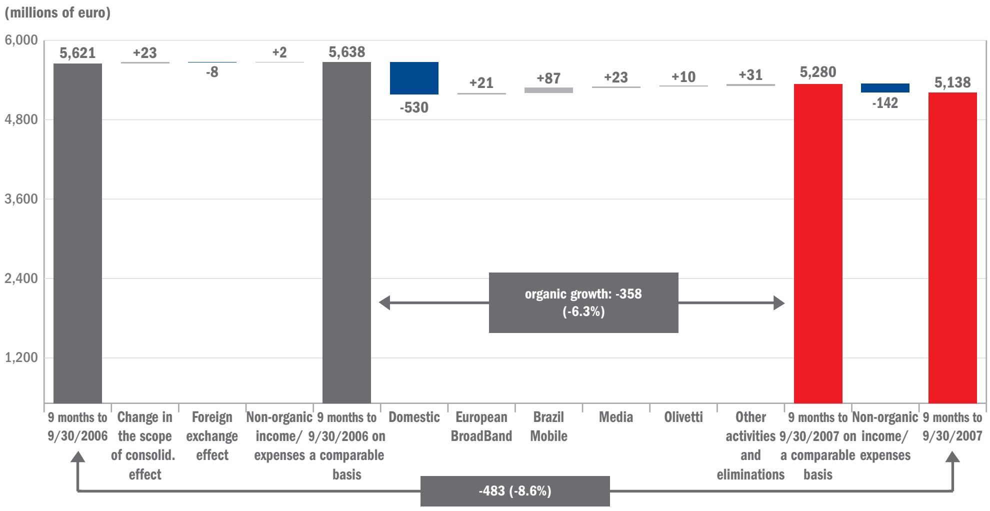
EBITDA as a percentage of revenues is 40.6% (42.1% in the third quarter of 2006); at the organic level, the percentage of EBITDA to revenues is 40.8% in the third quarter of 2007 (41.9% in the same period of the prior year).

EBIT amounts to euro 5,138 million, with a decrease of euro 483 million compared to the first nine months of 2006 (– 8.6%). The organic change in EBIT is a negative euro 358 million (– 6.3%) and was calculated as follows:

(millions of euro)	9 months to 9/30/2007 (a)	9 months to 9/30/2006 (b)	Change (a-b)	%
HISTORICAL EBIT	**5,138**	**5,621**	**(483)**	**(8.6)**
Effect of change in scope of consolidation		**23**		
Effect of change in exchange rates		**(8)**		
Non-organic (income) expenses	**142**	**2**		
Non-organic (income) expenses already described under EBITDA	156	119		
Additional non-recurring (income) expenses:	(10)	(116)		
Gains on sale of properties	*(10)*	*(123)*		
Gain on sale of Ruf Gestion	–	*(27)*		
Loss on sale of Telecom Italia Learning Services	–	*25*		
Loss on the sale of the “Radio-maritime” business	–	*9*		
Other non-organic (income) expenses:	(4)	(1)		
Other (income) expenses, net	*(4)*	*(1)*		
COMPARABLE EBIT	**5,280**	**5,638**	**(358)**	**(6.3)**

The percentage of EBIT to revenues went from 24.3% in the first nine months of 2006 to 22.1% in the first nine months of 2007. At the organic level, the percentage of EBIT to revenues is equal to 22.8% (24.1% in the first nine months of 2006).

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



In greater detail, EBIT is impacted by:

- **depreciation and amortization** of euro 4,301 million (euro 4,278 million in the first nine months of 2006), with an increase of euro 23 million. In particular, the amortization of intangible assets shows an increase of euro 179 million which is partly connected to higher amortization charges recorded by the Brazil Mobile Business Unit on costs capitalized on the contracts which bind customers to the company for at least 12 months, with the right to consideration in the event of early cancellation (euro 101 million), in addition to higher capital expenditures for the development of systems and new services. The depreciation of tangible assets shows a decrease of euro 156 million mainly as a result of the review of the depreciation plan for the assets of the fixed and mobile networks conducted at the end of 2006. This review, if adopted from the first nine months of 2006, would have led to a reduction in the depreciation charge of about euro 270 million;

- **gains (losses) on disposals of non-current assets** of euro 6 million (euro 114 million in the first nine months of 2006) include the release of a portion of the gain deferred at the time of the sale of properties to Tiglio II (euro 10 million), as well as other net losses (euro 4 million). In the first nine months of 2006, this caption included euro 123 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 for the gain on the sale of the entire investment in Ruf Gestion, euro 25 million for the loss on the sale of the entire investment in Telecom Italia Learning Services, euro 9 million for the loss on the sale of the “Radio-maritime” business and euro 2 million of other net losses.

*In the **third quarter of 2007**, EBIT is equal to euro 1,689 million (euro 1,820 million in the third quarter of 2006), with a decrease of 7.2%. The organic change in EBIT is – 8.3% (– euro 154 million).*
The percentage of EBIT to revenues in the third quarter of 2007 is 21.8% (23.4% in the third quarter of 2006; at the organic level, the percentage of EBIT to revenues is 22.0% in the third quarter of 2007(23.5% in the same period of the prior year).

The **share of profits (losses) of associates and joint ventures accounted for using the equity method** is a profit of euro 75 million (a profit of euro 33 million in the first nine months of 2006). The line refers to:

(millions of euro)	9 months to 9/30/2007 (a)	9 months to 9/30/2006 (b)	Change (a - b)
ETECSA	40	35	5
Sofora Telecomunicaciones S.A.	17	2	15
Solpart Participações S.A.	–	1	(1)
Tiglio I and Tiglio II	18	(1)	19
Other investments	–	(4)	4
Total	**75**	**33**	**42**

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

Financial income and expenses show a net expense balance of euro 1,447 million (a net expense balance of euro 1,493 million in the first nine months of 2006). Details are as follows:

(millions of euro)	9 months to 9/30/2007 (a)	9 months to 9/30/2006 (b)	Change (a - b)
Financial management balance	(1,595)	(1,805)	210
Investment management	148	191	(43)
Avea I.H.A.S provisions released to income	–	121	(121)
Total	**(1,447)**	**(1,493)**	**46**

The improvement of euro 210 million in the financial management balance is due to the following:

– the valuation at fair value of the call options on 50% of the share capital of Sofora Telecomunicaciones (positive adjustment of euro 93 million in the first nine months of 2007 and a negative adjustment of euro 5 million in the first nine months of 2006);
– the positive net effect (euro 50 million) of the closing of cash flow hedge derivatives following the early repayment of euro 1,500 million of the Term Loan for a total of euro 3,000 million due 2010;
– the reduction of average net debt exposure which compensated the negative effect generated by the rise in interest rates on the floating-rate portion of debt, as well as the absence of negative components on the exchange rates relating, during the course of 2006, to the escrow account in USD put into place for contractual commitments with Opportunity and closed in May 2006.

Investment management in the first nine months of 2007 includes, in particular, the gains on the sale of the entire stake held in Oger Telecom (euro 86 million), the sale of the entire stake held in Capitalia (euro 38 million) and the sale of 2,718,311 Mediobanca ordinary shares (euro 18 million). At September 30, 2007, there are 12,284,896 Mediobanca ordinary shares remaining which are classified in the interim balance sheet in Discontinued operations/assets held for sale.
Investment management in the first nine months of 2006 included the gains on the sale of all the shares held in Neuf Télécom (euro 110 million), the sale of AVEA I.H.A.S. (euro 72 million) and, at the same time, the release to income of the remaining provisions set up for the sureties provided to banks and cancelled in the month of September 2006 (euro 121 million).

Income taxes amount to euro 1,554 million, with a reduction of euro 302 million compared to the first nine months of 2006. The reduction is not only due to a decrease in the taxable income but also to the recovery of withholding taxes on interest earned prior to January 1, 2004 in favor of the subsidiaries residing in the European Union. This was rendered possible by the issue of Decree Law 10 dated February 15, 2007 (converted with Law 46/2007) for a gross amount of euro 143 million on which taxes were calculated for euro 47 million, with a net positive impact of euro 96 million.

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

INTERIM CONSOLIDATED BALANCE SHEETS

(millions of euro)	9/30/2007 (a)	6/30/2007 (b)	12/31/2006	Change (a-b)
ASSETS				
NON-CURRENT ASSETS				
Intangible assets				
Goodwill	44,421	44,422	43,739	682
Intangible assets with a finite life	6,764	6,848	6,740	24
	51,185	51,270	50,479	706
Tangible assets				
Property, plant and equipment owned	15,436	15,606	15,690	(254)
Assets held under finance leases	1,459	1,478	1,525	(66)
	16,895	17,084	17,215	(320)
Other non-current assets				
Investments in associates and joint ventures accounted for using the equity method	501	519	488	13
Other investments	58	59	776	(718)
Securities, financial receivables and other non-current financial assets	624	699	691	(67)
Miscellaneous receivables and other non-current assets	923	962	871	52
Deferred tax assets	207	261	912	(705)
	2,313	2,500	3,738	(1,425)
TOTAL NON-CURRENT ASSETS (A)	**70,393**	**70,854**	**71,432**	**(1,039)**
CURRENT ASSETS				
Inventories	362	318	291	71
Trade and miscellaneous receivables and other current assets	9,458	9,559	8,748	710
Current income tax receivables	72	212	287	(215)
Securities	268	265	812	(544)
Financial receivables and other current financial assets	542	399	433	109
Cash and cash equivalents	4,235	3,664	7,219	(2,984)
Current assets sub-total	**14,937**	**14,417**	**17,790**	**(2,853)**
Discontinued operations/assets held for sale				
of a financial nature	–	–	–	–
of a non-financial nature	423	939	235	188
	423	939	235	188
TOTAL CURRENT ASSETS (B)	**15,360**	**15,356**	**18,025**	**(2,665)**
TOTAL ASSETS (A+B)	**85,753**	**86,210**	**89,457**	**(3,704)**
EQUITY AND LIABILITIES				
EQUITY				
Equity attributable to equity holders of the Parent	25,695	25,029	26,018	(323)
Equity attributable to Minority Interests	1,049	1,072	1,080	(31)
TOTAL EQUITY (C)	**26,744**	**26,101**	**27,098**	**(354)**
NON-CURRENT LIABILITIES				
Non-current financial liabilities	37,459	38,216	40,803	(3,344)
Employee severance indemnities and other employee-related provisions	1,209	1,249	1,262	(53)
Deferred tax liabilities	830	526	194	636
Provisions for risks and charges	878	863	775	103
Miscellaneous payables and other non-current liabilities	1,718	1,743	1,857	(139)
TOTAL NON-CURRENT LIABILITIES (D)	**42,094**	**42,597**	**44,891**	**(2,797)**
CURRENT LIABILITIES				
Current financial liabilities	5,653	5,986	5,653	–
Trade and miscellaneous payables and other current liabilities	11,241	11,394	11,596	(355)
Current income tax payables	21	132	219	(198)
Current liabilities sub-total	**16,915**	**17,512**	**17,468**	**(553)**
Liabilities relating to discontinued operations/assets held for sale				
of a financial nature	–	–	–	–
of a non-financial nature	–	–	–	–
	–	–	–	–
TOTAL CURRENT LIABILITIES (E)	**16,915**	**17,512**	**17,468**	**(553)**
TOTAL LIABILITIES (F=D+E)	**59,009**	**60,109**	**62,359**	**(3,350)**
TOTAL EQUITY AND LIABILITIES (C+F)	**85,753**	**86,210**	**89,457**	**(3,704)**

Non-current assets, equal to euro 70,393 million (euro 71,432 million at December 31, 2006), decreased by euro 1,039 million.

An analysis shows:

- **intangible assets** increased by euro 706 million, from euro 50,479 million at the end of 2006 to euro 51,185 million at September 30, 2007.
  The increase of euro 682 million in Goodwill is due to the temporary recognition of goodwill in connection with the acquisition of the AOL internet activities in Germany (euro 582 million) and the investment in the Dutch-registered company InterNLnet B.V. (euro 4 million) as well as the exchange rate differences relating to the Brazilian companies.
  Intangible assets with a finite life increased euro 24 million as a result of:
  - additions (euro 1,568 million);
  - allocation of the price paid for the acquisition of the AOL internet activities in Germany to customer relations and audience agreements (euro 130 million);
  - amortization charge for the period (– euro 1,759 million);
  - disposals, exchange rate differences, change in the scope of consolidation and other movements (for a net balance of euro 85 million);

- **property, plant and equipment** decreased by euro 320 million from euro 17,215 million at the end of 2006 to euro 16,895 million at September 30, 2007 as a result of:
  - additions (euro 2,120 million), including euro 156 million of capitalized internal costs;
  - depreciation charge for the period (– euro 2,542 million);
  - disposals, change in the scope of consolidation, exchange rate difference and other movements (for a net balance of euro 102 million);

- **other non-current assets** decreased by euro 1,425 million from euro 3,738 million at the end of 2006 to euro 2,313 million at September 30, 2007. The reduction is due to the reclassification from Other investments to Discontinued operations/assets held for sale of the carrying amount of the investments held in Capitalia (entirely sold during the third quarter of 2007), Oger Telecom (entirely sold on July 3, 2007) and Mediobanca (in the process of being sold), in addition to the reduction in Deferred tax assets following compensation with the income taxes accrued in the first nine months of 2007.

Current assets of euro 14,937 million decreased by euro 2,853 million compared to December 31, 2006.

Discontinued assets/assets held for sale, equal to euro 423 million (euro 235 million at December 31, 2006), include investments in:
- Solpart Participações - the controlling holding company of Brasil Telecom Participações (38.0% of share capital, with a carrying amount of euro 213 million) and Brasil Telecom Participações (1.13% of share capital, with a carrying amount of euro 22 million).
  On July 18, 2007, an agreement was reached for the sale of Solpart Participações S.A.;
- Mediobanca (1.503% of share capital, with a carrying amount of euro 188 million).

*During the **third quarter of 2007,** 2,718,311 Mediobanca ordinary shares were sold in addition to the investments held in Oger Telecom (10.36% of share capital, with a carrying amount of euro 375 million) and Capitalia (0.399% of share capital, with a carrying amount of euro 76 million), already classified at the date of June 30, 2007 in Discontinued operations/assets held for sale.*

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

Equity amounts to euro 26,744 million (euro 27,098 million at December 31, 2006), of which euro 25,695 million is attributable to the equity holders of the Parent (euro 26,018 million at December 31, 2006) and euro 1,049 million is attributable to Minority interests (euro 1,080 million at December 31, 2006).

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

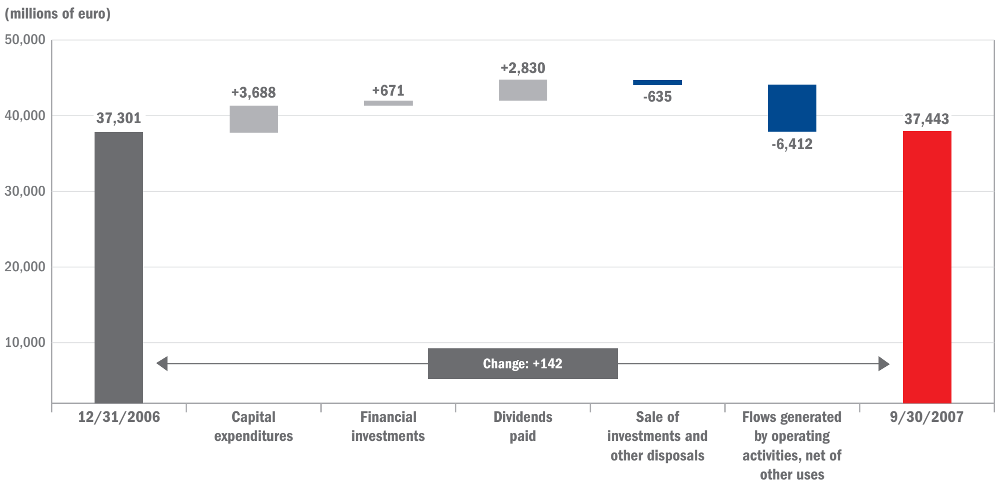
(millions of euro)	1/1 - 9/30 2007	1/1 - 12/31 2006
At the beginning of the period	**27,098**	**26,985**
Contribution by shareholders, bond conversions and stock options	–	24
Net income attributable to the equity holders of the Parent and the Minority interests	2,208	3,003
Dividends declared by:	(2,839)	(3,002)
– *Telecom Italia S.p.A.*	*(2,766)*	*(2,766)*
– *Other Group companies*	*(73)*	*(236)*
Translation differences, changes in the scope of consolidation and other changes	277	88
At the end of the period	**26,744**	**27,098**

Specifically, "translation differences, changes in the scope of consolidation and other changes", in the first nine months of 2007, include the positive effect of translation differences for euro 270 million, the positive impact of "Other gains (losses) recognized directly in equity" for euro 16 million and other negative changes for euro 9 million.

Net financial debt amounts to euro 37,443 million at September 30, 2007, with an increase of euro 142 million compared to euro 37,301 million at the end of 2006. The change is due to the acquisition of the assets relating to the Internet access business in Germany from the Time Warner/AOL group (euro 666 million) and the payment of dividends (euro 2,830 million) compensated by positive cash flows from operations and the sale of investments.

In the ***third quarter of 2007****, net financial debt decreased by euro 1,732 million, from euro 39,175 million at June 30, 2007 to euro 37,443 at September 30, 2007, thanks to positive cash flows from operations and proceeds from the sale of investments.*

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



In particular:

- **industrial capital expenditures** in the first nine months of 2007 total euro 3,688 million and increased by euro 389 million compared to the corresponding period of the prior year (+11.8%). Details are as follows:

	9 months to 9/30/2007 (a)		9 months to 9/30/2006 (b)		Change (a - b)
(millions of euro)		*% of total*		*% of total*	
Domestic	2,817	76.4	2,615	79.3	202
European Broadband	363	9.8	344	10.4	19
Brazil Mobile	442	12.0	329	10.0	113
Media, Olivetti and Other Operations	67	1.8	77	2.3	(10)
Adjustments and eliminations	*(1)*	*–*	*(66)*	*(2.0)*	*65*
Total	**3,688**	**100.0**	**3,299**	**100.0**	**389**

  More than 76% of capital expenditures is earmarked for the domestic business, particularly for the development of new services, the extension of the coverage of new technologies and the revamping of platforms and systems to support the business;

- **financial investments** amount to euro 671 million in the first nine months of 2007 and mainly refer to the acquisition of the AOL internet business in Germany (euro 666 million);

- **sale of investments and other disposals** led to a reduction in debt of euro 635 million and refer to the following transactions:
  - sale of the entire investment held in Oger Telecom, euro 462 million;
  - sale of the entire investment held in Capitalia, euro 74 million;
  - sale of Mediobanca ordinary shares, euro 26 million;
  - disposal of other non-current assets, reimbursements of share capital and the distribution of dividends by associated for a total of euro 73 million.

The sale of receivables to factoring companies had a positive effect on net financial debt at September 30, 2007 of euro 811 million (euro 1,499 million at December 31, 2006).
As required by Consob Communication No. DEM/6064293 dated July 28, 2006, the table below presents the net financial debt at September 30, 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).

(millions of euro)		9/30/2007 (a)	6/30/2007 (b)	12/31/2006	Change (a-b)
Non-current financial liabilities (*):					
Financial payables		33,705	34,688	37,391	(3,686)
Finance lease liabilities		1,822	1,834	1,847	(25)
Non-current liabilities for hedging derivatives		1,931	1,693	1,451	480
Other financial liabilities		1	1	114	(113)
	(1)	37,459	38,216	40,803	(3,344)
Less:					
Non-current financial receivables for lessors' net investments		*(268)*	*(261)*	*(229)*	*(39)*
Non-current assets for hedging derivatives		*(227)*	*(298)*	*(243)*	*16*
		(495)	(559)	(472)	(23)
TOTAL NON-CURRENT FINANCIAL LIABILITIES (*)	**(A)**	**36,964**	**37,657**	**40,331**	**(3,367)**
Current financial liabilities (*):					
Financial payables		5,124	5,353	5,143	(19)
Finance lease liabilities		253	254	269	(16)
Current liabilities for hedging and non-hedging derivatives		268	259	231	37
Other financial liabilities		8	120	10	(2)
	(2)	5,653	5,986	5,653	–
Less:					
Current financial receivables for lessors' net investments		*(137)*	*(137)*	*(148)*	*11*
Current assets for hedging derivatives		*(235)*	*(172)*	*(207)*	*(28)*
		(372)	(309)	(355)	(17)
TOTAL CURRENT FINANCIAL LIABILITIES (*)	**(B)**	**5,281**	**5,677**	**5,298**	**(17)**
Financial liabilities relating to discontinued operations/assets held for sale	**(C) (3)**	**–**	**–**	**–**	**–**
TOTAL GROSS FINANCIAL DEBT (*)	**(D=A+B+C)**	**42,245**	**43,334**	**45,629**	**(3,384)**
Current financial assets (*):					
Securities		(268)	(265)	(812)	544
Financial receivables and other current financial assets		(542)	(399)	(433)	(109)
Cash and cash equivalents		(4,235)	(3,664)	(7,219)	2,984
	(4)	(5,045)	(4,328)	(8,464)	3,419
Less:					
Current financial receivables for lessors' net investments		*137*	*137*	*148*	*(11)*
Current assets for hedging derivatives		*235*	*172*	*207*	*28*
		372	309	355	17
	(E)	**(4,673)**	**(4,019)**	**(8,109)**	**3,436**
Financial assets relating to discontinued operations/assets held for sale	**(F) (5)**	**–**	**–**	**–**	**–**
TOTAL CURRENT FINANCIAL ASSETS (*)	**(G=E+F)**	**(4,673)**	**(4,019)**	**(8,109)**	**3,436**
NET FINANCIAL DEBT AS OF CONSOB COMMUNICATION N. DEM/6064293/2006	**(H=D+G)**	**37,572**	**39,315**	**37,520**	**52**
Non-current financial assets (*):					
Securities other than investments		(10)	(10)	(12)	2
Financial receivables and other non-current financial assets		(614)	(689)	(679)	65
	(6)	(624)	(699)	(691)	67
Less:					
Non-current financial receivables for lessors' net investments		*268*	*261*	*229*	*39*
Non-current assets for hedging derivatives		*227*	*298*	*243*	*(16)*
		495	559	472	23
TOTAL NON-CURRENT FINANCIAL ASSETS (*)	**(I)**	**(129)**	**(140)**	**(219)**	**90**
NET FINANCIAL DEBT	**(L=H+I)**	**37,443**	**39,175**	**37,301**	**142**
COMPOSITION OF THE NET FINANCIAL DEBT:					
Total gross financial debt:					
Non-current financial liabilities	(1)	37,459	38,216	40,803	(3,344)
Current financial liabilities	(2) + (3)	5,653	5,986	5,653	–
		43,112	**44,202**	**46,456**	**(3,344)**
Total gross financial assets:					
Non-current financial assets	(6)	(624)	(699)	(691)	67
Current financial assets	(4) + (5)	(5,045)	(4,328)	(8,464)	3,419
		(5,669)	**(5,027)**	**(9,155)**	**3,486**
		37,443	**39,175**	**37,301**	**142**

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

Net financial debt determined according to the criteria of Consob amounts to euro 37,572 million at September 30, 2007 (euro 37,520 million at December 31, 2006) and, compared to the corresponding amount determined as set forth in the criteria of the Group, is higher by euro 129 million at that date (higher by euro 219 million at December 31, 2006).

For purposes of determining net financial debt at September 30, 2007 in accordance with Consob criteria, "Non-current financial assets (excluding the current portion) totaling euro 129 million are not considered as a deduction from gross financial debt. Such assets principally consist of the following:

- euro 66 million for the non-current portion of low-rate loans made to employees;
- euro 25 million for the non-current portion of loans made to Aree Urbane S.r.l.;
- euro 10 million for securities other than investments included in non-current assets and relating to the investment by Telecom Italia Finance S.A. in the closed-end investment fund Clessidra Sgr, registered under Italian law, for euro 7 million.

At December 31, 2006, "Non-current financial assets" which were not taken into account as a deduction from gross financial debt according to Consob criteria amounted to euro 219 million and included, among other things, euro 68 million of cash collateral with Goldman Sachs to guarantee two Cross Currency Interest Rate Swap contracts carried by Telecom Italia S.p.A..

* * *

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

Bonds

Bonds at September 30, 2007 are carried for an amount of euro 31,659 million (euro 33,906 million at December 31, 2006). Instead, in terms of the nominal repayment amount, bonds total euro 31,158 million, with a decrease of euro 1,961 million compared to December 31, 2006 (euro 33,119 million), with the following breakdown: Telecom Italia S.p.A. euro 11,381 million, Telecom Italia Finance S.A. euro 10,891 million and Telecom Italia Capital S.A. euro 8,886 million.

Convertible bonds at September 30, 2007 are carried for an amount of euro 508 million (euro 489 million at December 31, 2006) and refer entirely to convertible bonds issued by Telecom Italia S.p.A.. Instead, in terms of the nominal repayment amount, convertible bonds total euro 574 million.

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

1) New issues

- on June 7, 2007, Telecom Italia S.p.A. issued the following bonds under the euro 15 billion Euro Medium Term Note Programme:
  - bonds for euro 850 million with a quarterly coupon indexed to the 3-month Euribor plus a spread of 0.20%, maturing June 7, 2010, issued at 99.915%;
  - bonds for euro 400 million with a quarterly coupon indexed to the 3-month Euribor plus a spread of 0.79%, maturing June 7, 2016, issued at 100%;
- on July 19, 2007, Telecom Italia S.p.A. issued bonds under the Euro Medium Term Note Programme for euro 500 million at a floating rate indexed to the 3-month Euribor plus a spread of 0.63%, maturing July 19, 2013, issued at face value.

2) Repayments and conversions

The following bonds reached maturity and were duly repaid:

- **Telecom Italia S.p.A. 5.625% due 2007**: on February 1, 2007, Telecom Italia repaid the 5.625% coupon bonds of euro 1,250 million that had reached maturity;

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

Revolving Credit Facility

On January 15, 2007, euro 2 billion of the remaining syndicated Revolving Credit Facility (RCF) expiring in March 2007 was cancelled and at the same time the Revolving Credit Facility expiring in August 2012 was increased by the same amount. Subsequently, in August, the expiration date was extended by two years to the end of August 2014.
The new amount of the credit line is therefore equal to euro 8 billion, of which euro 1.5 billion is drawn down.

The composition and the draw down of the syndicated committed credit line available at September 30, 2007 and represented by the Revolving Credit Facility of euro 8 billion expiring August 2014 are presented as follows:

	Revolving Credit Facility scadenza 2007		Revolving Credit Facility scadenza 2014		Total	
(billions of euro)	Agreed	Drawn down	Agreed	Drawn down	Agreed	Drawn down
Situation at 12/31/2006	**2.0**	**–**	**6.0**	**1.5**	**8.0**	**1.5**
Increase in the 2012 RCF facility and cancellation of the 2007 RCF commitment	(2.0)	–	2.0	–	–	–
Situation at 9/30/2007	**–**	**–**	**8.0**	**1.5**	**8.0**	**1.5**

In August 2007, besides the extension of the expiration date, a revision was made to the acquisition of control clause which guarantees that Telecom Italia will retain the credit line even subsequent to the change in its shareholders of reference.
The revisions were introduced without changing the advantageous economic conditions of the credit line (Euribor +0.225%).

* * *

The following table shows the maturities of non-current financial liabilities according to both the carrying amount and the expected nominal repayment amount, as contractually defined.

The average maturity of non-current financial liabilities is equal to 7.96 years.

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

	maturing 9/30/:						
(millions of euro)	**2008**	**2009**	**2010**	**2011**	**2012**	**Beyond 2012**	**Total**
Bonds	3,662	4,546	2,228	4,640	2,247	14,844	32,167
Loans and other financial liabilities	1,207	285	1,791	457	146	4,453	8,339
Finance lease liabilities	253	221	165	139	119	1,178	2,075
Total	**5,122**	**5,052**	**4,184**	**5,236**	**2,512**	**20,475**	**42,581**
Current financial liabilities	531						531
Total	**5,653**	**5,052**	**4,184**	**5,236**	**2,512**	**20,475**	**43,112**

(1) Carrying amounts take into account fair value adjustments and amortized cost.
(2) Financial commitments include accrued expenses and deferred income, which increase the amount of non-current financial liabilities by euro 1 million, non-current financial liabilities due within 12 months by euro 1,071 million and current financial liabilities by euro 19 million.

Maturities of financial liabilities - nominal repayment amount:

(millions of euro)	maturing 9/30/: 2008	2009	2010	2011	2012	Beyond 2012	Total
Bonds	2,909	4,525	2,306	4,654	2,250	15,088	31,732
Loans and other financial liabilities	922	278	1,795	426	144	4,238	7,803
Finance lease liabilities	234	221	165	139	119	1,178	2,056
Total	**4,065**	**5,024**	**4,266**	**5,219**	**2,513**	**20,504**	**41,591**
Current financial liabilities	514						514
Total	**4,579**	**5,024**	**4,266**	**5,219**	**2,513**	**20,504**	**42,105**

Current financial assets amount to euro 5,045 million (euro 4,789 million at nominal amounts) and permit, together with the total unused committed credit lines of euro 6.6 billion, an ample coverage of the estimated maturities.

Current financial assets decreased by euro 3,419 million compared to the end of 2006. This reduction is mainly due to the repayment of financial liabilities that became due and were not entirely covered by the new bond issues and the fact that the financial resources generated by the positive dynamics of operations were absorbed by the payment of dividends and financial investments.

At September 30, 2007, current financial assets include:

– *cash and cash equivalents* which amount to euro 4,235 million (euro 7,219 million at December 31, 2006). The different technical forms used for the investment of available resources at September 30, 2007, including Euro Commercial Paper of euro 209 million, can be analyzed as follows:
  - Maturities: 97% of investments has a maximum maturity date of three months;
  - Counterpart risk: investments are made with leading banks and financial institutions with high creditworthiness with at least an A rating;
  - Country risk: the geographical location of investment is principally in major European markets;

– *financial receivables and other current financial assets* which amount to euro 542 million (euro 433 million at December 31, 2006). They include bank deposits due beyond three months for euro 113 million, the current portion of loans receivable from employees for euro 14 million, the current portion of financial receivables for lessors' net investments for euro 137 million, accrued income relating to derivatives hedging items classified as current assets/liabilities of a financial nature for euro 235 million, non-hedging derivatives for euro 14 million and other receivables for euro 29 million;

– *securities*, maturing beyond three months, equal to 268 million (euro 812 million at December 31, 2006) which refer to bonds issued by counterparts with at least an A rating with different maturities, but all with an active trading market and therefore readily convertible into cash. The decrease is due to the sale of the investment in a Belgium-registered monetary SICAV at December 31, 2006.

Non-current financial assets amount to euro 624 million (euro 691 million at December 31, 2006) and mainly include the non-current portion of loans receivable from employees (euro 66 million), the non-current portion of financial receivables for lessors' net investments (euro 268 million) and the non-current portion of hedging derivatives (euro 227 million).

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

Bonds

Bonds do not contain financial covenants (such as, for example, Net Debt/EBITDA, EBITDA/Interest, etc.) which would not force their early redemption if the covenants are not observed. 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..
Since these bonds have been placed principally with institutional investors on major world capital markets (Euromarket and the U.S.A.), the terms which regulate the bonds are in line with market practice for similar transactions effected on these same markets.
In the case of mergers, or, however, transfers of all or substantially all the assets of the issuing company or guarantor, the merging or transferring company should assume all the obligations of the merged or transferred company.

Loans other than bonds
With reference to loans received by Telecom Italia S.p.A. from the European Investment Bank ("EIB"), the amount of euro 350 million, out of a total of euro 1,766 million at September 30, 2007), is not secured by bank guarantees and 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 September 30, 2007: BBB+ for S&P's; Baa2 for Moody's and BBB+ for Fitch Ratings), 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.

All contracts with the EIB contain negative pledge clauses (yet leaving ample operating possibilities in line with international best practices). Moreover, the clauses provide that changes in the shareholders such that the shareholders which at the time of signing the contract do not hold more than 2% of the share capital but come to hold more than 50% of the voting rights give the EIB the right to rescind the contract.

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 2014.
The two syndicated bank lines contain the usual negative pledge clauses with ample operating possibilities in line with international best practices 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 150 million at September 30, 2007) 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 September 30, 2007, none of the covenants, negative pledge clauses or other clauses regarding the above-described debt positions have been breached or violated in any way.

INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(millions of euro)	9 months to 9/30/2007	9 months to 9/30/2006
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income from continuing operations	2,212	2,305
Adjustments to reconcile net income from continuing operations to cash flows generated by (used in) operating activities:		
Depreciation and amortization	4,301	4,278
Impairment (reversals) losses of non-current assets (including investments)	(103)	13
Net change in deferred tax assets and liabilities	1,256	1,376
Net (gains) losses realized on disposals of non-current assets (including investments)	(149)	(297)
Share of (profits) losses of associates and joint ventures accounted for using the equity method	(75)	(33)
Change in employee severance indemnities and other employee-related provisions	(105)	(18)
Change in other operating assets/liabilities:		
Change in inventories	(71)	(65)
Change in trade receivables and net receivables on construction contracts	(380)	(321)
Change in trade payables	8	(840)
Net change in miscellaneous receivables/payables and other assets/liabilities	(245)	(729)
CASH FLOWS GENERATED BY (USED IN) OPERATING ACTIVITIES (A)	**6,649**	**5,669**
CASH FLOWS FROM INVESTING ACTIVITIES:		
Acquisitions of intangible assets on an accrual basis	*(1,568)*	*(1,295)*
Acquisitions of tangible assets on an accrual basis	*(2,120)*	*(2,004)*
Total acquisitions of intangible and tangible assets on an accrual basis	(3,688)	(3,299)
Change in amounts due to fixed asset suppliers	*(384)*	*(293)*
Total acquisitions of intangible and tangible assets on a cash basis	(4,072)	(3,592)
Acquisitions of investments in subsidiaries and businesses, net of cash acquired (I)	(670)	–
Acquisitions of other investments (I)	(1)	(198)
Change in financial receivables and other financial assets	499	393
Proceeds from sale of investments in subsidiaries, net of cash disposed of (II)	4	332
Proceeds from sale/repayment of intangible, tangible and other non-current assets (II)	520	940
CASH FLOWS GENERATED BY (USED IN) INVESTING ACTIVITIES (B)	**(3,720)**	**(2,125)**
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net change in current financial liabilities and other liabilities	(339)	(274)
Proceeds from non-current financial liabilities (including current portion)	1,997	5,074
Repayments of non-current financial liabilities (including current portion)	(4,847)	(8,425)
Proceeds from equity instruments	–	2
Dividends paid (distribution of reserves included)	(2,830)	(2,997)
CASH FLOWS GENERATED BY (USED IN) FINANCING ACTIVITIES (C)	**(6,019)**	**(6,620)**
CASH FLOWS GENERATED BY (USED IN) DISCONTINUED OPERATIONS/ASSETS HELD FOR SALE (D)	**–**	**13**
AGGREGATE CASH FLOWS (E=A+B+C+D)	**(3,090)**	**(3,089)**
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)	20	(2)
NET CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD (H=E+F+G)	**3,890**	**6,867**

ADDITIONAL CASH FLOW INFORMATION:

(millions of euro)	9 months to 9/30/2007	9 months to 9/30/2006
Income taxes (paid) received	(241)	(373)
Interest expense paid	(2,946)	(2,457)
Interest income received	1,131	709
Dividends received	39	42

(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)	9 months to 9/30/2007	9 months to 9/30/2006
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	4,235	7,152
Bank overdraft repayable on demand - from continuing operations	(345)	(285)
	3,890	**6,867**

Related party disclosures

Related party transactions, including infragroup transactions, are neither unusual nor exceptional but fall under the normal business operations of the companies of the Group. Such transactions, when not concluded at standard conditions or dictated by specific laws, are in any case conducted at arm's length.
The following tables present the balances relating to transactions with related parties and the effects of such amounts on the interim consolidated statement of income, balance sheet and statement of cash flows.
The statement of income and the capital expenditure figures are compared with those of the first nine months of 2006, while the balance sheet figures are compared with those at December 31, 2006.

	Transactions with related parties (amount)		Corresponding caption in financial statements (amount)		% impact of related parties	
(millions of euro)	9 months to 9/30/2007	9 months to 9/30/2006	9 months to 9/30/2007	9 months to 9/30/2006	9 months to 9/30/2007	9 months to 9/30/2006
Revenues						
Of which attributable to transactions with:						
– associates and jointly controlled entities	194	177				
– subsidiaries, associates and jointly controlled entities	14	169				
– other related parties through directors, statutory auditors and managers with strategic. resp.	32	13				
– pension funds						
	240	**359**	**23,207**	**23,104**	**1.0**	**1.6**
Other income						
Of which attributable to transactions with:						
– associates and jointly controlled entities	2	4				
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and managers with strategic. resp.						
– pension funds						
	2	**4**	**251**	**396**	**0.8**	**1.0**
Purchases of materials and external services						
Of which attributable to transactions with:						
– associates and jointly controlled entities	68	76				
– subsidiaries, associates and jointly controlled entities	12	51				
– other related parties through directors, statutory auditors and managers with strategic. resp.	56	73				
– pension funds						
	136	**200**	**10,336**	**10,258**	**1.3**	**1.9**
Personnel costs						
Of which attributable to transactions with:						
– associates and jointly controlled entities						
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and managers with strategic. resp.						
– pension funds	20	19				
– remuneration to key managers	18	28				
	38	**47**	**2,826**	**2,855**	**1.3**	**1.6**
Other operating expenses						
Of which attributable to transactions with:						
– associates and jointly controlled entities						
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and managers with strategic. resp.						
– pension funds						
			1,331	**1,002**	**0.0**	**0.0**

(millions of euro)	Transactions with related parties (amount) 9 months to 9/30/2007	9 months to 9/30/2006	Corresponding caption in financial statements (amount) 9 months to 9/30/2007	9 months to 9/30/2006	% impact of related parties 9 months to 9/30/2007	9 months to 9/30/2006
Financial income						
Of which attributable to transactions with:						
– associates and jointly controlled entities	1	1				
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and managers with strategic. resp.	8					
– pension funds						
	9	**1**	**2,265**	**2,370**	**0.4**	**0.0**
Financial expenses						
Of which attributable to transactions with:						
– associates and jointly controlled entities	23	19				
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and managers with strategic. resp.	18					
– pension funds						
	41	**19**	**3,712**	**3,863**	**1.1**	**0.5**
Capital expenditures for intangible and tangible assets						
Of which attributable to transactions with:						
– associates and jointly controlled entities	55	103				
– subsidiaries, associates and jointly controlled entities	219	257				
– other related parties through directors, statutory auditors and managers with strategic. resp.	77	50				
– pension funds						
	351	**410**	**3,688**	**3,299**	**9.5**	**12.4**
Dividends paid to third parties						
Of which attributable to transactions with:						
– associates and jointly controlled entities						
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and managers with strategic. resp.	344	348				
– pension funds						
	344	**348**	**2,830**	**2,997**	**12.2**	**11.6**

(millions of euro)	Transactions with related parties (amount) 9/30/2007	Transactions with related parties (amount) 12/31/2006	Corresponding caption in financial statements (amount) 9/30/2007	Corresponding caption in financial statements (amount) 12/31/2006	% impact of related parties 9/30/2007	% impact of related parties 12/31/2006
NET FINANCIAL DEBT:						
Securities, financial receivables and other non-current financial assets						
Of which attributable to transactions with:						
– associates and jointly controlled entities	25	24				
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and managers with strategic. resp.						
– pension funds						
	25	**24**	**624**	**691**	**4.0**	**3.5**
Securities (current assets)						
Of which attributable to transactions with:						
– associates and jointly controlled entities						
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and managers with strategic. resp.	7					
– pension funds						
	7		**268**	**812**	**2.6**	**0.0**
Financial receivables and other current financial assets						
Of which attributable to transactions with:						
– associates and jointly controlled entities		1				
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and managers with strategic. resp.	1					
– pension funds						
	1	**1**	**542**	**433**	**0.2**	**0.2**
Cash and cash equivalents						
Of which attributable to transactions with:						
– associates and jointly controlled entities	1	1				
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and managers with strategic. resp.	20					
– pension funds						
	21	**1**	**4,235**	**7,219**	**0.5**	**0.0**
Non-current financial liabilities						
Of which attributable to transactions with:						
– associates and jointly controlled entities	276	239				
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and managers with strategic. resp.	167					
– pension funds						
	443	**239**	**37,459**	**40,803**	**1.2**	**0.6**
Current financial liabilities						
Of which attributable to transactions with:						
– associates and jointly controlled entities	132	148				
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and managers with strategic. resp.	1					
– pension funds						
	133	**148**	**5,653**	**5,653**	**2.4**	**2.6**
Total net financial debt						
Of which attributable to transactions with:						
– associates and jointly controlled entities	382	361				
– subsidiaries, associates and jointly controlled entities	-					
– other related parties through directors, statutory auditors and managers with strategic. resp.	140					
– pension funds						
	522	**361**	**37,443**	**37,301**	**1.4**	**1.0**

(millions of euro)	Transactions with related parties (amount)		Corresponding caption in financial statements (amount)		% impact of related parties	
	9/30/2007	12/31/2006	9/30/2007	12/31/2006	9/30/2007	12/31/2006
OTHER BALANCE SHEET CAPTIONS:						
Miscellaneous receivables and other non-current assets						
Of which attributable to transactions with:						
– associates and jointly controlled entities	8	10				
– subsidiaries, associates and jointly controlled entities						
– other related parties through directors, statutory auditors and managers with strategic. resp.						
– pension funds						
	8	**10**	**923**	**871**	**0.9**	**1.1**
Trade and miscellaneous receivables and other current assets						
Of which attributable to transactions with:						
– associates and jointly controlled entities	170	201				
– subsidiaries, associates and jointly controlled entities	11	14				
– other related parties through directors, statutory auditors and managers with strategic. resp.	18	5				
– pension funds						
	199	**220**	**9,458**	**8,748**	**2.1**	**2.5**
Miscellaneous payables and other non-current liabilities						
Of which attributable to transactions with:						
– associates and jointly controlled entities						
– subsidiaries, associates and jointly controlled entities	24	23				
– other related parties through directors, statutory auditors and managers with strategic. resp.						
– pension funds						
	24	**23**	**1,718**	**1,857**	**1.4**	**1.2**
Trade and miscellaneous payables and other current liabilities						
Of which attributable to transactions with:						
– associates and jointly controlled entities	70	99				
– subsidiaries, associates and jointly controlled entities	70	58				
– other related parties through directors, statutory auditors and managers with strategic. resp.	62	27				
– pension funds	28	20				
	230	**204**	**11,241**	**11,596**	**2.0**	**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)	9 months to 9/30/2007	9 months to 9/30/2006	
Revenues	194	177	These mainly refer to revenues from: Teleleasing S.p.A. euro 164 million (euro 143 million in the first nine months of 2006), LI.SIT. S.p.A. euro 9 million (euro 8 million in the first nine months of 2006), Shared Service Center Scrl euro 14 million (euro 16 million in the first nine months of 2006), ETECSA euro 4 million (euro 7 million in the first nine months of 2006), Telbios S.p.A. euro 1 million and NordCom euro 1 million (euro 1 million in the first nine months of 2006). In the first nine months of 2006 there were also revenues from AVEA IHAS euro 1 million and INVA S.p.A. euro 1 million no longer related parties.
Other income	2	4	This mainly refers to cost recoveries for off-site personnel by certain subsidiaries and associates.e.
Purchases of materials and external services	68	76	These refer mainly to costs for rent from Tiglio I S.r.l. euro 3 million (euro 2 million in the first nine months of 2006) and Tiglio II S.r.l. euro 1 million (euro 2 million in the first nine months of 2006), for TLC services from ETECSA euro 5 million (euro 5 million in the first nine months of 2006), for maintenance and assistance contracts from Shared Service Center Scrl euro 20 million (euro 19 million in the first nine months of 2006), for TLC equipment from Teleleasing S.p.A. euro 15 million (euro 11 million in the first nine months of 2006), for sponsorship costs from Luna Rossa Challenge 2007 S.L. euro 13 million (euro 12 million in the first nine months of 2006), for accessories and consumables from Baltea S.r.l. euro 3 million (euro 3 million in the first nine months of 2006), for remote medicine services from Telbios S.p.A. euro 5 million (euro 3 million in the first nine months of 2006) and costs for software services from NordCom S.p.A. euro 3 million (euro 1 million in the first nine months of 2006). In the first nine months of 2006 there were also costs for software and IT materials as well as maintenance and assistance contracts from Siemens Informatica S.p.A. euro 15 million and costs for TLC services from AVEA IHAS euro 2 million, no longer related parties.
Financial income	1	1	This includes accrued interest income earned on loans made to Aree Urbane S.r.l..
Financial expenses	23	19	These refer to interest expenses to Teleleasing S.p.A. for finance leases (euro 18 million in the first nine months of 2006). In the first nine months of 2006 there were also interest expenses to Tiglio I for euro 1 million.
Capital expenditures in tangible and intangible assets	55	103	These refer mainly to acquisitions of IT projects from Shared Service Center Scrl euro 53 million (euro 57 million in the first nine months of 2006) and software and hardware products and services for remote medicine services offered by Telbios S.p.A. euro 2 million. In the first nine months of 2006 there were purchases from Siemens Informatica S.p.A. euro 43 million, no longer a related party.

(millions of euro)	9/30/2007	12/31/2006	
Securities, financial receivables and other non-current financial assets	25	24	These refer to medium/long-term loans made to Aree Urbane S.r.l..
Miscellaneous receivables and other non-current assets	8	10	These refer to receivables from LI.SIT S.p.A. for the residual additional paid-in capital paid.
Trade and miscellaneous receivables and other current assets	170	201	These refer mainly to receivables from: LI.SIT. S.p.A. euro 108 million (euro 120 million at 12/31/2006), Teleleasing S.p.A. euro 51 million (euro 64 million at 12/31/2006), Shared Service Center Scrl euro 5 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) and Im.Ser S.p.A. euro 1 million (euro 1 million at 12/31/2006). At 12/31/2006 there were also receivables from Luna Rossa Challenge 2007 S.L. for euro 10 million.
Financial receivables and other current financial assets	–	1	At 12/31/2006 these referred to loans made to Aree Urbane S.r.l..
Cash and cash equivalents	1	1	These refer to treasury accounts with associates.
Non-current financial liabilities	276	239	These refer to non-current financial payables (i) to Teleleasing S.p.A. euro 268 million (euro 231 million at 12/31/2006) for finance leases (ii) to Tiglio I S.r.l. euro 7 million (euro 7 million at 12/31/2006) and Tiglio II S.r.l. euro 1 million (euro 1 million at 12/31/2006) for building sale and leaseback transactions.
Current financial liabilities	132	148	These refer to current financial payables to Teleleasing S.p.A. euro 132 million (euro 143 million at 12/31/2006) for finance leases. At 12/31/2006 there were current financial payables to Tiglio I S.r.l. euro 4 million and for building sale and leaseback transactions with Tiglio II S.r.l. euro 1 million.
Trade and miscellaneous payables and other current liabilities	70	99	These refer to payables, for supply contracts connected with operating and investment activities, to: Shared Service Center Scrl euro 23 million (euro 16 million at 12/31/2006), Teleleasing S.p.A. euro 6 million (euro 3 million at 12/31/2006), ETECSA euro 15 million (euro 12 million at 12/31/2006), Telbios S.p.A. euro 4 million (euro 2 million at 12/31/2006), Baltea S.r.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 3 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 and to Luna Rossa Challenge 2007 S.L. euro 1 million.

The following tables present the major economic, balance sheet and financial transactions and balances between companies consolidated line-by-line on one hand and companies controlled by associates and 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)	9 months to 9/30/2007	9 months to 9/30/2006	
Revenues	14	169	These refer to revenues from the Telecom Argentina Group euro 13 million (euro 9 million in the first nine months of 2006), Italtel Group euro 1 million (euro 2 million in the first nine months of 2006). In the first nine months of 2006 there were revenues from the Brasil Telecom Participaçoes Group euro 158 million relating to telecommunications services, no longer a related party.
Purchases of materials and external services	12	51	These refer to costs for maintenance and assistance contracts from the Italtel Group euro 7 million (euro 18 million in the first nine months of 2006) and TLC service costs from the Telecom Argentina Group euro 5 million (euro 4 million in the first nine months of 2006). In the first nine months there were costs for TLC services from the Brasil Telecom Participaçoes Group euro 29 million, no longer a related party.
Capital expenditures in tangible and intangible assets	219	257	These refer to the purchase of telephone exchanges from the Italtel Group.

(millions of euro)	9/30/2007	12/31/2006	
Trade and miscellaneous receivables and other current assets	11	14	These refer to telecommunications services rendered to the Italtel Group euro 1 million (euro 1 million at 12/31/2006) and receivables from the Telecom Argentina Group connected with TLC activities for euro 10 million (euro 13 million at 12/31/2006).
Miscellaneous payables and other non-current liabilities	24	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	70	58	These refer to payables, for the supply transactions connected with investment and operating activities, to the Italtel Group euro 67 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 Telecom Italia Group has also provided guarantees on behalf of associates for a total of euro 95 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 19 million on behalf of Italtel Group (euro 25 million at December 31, 2006) and euro 11 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 parties related to Telecom Italia S.p.A. through directors, statutory auditors and managers with strategic responsibilities of the company on the other.

It should be noted that with the directors who left during the period (Vittorio Merloni and Massimo Moratti (expiry of the term of office) and Luciano Gobbi, Claudio De Conto and Carlo Alessandro Puri Negri (resignations), relationships of a related party nature no longer exist respectively with the companies of the Merloni Group, the company F.C. Internazionale Milano S.p.A. and with the companies of the Pirelli Group and Camfin.

(millions of euro)	9 months to 9/30/2007	9 months to 9/30/2006	
Revenues	32	13	These refer to: (i) telecommunications services, information systems and IT services for assistance and consulting regarding economic analyses and sector studies to the Pirelli Group euro 6 million (euro 8 million in the first nine months of 2006); (ii) telecommunications services and leased movable property to the Eni Group euro 5 million, (iii) telecommunications services to the Edizione Holding Group euro 5 million (euro 3 million in the first nine months of 2006), to related companies through Mr. Moratti euro 1 million (euro 1 million in the first nine months of 2006), to Generali Group euro 11 million, to the Merloni Group euro 2 million and to Mediobanca euro 2 million.
Purchases of materials and external services	56	73	These mainly 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 27 million (euro 55 million in the first nine months of 2006), sponsorships and commissions paid for the sale of prepaid telephone cards to Autogrill S.p.A. (Edizione Holding Group) euro 2 million (euro 1 million in the first nine months of 2006), sponsorship and content provider costs from F.C. Internazionale Milano S.p.A. – a related company through Mr. Moratti – euro 2 million (euro 2 million in the first nine months of 2006), supply of energy by Camfin S.p.A. euro 1 million (euro 1 million in the first nine months of 2006), supply of fuel by the Eni Group euro 13 million and insurance premiums paid to the Generali Group euro 11 million. In the first nine months of 2006 there were also Document Management services from Telepost euro 13 million, no longer a related party.
Financial income	8	–	These refer income from derivative contracts with Mediobanca.
Financial expenses	18	–	These refer expenses on derivative contracts with Mediobanca.
Capital expenditures in tangible and intangible assets	77	50	These basically refer to purchases of ADSL modems and equipment from the Pirelli Group.

(millions of euro)	9/30/2007	12/31/2006	
Trade and miscellaneous receivables and other current assets	18	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 3 million (euro 1 million at 12/31/2006), to the Generali Group euro 12 million and to the Eni Group euro 1 million.
Securities (current assets)	7	–	These refer to securities issued by Mediobanca.
Financial receivables and other current financial assets	1	–	There refer to fair value hedge derivatives put into place with Mediobanca.
Cash and cash equivalents	20		These refer to Euro Commercial Paper of the ENI Group.
Non-current financial liabilities	167	–	These refer to contracts with Mediobanca: (i) non-current financial payables relating to the term loan facility and revolving credit facility for euro 130 million; (ii) fair value hedge derivatives for euro 37 million.
Current financial liabilities	1	–	There refer to fair value hedge derivatives put into place with Mediobanca.
Trade and miscellaneous payables and other current liabilities	62	27	These mainly refer to payables, for supply transactions connected to the acquisition and the performance of services and investment activities, to the Pirelli Group euro 49 million (euro 20 million at 12/31/2006), to transactions with the Eni Group euro 11 million, with the Edizione Holding Group euro 1 million and with the Generali 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, paid in the first half of 2007, euro 2 million and costs for Document Management services by Telepost euro 4 million, no longer related parties.

The following tables 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)	9 months to 9/30/2007	9 months to 9/30/2006	
Personnel costs	20	19	These refer to the contribution made to pension funds of which euro 13 million for Telemaco (euro 13 million in the first nine months of 2006), euro 4 million for Fontedir (euro 4 million in the first nine months of 2006) and euro 3 million for other Italian and foreign pension funds (euro 2 million in the first nine months of 2006).

(millions of euro)	9/30/2007	12/31/2006	
Trade and miscellaneous payables and other current liabilities	28	20	These refer to contributions payable to pension funds of which euro 21 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, related parties through directors, statutory auditors and managers with strategic responsibilities and the pension funds for employees of the Group companies.

Contracts with:

Aree Urbane S.r.l.

Revenue related

These refer to a medium/long-term loan made and regulated by the shareholders' agreements.

Baltea S.p.A

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

ETECSA

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

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

LI.SIT S.p.A.

Revenue related
The contract provides for developing and implementing the IT network for the social health system of the Lombardy Region, rendering online services available to all the regional health structures, by supplying:
- cards with microchips for all citizens and health operators in Lombardy;
- outsourcing services for the management of the Internet Data Center and hardware and software systems;
- professional and applications consulting for the implementation and management of the system.

Luna Rossa Challenge 2007 S.L.

Revenue related
The main contracts cover the supply of telephone 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, data transmission services and information systems and computer services;
- the operation and maintenance of the client’s software applications at the Telecom Italia S.p.A. data center;
- the recovery of costs of centralized expenses.

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

Following the dissolution of the partnership existing with Pirelli in the consortium company Shared Service Center (SSC), on October 1, 2007, the company conferred, to a company of the Pirelli Group, the business segment consisting of the persons and the structures which to date were dedicated to systems and computer services for the Pirelli group and later sold the shares from the above conferral to the same Pirelli. The process to transform the consortium company into a S.r.l. was then begun. Once this transformation is finalized, Pirelli will exit as a shareholder of the company and will be replaced, in its managerial role with regard to the operations of the company, by a leading partner which will also take over the relative control.

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

Telbios S.p.A.
Revenue related
The main contracts cover the supply of telephone services, the sale of video-communication equipment and services rendered for activities directed towards specific projects.
Expense related
The main contracts refer to the supply of services, products and hardware systems and software for the remote medicine offering.

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

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

* * *

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

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

* * *

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

Edizione Holding Group

Revenue related

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

Expense related

The main contracts refer to the sponsorship of sports companies and events, the commissions paid to Autogrill S.p.A. for the sale of prepaid telephone cards as well as the occupancy charges for the public telephones located at their structures.

Eni Group

Revenue related

The main contracts provide for the supply of telephone and data transmission services, leased movable property and Euro Commercial Paper (for the period September 3, 2007 to October 3, 2007 at a 4.42% rate).

Expense related

The main contracts provide for the supply of gas for heating, electricity and fuel for motor vehicles in addition to supplying plane transportation services.

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

Revenue related

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

Expense related

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

Generali Group

Revenue related

The main contracts provide for the supply of services for fixed and mobile telecommunications and data transmission among agencies and high-speed connections between offices and outsourcing of the relative services.

As a result of recently formalized agreement, Telecom Italia became the sole supplier of TLC services (fixed and mobile Voice, Data, Product Maintenance services, etc) for all the foreign companies of Generali (France, Portugal, Germany, Belgium, Austria and Spain); the contract is for a five-year period.

Expense related

The main contracts refer to:

- insurance polices to cover company risks;
- property leases through Società Generali Properties S.p.A..

Mediobanca Group

Revenue related

The main contracts refer to:

- bonds issued by Mediobanca subscribed to by companies of the Telecom Italia Group and fair value hedging derivatives relating to hedged items included in current assets of a financial nature;
- supply of telephone services, data network outsourcing, video-surveillance and data network expansion at the branches.

Expense related

The contracts refer to the following:

- Term loan facility and revolving credit facility where Mediobanca is one of the Initial Mandated Lead Arrangers and Bookrunners;
- Fair value hedging derivatives relating to CCIRS on Telecom Italia Capital S.A. bonds for USD 1,000 million, 4%, maturing November 15, 2008.

Merloni Group

Revenue related
The main contracts provide for the supply of telephone, data transmission services and housing services.

Pirelli & C. S.p.A.

Revenue related
The contracts refer to:
- Assistance and consulting services rendered for economic analyses and sector studies
  The purpose of this contract is the performance of assistance and consulting services for economic analyses and sector studies by Telecom Italia on behalf of Pirelli.
- Supply of telecommunications services

Expense related
The main contracts with Pirelli & C. and its wholly-owned subsidiaries, Pirelli Broadband Solutions S.p.A. and Pirelli Labs S.p.A., refer to the following:
- Contract for consulting and services for industrial properties
  The contract refers to:
  – consulting and end-to-end services regarding industrial properties and trademarks;
  – defining strategies regarding industrial properties;
  – litigation and analyses of patents of the competition;
  – management of a database for patent data and relative reports;
  – training of technicians.
  During the first quarter, a mutual resolution of the relationship was agreed starting from April 1, 2007 and continuing to the end of the year (natural expiration date of the contract) for certain initiatives.
- Contract for research and development
  The contract, signed in 2002, covers research projects and product development projects, but differently:

  - Research projects
    The contract provides:
    1. with regard to the results of research for which patents are not filed, three areas of competence which have been identified as follows:
       – simple and complex devices, competence of Pirelli;
       – networks and services, competence of Telecom Italia;
       – subsystems, joint competence of Telecom Italia - 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 an exclusive license which can be sublicensed for patents for use in the “Networks and Services” area;
       – Telecom Italia grants Pirelli an exclusive license which can be sublicensed for patents for use in the “Devices” area.

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

  - Product development projects
    The main points of the 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 of user apparatus for network access and broadband services and also exchange devices for supplying the services.
- Cooperation contract concerning joint initiatives
  Under this contract, Pirelli is working on two research projects for Telecom Italia: one relating to the "Photovoltaic and energy consumption measurement systems" and the second to "Third-generation poles for the fixed network". The agreement generally states that Telecom Italia is entitled to ownership of the rights to the intellectual properties deriving from the work established in the contracts where they are: a) exclusively applicable to telecommunications networks and/or telecommunications services or components of telecommunications networks which technical appendices of the projects identify as their specific objective and b) characterized by the inclusion of specific chemical compositions and/or treatments using specific chemical processes. The license granted to Telecom Italia, with regard to the results obtained during the course of the activities conducted under the above two projects mentioned, is at no charge.

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

Revenue related
The contracts provide for the supply of call center services, data transmission services, building leases and electrical energy.
Expense related
The contracts refer to project management (development of real estate projects), property management (administrative management of lease contracts) and agency services (commercial management of owned and leased buildings), maintenance of technological plants and total facility management (maintenance and operation of plants, security and cleaning services).
Moreover, a contract is in the process of being signed for the production of electrical energy using a co-generation plant.
Furthermore, Pirelli & C. Real Estate has a 35% stake in the capital of the companies which hold the closed-end real estate investment funds Raissa and Spazio Industriale (to which properties were contributed as part of the real estate transaction approved by the board of directors on December 21, 2005) and holds control of the management companies (Pirelli & C. Real Estate SGR and Pirelli & C. Real Estate SGR Opportunities) of the above real estate funds.

* * *

Pension funds

Transactions regarding supplementary pension funds refer to:
- payment of contributions both by the employer and the employee (including the portion of employee severance indemnities);
- supply of personal information records of the associated employees with the relative contribution details.

* * *

Compensation to managers with strategic responsibilities

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

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

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

The total compensation recorded for the period by Telecom Italia S.p.A. or by companies controlled by the Group in respect of managers with strategic responsibilities amounts to euro 18 million (euro 28 million in the first nine months of 2006) divided as follows:

(millions of euro)	9 months to 9/30/2007	9 months to 9/30/2006
Short-term compensation	17 (1)	15 (3)
Long-term compensation	1 (2)	3
Compensation for early termination of employment relationship		10
	18	**28**

(1) Of which euro 0.7 million accounted for by the subsidiary TI Media S.p.A.
(2) Of which euro 0.1 million accounted for by the subsidiary TI Media S.p.A.
(3) Of which euro 0.2 million accounted for by the subsidiary TI Media S.p.A.

Events subsequent to September 30, 2007

Sale of Mediobanca shares

In October 2007 and up to November 7, 2007, another 11,743,500 Mediobanca shares were sold (equal to 78.27% of the initially held 1.84% investment). Consequently, there is a reduction in net financial debt of euro 186 million and a positive impact on the net income attributable to the Parent of euro 82 million, net of income taxes on the gain (euro 5 million).

Olivetti

Confronted with the persisting negative performance recorded by Olivetti, which is forecast also in the years to come for the MFP segment, a series of actions has been decided aimed at a rapid economic recovery of the Business Unit, for an estimated cost in the order of euro 40 million.

Tax audits

Between October and November, the Company received notification of four areas of disputes from the revenue police relating to the tax periods from 2002 to 2006 referring to Telecom Italia and the companies merged in it (the “old” Telecom Italia, TIM and Tim Italia).
The most important observations regard the writedown of the “old” Telecom Italia shares in Olivetti’s portfolio (2002 financial statements), the criteria used to arrive at the telephone fee (2002 financial statements of the “old” Telecom Italia and TIM) and the taxation criteria applied to prior period income recorded in the 2004 financial statements when the Tar Regional Administrative Court of Lazio ruled that the fee was not due for the year 1999 and the tax regime applied in 2003 on the sale of the investment in the “new Seat”, resulting from the spin-off of Seat Pagine Gialle (now Telecom Italia Media).
These observations will be the subject of an in-depth review by the revenue police assigned to conduct the audit, who will assess whether to proceed with formal objections.
The Company, however, maintains that it can demonstrate even at this time that it has correctly interpreted and applied the laws of reference.

Business outlook:
for the current year in progress

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

The Business Units of the Telecom Italia Group

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

In particular:
- the "**Domestic**" Business Unit includes the domestic activities of Fixed Telecommunications (Retail Telephone, Internet, Data Business and Wholesale) and Mobile Telecommunications as well as the relative support activities;
- the "**European Broadband**" Business Unit comprises Broadband services in France, Germany and The Netherlands;
- the "**Brazil Mobile**", "**Media**" and "**Olivetti**" Business Units have remained substantially unchanged compared to the prior periods under comparison;
- "**Other Operations**" include the financial companies, the foreign operations 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.

(millions of euro)		Domestic	European BroadBand	Brazil Mobile	Media	Olivetti	Other Operations	Adjustments and eliminations	Total consolidated
Revenues	**9 months to-9/30/07**	**18,108**	**1,106**	**3,603**	**178**	**283**	**166**	**(237)**	**23,207**
	9 months to-9/30/06	19,223	662	2,792	136	298	177	(184)	23,104
EBITDA	**9 months to-9/30/07**	**8,440**	**161**	**824**	**(38)**	**(21)**	**66**	**1**	**9,433**
	9 months to-9/30/06	9,220	40	604	(71)	(36)	34	(5)	9,786
EBIT	**9 months to-9/30/07**	**5,184**	**(59)**	**44**	**(84)**	**(32)**	**42**	**43**	**5,138**
	9 months to-9/30/06	5,883	(106)	(47)	(111)	(49)	31	20	5,621
Capital expenditures	**9 months to-9/30/07**	**2,817**	**363**	**442**	**54**	**7**	**6**	**(1)**	**3,688**
	9 months to-9/30/06	2,615	344	329	65	6	6	(66)	3,299
Headcount at period-end (number)	**9/30/2007**	**65,528**	**4,503**	**9,842**	**1,020**	**1,329**	**1,469**	**–**	**83,691**
	12/31/2006	66,835	3,066	9,531	919	1,428	1,430	–	83,209

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

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

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

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

	9/30/2007	12/31/2006	9/30/2006
DOMESTIC FIXED			
Fixed network connections in Italy (thousands)	22,538	23,698	24,288
Physical accesses (Consumer + Business) (thousands)	19,577	20,540	20,992
Voice pricing plans (thousands)	6,548	6,468	6,417
Broadband accesses in Italy (thousands)	7,395	6,770	6,457
Virgilio page views powered by Alice (millions)	10,952	13,283	9,708
Virgilio powered by Alice average monthly single visitors (millions)	20.9	19.1	18.6
Network infrastructure in Italy:			
– access network in copper (millions of km - pair)	106.8	105.7	105.2
– access network and transport using optical fiber (millions of km of fiber)	3.8	3.7	3.7
Network infrastructure abroad:			
– European backbone (km of fiber)	55,000	51,000	51,000
– Mediterranean (km of submarine cable)	7,000	7,000	7,000
– South America (km of fiber)	30,000	30,000	30,000
DOMESTIC MOBILE			
Mobile telephone lines (number at period-end, thousands)	35,310	32,450	31,488
EUROPEAN BROADBAND			
Broadband accesses in Europe (number at period-end, thousands)	3,306	1,890	1,718
BRAZIL MOBILE			
Mobile telephone lines (number at period-end, thousands)	29,160	25,410	24,085
MEDIA			
La7 audience share Free to Air (analog mode) (period average, in %)	3.0	3.0	3.0
La7 audience share Free to Air (analog mode) (last month of the period, in %)	2.8	3.1	3.1

Domestic

The Business Unit

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

The structure of the Business Unit

The Domestic Business Unit is organized as follows:

DOMESTIC		
FIXED	**MOBILE**	**SUPPORT ACTIVITIES**
Telecom Italia S.p.A. - Fixed telecommunications services	**Telecom Italia S.p.A.** - Mobile telecommunications services	**Telecom Italia S.p.A.** - Group functions
Loquendo S.p.A.		Olivetti Multiservices S.p.A.
Matrix S.p.A.		Progetto Italia S.p.A.
Path.Net S.p.A.		Tecnoservizi Mobili S.r.l.
Telecontact Center S.p.A.		Telecom Italia Audit and Compliance Services Scarl
Telsy Elettronica e Telecomunicazioni S.p.A.		Telenergia S.r.l.
Gruppo Telecom Italia 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 Group Telecom Italia Sparkle of North America Inc. Elettra S.p.A. TIS France S.A.S.		

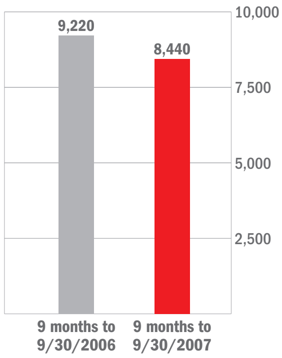
Main operating and financial data

The following table shows the key results in the third quarter and in the first nine months of 2007, compared to the corresponding periods of 2006, restated for purposes of comparison.

(millions of euro)	3rd Quarter 2007 (a)	3rd Quarter 2006 (b)	9 months to 9/30/07 (c)	9 months to 9/30/06 (d) (1)	Change % (a/b)	Change % (c/d)
Revenues	5,926	6,346	18,108	19,223	(6.6)	(5.8)
EBITDA	2,821	3,010	8,440	9,220	(6.3)	(8.5)
% of Revenues	*47.6*	*47.4*	*46.6*	*48.0*		
EBIT	1,728	1,846	5,184	5,883	(6.4)	(11.9)
% of Revenues	*29.2*	*29.1*	*28.6*	*30.6*		
Capital expenditures	922	822	2,817	2,615	12.2	7.7
Headcount at period-end (number)	65,528	66,835	(2.0)			

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

EBITDA (millions of euro)



Revenues totaling euro 18,108 million record a contraction of 5.8% (– euro 1,115 million) compared to the first nine months of 2006. In organic terms, on a comparable consolidation basis and excluding the foreign exchange effect, the reduction is equal to euro 5.7% (– euro 1,088 million). Excluding the impact from the changes relating to Non-Geographical Numbers (NNG), described later in the report, the reduction is equal to 3.8%.

Revenues were affected by the cut in fixed-mobile termination rates (euro 152 million), the application of the Bersani Decree with effect from March 2007 (estimated at euro 273 million net of about euro 171 million due to the positive impact of flexibility - higher traffic volumes as a result of the reduction in average rate price pressure owing to the elimination of top-up charges without increasing the minute rate) and rate adjustments for international roaming traffic within the EU, in accordance with European Commission rulings (estimated at euro 47 million). In total, compared to the first nine months of the prior year, these changes (including the NNG effect) amount to euro 845 million.
In particular, with regard to calls made by customers towards Non-Geographical Numbers (NNG) of Other Operators (OLOs), with effect from January 1, 2007, Telecom Italia no longer assumes the risk of insolvency on the relative receivables. Therefore, with effect from the same date, revenues and related interconnection costs do not take into account traffic generated by such calls which, in the first nine months of 2006 had led to the recognition of revenues and costs totaling euro 373 million.

In the third quarter of 2007, revenues amount to euro 5,926 million and post a reduction of euro 420 million (– 6.6%) compared to the third quarter of 2006.

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

	3rd Quarter 2007	3rd Quarter 2006	9 months to 9/30/07	9 months to 9/30/06	Change %	
(millions of euro)	(a)	(b)	(c)	(d)	(a/b)	(c/d)
Revenues	5,926	6,346	18,108	19,223	(6.6)	(5.8)
of which						
Fixed telecommunications	*3,765*	*4,108*	*11,748*	*12,707*	*(8.3)*	*(7.5)*
Mobile telecommunications	*2,513*	*2,583*	*7,429*	*7,565*	*(2.7)*	*(1.8)*
Elminations and central functions contribution	*(352)*	*(345)*	*(1,069)*	*(1,049)*	*(2.0)*	*(1.9)*

Fixed Telecommunications

Revenues from Fixed Telecommunications amount to euro 11,748 million and show a reduction of euro 959 million (– 7.5%) compared to the first nine months of 2006. At the organic level, excluding the change in the scope of consolidation and the impact from the above-mentioned NNG, the change in revenues is a negative 4.5%.
The performance of the major business areas is reported below.

Retail telephone
Revenues from the Retail Telephone area are equal to euro 6,294 million and show a reduction of euro 758 million (– 10.7%) compared to the first nine months of 2006. The decrease is due to the contraction of volumes and prices (reduction in termination rates) on fixed-mobile traffic, the migration of market volumes from fixed to mobile traffic and competitive price pressure, especially in the Top Clients segment. Excluding the effect of the above-mentioned changes relating to NNG, the reduction is around 7.6% compared to the first nine months of 2006.

Internet
Revenues generated by the Internet area, equal to euro 1,071 million, decreased by euro 52 million (– 4.6%) compared to the first nine months of 2006. Net of the effect deriving from the above-mentioned changes relating to NNG, the change is a positive euro 80 million (+8.1%) compared to the first nine months of 2006. The increase is due to the continuing strong growth of broadband and content revenues which record a gain of 10.9% compared to the corresponding period of 2006 (+euro 99 million).
At September 30, 2007, the overall portfolio of Broadband accesses on the domestic market reached 7.4 million, of which 6.2 million refers to Retail. The strategy encouraging the migration of its customers to innovative Broadband access solutions continued; these solutions allow the use of new-generation IP services and applications. Flat rate plans reached 59% of the entire Alice Consumer customer portfolio and the VOIP customer portfolio grew to 1,099,000 customers representing 17.7% of total Retail Broadband accesses. Expansion is also moving forward in IPTV services on the Consumer market and the development of web content and services.

Data Business
Overall, revenues from the Data Business area, equal to euro 1,236 million, show a contraction of euro 54 million (– 4.2%) compared to the first nine months of 2006; the reduction was recorded entirely in the first quarter of 2007. This decline, due to ever-fiercer competition on the Corporate client market and the revision of contract prices with the Public Administration, is particularly evident in leased line services and traditional Data Transmission services. Instead, ICT services continued to register dynamic growth, increasing euro 48 million (+12.0%) compared to the first nine months of last year, and Broadband Data (+euro 39 million compared to the same period of 2006, +10.8%).

Wholesale
Revenues from Wholesale services totaling euro 2,854 million show an overall decrease of euro 82 million (– 2.8%) compared to the first nine months of 2006.
Revenues from national wholesale services amount to euro 1,730 million and record a gain of euro 200 million (+13.1%) compared to the first nine months of 2006. International wholesale services posted revenues of euro 1,124 million with a contraction of euro 281 million (– 20.0%) compared to the first nine months of 2006 due to the decline in revenues from transit traffic generated by the termination of some contracts starting from the second quarter of 2007.

Mobile Telecommunications
Revenues in the first nine months of 2007 amount to euro 7,429 million and decreased by 1.8% (– 1.0% in revenues from services alone). This performance was notably affected by the negative impact of the Bersani Decree, the change in fixed-mobile termination rates and the rate adjustment for international Roaming traffic within the EU in accordance with rulings by the European Commission. Excluding these regulatory changes, total revenues of Domestic Mobile would have increased by 4.0% while revenues from services alone by 5.2%.

Revenues from Value-Added Services (VAS) saw strong growth and increased to euro 1,403 million. The gain of euro 178 million (+14.5%) compared to the first nine months of 2006 stems from continual innovations in the offering portfolio and greater penetration of interactive and mobile Broadband services (+51.0%). The percentage of VAS to total service revenues is now 20.2% (17.4% in the same period of 2006) with 20.6% in the third quarter.
"Telephone" revenues amount to euro 5,194 million and show (despite the sharp growth in traffic volumes, +6.2% compared to the first nine months of 2006, +10.8% in the third quarter) a decrease in outgoing traffic (– 3.4%) and also incoming traffic (– 9.4%) entirely due to the aforementioned negative impact of the regulatory changes.

Revenues from the sale of handsets total euro 468 million. This is a reduction of euro 63 million (– 11.9%) compared to the same period of 2006 and is attributable to continually decreasing average prices despite higher volumes.

At September 30, 2007, the number of Telecom Italia mobile lines is 35.3 million (of which 5.7 million are UMTS, accounting for 16.2% of total customers), with a growth of 2.9 million compared to December 2006, and a steady market share of 40.3%.

* * *

EBITDA of the Domestic Business Unit, equal to euro 8,440 million, records a decrease of euro 780 million (– 8.5%) compared to the first nine months of 2006, with the percentage of EBITDA to revenues at 46.6% (48.0% in the first nine months of 2006). EBITDA, compared to 2006, was highly influenced by the above-mentioned impact of the regulatory changes arising from the Bersani Decree (for a total of euro 323 million net of the cited positive impact of flexibility), in addition to a different mix of revenues and greater competitive pressure in Italy, with an impact on prices and sales costs.

In the third quarter of 2007, EBITDA is euro 2,821 million and posts a reduction of euro 189 million (– 6.3%) from the third quarter of 2006.

The organic change in EBITDA is a negative 7.7% (– euro 714 million) compared to the first nine months of 2006, with the percentage of EBITDA to revenues at 47.4% (48.5% in the first nine months of 2006). Details are as follows:

(millions of euro)	9 months to 9/30/2007	9 months to 9/30/2006	Change amount	Change %
HISTORICAL EBITDA	**8,440**	**9,220**	**(780)**	**(8.5)**
Effect of change in scope of consolidation	–	(8)		
Effect of change in exchange rates	–	(2)		
Non-organic (income) expenses:	150	94		
Corporate reorganization costs	*–*	*6*		
Accrual for Antitrust fine	*20*	*–*		
Disputes and settlements with other operators	*33*	*–*		
Restructuring costs	*96*	*86*		
Other (income) expenses, net	*1*	*2*		
COMPARABLE EBITDA	**8,590**	**9,304**	**(714)**	**(7.7)**

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

- purchases of materials and external services total euro 7,198 million and decreased by euro 551 million (– 7.1%) compared to the first nine months of 2006. The contraction is mainly due to the reduction in the portion to be paid to other operators following the previously mentioned contractual changes relating to NNG and lower international Wholesale transit traffic. This effect was partially offset by the increase in sales costs and lease payments;
- personnel costs amount to euro 2,396 million, a reduction of euro 69 million compared to the first nine months of 2006 (– 2.8%). This decrease is primarily related to (i) the reduction in the number of the work force, (ii) the elimination of the liability for the profit bonus (euro 79 million) accrued at the end of 2006 and no longer due as a result of agreements reached with the unions in June 2007 supporting the alignment of the profit bonus of the Parent, Telecom Italia, with the payment criteria established for ex-TIM Italia and (iii) the positive effects of the actuarial calculation of the provision for employee severance indemnities owing to the application of the new law dealing with pension benefits (euro 27 million);
- other operating expenses amount to euro 652 million (+euro 177 million compared to the first nine months of 2006, +37.3%). The change is principally the result of accruals for disputes and settlements with Eutelia and with other operators (euro 33 million), higher expenses connected with credit management and the fine levied on Telecom Italia by the Antitrust Authority in August 2007 (euro 20 million), for having acted, according to the Antitrust Authority, in a manner aimed at excluding competitors from the wholesale market of termination services and from the related retail market of fixed-mobile telephone services for business clientele.

EBIT of the Domestic Business Unit, totaling euro 5,184 million, decreased by 11.9% (– euro 699 million) compared to the first nine months of 2006. The percentage of EBIT to revenues is 28.6% (30.6% in the first nine months of 2006).

In the third quarter of 2007, EBIT is euro 1,728 million and decreased by euro 118 million (– 6.4%) compared to the third quarter of 2006.

In organic terms, the reduction in EBIT is a negative 9.1% (– euro 530 million) compared to the first nine months of 2006, with the percentage of EBIT to revenues at 29.4% (30.5% in the first nine months of 2006). Details are as follows:

(millions of euro)	9 months to 9/30/2007	9 months to 9/30/2006	Change amount	Change %
HISTORICAL EBIT	**5,184**	**5,883**	**(699)**	**(11.9)**
Effect of change in scope of consolidation	–	(8)		
Effect of change in exchange rates	–	(1)		
Non-organic (income) expenses:	139	(21)		
Non-organic (income) expenses already described under EBITDA	150	94		
Additional non-organic (income) expenses	(11)	(115)		
Gains on sale of non-current assets	*(11)*	*(115)*		
COMPARABLE EBIT	**5,323**	**5,853**	**(530)**	**(9.1)**

EBIT performance was hurt by the reduction in the net gains (losses) realized on non-current assets of euro 102 million (mainly due to the fact that in the first nine months of 2006 gains had been recognized on the sale of properties for euro 123 million). This change was more than compensated by the reduction in depreciation and amortization charges of euro 183 million (primarily as a result of the revision of the estimated useful lives of the fixed and mobile network assets conducted by Telecom Italia at the end of 2006). This revision, if it had been applied in the first nine months of 2006, would have lead to a reduction in the depreciation and amortization charge of approximately euro 270 million.

Capital expenditures total euro 2,817 million (+euro 202 million over the same period of 2006). The percentage of capital expenditures to revenues is equal to 15.6% (13.6% in the first nine months of 2006). The increase in investments indicates the constant attention paid by the Group to the modernization and innovation of the network, technologies and services.

Headcount is 65,528 and includes 1,384 people with temp contracts (1,599 at December 31, 2006). The reduction of 1,307 people since December 31, 2006 is primarily due to the termination of employment in conjunction with employee termination benefit incentives and mobility agreements under Law 223/1991.

Key factors

Fixed telecommunications

The Domestic Fixed Services Department has continued with the strategy to encourage its customers to migrate towards innovative broadband access solutions which provide access to a new generation of IP services and applications. At September 2007, this strategy enabled Telecom Italia to have a Broadband Retail + Wholesale portfolio of 7.4 million accesses (compared to about 6.8 million accesses at December 2006), of which about 6.2 million were Retail Broadband. In the Consumer market, development of the IPTV service is continuing and work is also going forward on boosting the offering of web content and services.
In the traditional Telephone business, the strategy of reference continues for the retention of its customers with an increase in rate packages (at September 30, 2007, there were 6.5 million pricing packages, more than one-third of the number of accesses); moreover, action continued with the aim of recapturing customers that switched to rival operators (811,000 returns at September 30, 2007).

Mobile Telecommunications

In 2007, the Domestic Mobile Services Department concentrated on maintaining its market share and using both traditional services (voice) and innovative services (VAS and Mobile Internet), all this thanks to an effective policy regarding the acquisition of subscriber customers, a greater diffusion of Flat or Bundled packages (both voice and VAS) and the greater penetration of UMTS handsets and users.
The offering portfolio has therefore been improved through the use of various solutions aimed at the greatest possible transparency with regard to rates and increased flexibility for the customer (i.e. dedicated offers by level and type of consumption).

In particular, in the Consumer segment, starting from June, the concept of a daily bundled package, which had already been introduced with the Maxxi Day plan during 2007, was reinforced with the Maxxi Vacanze package. This type of bundled plan has brought in a significant number of customers and enabled Domestic Mobile to considerably increase the volumes of both voice and VAS (SMS, wap and web surfing).
In the SOHO and SME segments, investments have continued to acquire valued customers – in particular the Mobile Number Portability lines – and with a high potential for data use, thanks partly to Mobile Office solutions differentiated by consumption levels and the introduction of time-limited data rates.
A new offer (“Senza Confini Europa”) has been launched also for Roaming traffic (both Consumer and Business) which brings rate transparency to Europe, with no connection charge and with free-of-charge roaming incoming calls.

Events subsequent to September 30, 2007

These refer to the following:

- On October 1, 2007, Telecom Italia was the first to launch the new offer Quadruple Play "Unica" based on broadband and IP technology. This offer allows calls to be made through both a landline and a mobile connection, from the same phone, the mobile "Unico" handset, thanks to the dual-mode technology (Alice Wi-Fi for the landline and UMTS for the mobile connection), in addition to surfing the Internet and accessing the Alice Home TV contents. The mobile phone "Unico", which is presently available in the Nokia E65 version (included in the package) works as both a cordless home-phone and a mobile phone. Thanks to the "dual-mode" technology and a software package developed by Telecom Italia, "Unico", at home, allows the user to distinguish the calls going to a fixed network and those going to a mobile network, respectively directing the calls using Alice Wi-Fi and the UMTS network. When the phone is used outside of the home, therefore without the Alice Wi-Fi coverage, it works exclusively as a mobile phone.
- In October 2007, Telecom Italia and Sky reached an agreement to transmit all Sky channels on Alice Home TV, Telecom Italia's television via ADSL. With this long-term agreement, in addition to accessing Premium Sky channels – Sport, Cinema and Football – which are already available on Telecom Italia's IPTV platform, the theme channels of the Mondo package have now been added which include entertainment, music, documentary, news and children's programs, along with the pay-per-view channels and interactive services offered by SKY. The distribution of High Definition content is also included.

Main operating data

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

	9/30/2007	12/31/2006	9/30/2006
Fixed telecommunications			
Fixed network connections in Italy (thousands)	22,538	23,698	24,288
Physical accesses (Consumer + Business) (thousands)	19,577	20,540	20,992
Voice pricing plans (thousands)	6,548	6,468	6,417
Broadband accesses in Italy (thousands)	7,395	6,770	6,457
Virgilio page views powered by Alice (millions)	10,952	13,283	9,708
Virgilio powered by Alice average monthly single visitors (millions)	20.9	19.1	18.6
Network infrastructure in Italy:			
– access network in copper (millions of km – pair)	106,8	105,7	105,2
– access network and transport using optical fiber (millions of km of fiber)	3.8	3.7	3.7
Network infrastructure abroad:			
– European backbone (km of fiber)	55,000	51,000	51,000
– Mediterranean (km of submarine cable)	7,000	7,000	7,000
– South America (km of fiber)	30,000	30,000	30,000
Total traffic:			
Minutes of traffic on the fixed network (billions)	112.8	173.8	129.6
– Domestic traffic	100.5	160.1	119.6
– International traffic	12.3	13.7	10.0
Mobile Telecommunications			
Number of lines at the end of the period (thousands)	35,310	32,450	31,488
Prepaid lines (thousands) (1)	30,114	28,080	27,470
Growth of the clientele (%) (2)	12.1	13.6	15.5
Churn rate (3)	11.7	18.9	13.6
Total outgoing traffic per month (millions of minutes)	2,685	2,443	2,452
Total outgoing and incoming traffic per month (millions of minutes)	3,971	3,730	3,738
Average monthly revenues per line (4)	22.9	25.6	26.0

(1) Excluding "not human" SIM.
(2) Increase compared to the same period of the prior year.
(3) 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.
(4) Includes revenues from prepaid cards and revenues from non-domestic traffic; it does not include revenues from products.

At September 30, 2007, the Domestic Business Unit has approximately 22.5 million fixed connections. The contraction from December 31, 2006 is offset by the growth in Broadband which, at September 2007, reached a portfolio of 7.4 million accesses (about 6.8 million accesses at December 2006), of which about 6.2 million were retail broadband accesses, confirming the continuous expansion of ADSL penetration.

At September 30, 2007, Telecom Italia has about 35.3 million mobile GSM and UMTS lines (of which 5.7 million are UMTS lines) with an increase of 8.8% compared to December 31, 2006. This figure includes 30.1 million prepaid lines, which represent 85.3% of all lines.

At September 30, 2007, Telecom Italia’s market share is 40.3%, in line with the figure at December 31, 2006 (40.4%). In particular, during the first nine months of 2007, Telecom Italia reached a market share of 39% in terms of the net increase of GSM and UMTS lines, corresponding to about 2.9 million lines.

European BroadBand

The Business Unit

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

The structure of the Business Unit

EUROPEAN BROADBAND

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

Major corporate events/scope of consolidation

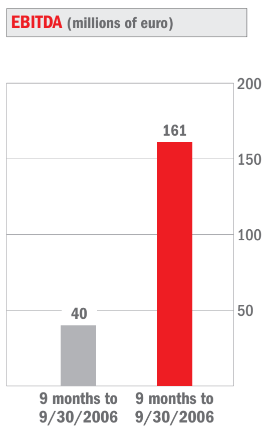
On July 18, 2007, the purchase of the 100% stake in the ISP company InterNLnet B.V. by BBNed was finalized. The total cost was euro 5.5 million, including euro 1.7 million of cash. The aim of this transaction is to favor the repositioning of BBNED at the level of retail activities by acquiring greater expertise in the segment of optic fiber services.

Main operating and financial data

The following table shows the key results in the third quarter and in the first nine months of 2007, compared to the corresponding periods of 2006.

	3rd Quarter 2007	3rd Quarter 2006	9 months to 9/30/07	9 months to 9/30/06	Change %	
(millions of euro)	(a)	(b)	(c)	(d) (1)	(a/b)	(c/d)
Revenues	411	235	1,106	662	74.9	67.1
EBITDA	73	26	161	40	°	°
% of Revenues	*17.8*	*11.1*	*14,6*	*6.0*		
EBIT	(7)	(28)	(59)	(106)	75.0	44.3
% of Revenues	*(1.7)*	*(11.9)*	*(5.3)*	*(16.0)*		
Capital expenditures	111	116	363	344	(4.3)	5.5
Headcount at period-end (number)			4,503	3,066		46.9

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



The key results by business area reported in the first nine months of 2007, compared to the corresponding period of 2006, are presented below.

GERMANY (Hansenet + AOL)

(millions of euro)	9 months to 9/30/2007	9 months to 9/30/2006	Change amount	%
Revenues	**767**	**375**	**392**	**104.5**
EBITDA	**197**	**99**	**98**	**99.0**
% of Revenues	*25.7*	*26.4*		
EBIT	**90**	**40**	**50**	**125.0**
% of Revenues	*11.7*	*10.7*		
Capital expenditures	**262**	**165**	**97**	**58.8**

FRANCE (Telecom Italia S.A.S.)				
(millions of euro)	9 months to 9/30/2007	9 months to 9/30/2006	Change amount	%
Revenues	**282**	**227**	**55**	**24.2**
EBITDA	**(51)**	**(83)**	**32**	**38.6**
% of Revenues	*(18.1)*	*(36.6)*		
EBIT	**(147)**	**(153)**	**6**	**3.9**
% of Revenues	*(52.1)*	*(67.4)*		
Capital expenditures	**94**	**167**	**(73)**	**(43.7)**

NETHERLANDS (BBNed)				
(millions of euro)	9 months to 9/30/2007	9 months to 9/30/2006	Change amount	%
Revenues	**57**	**59**	**(2)**	**(3.4)**
EBITDA	**15**	**24**	**(9)**	**(37.5)**
% of Revenues	*26.3*	*40.7*		
EBIT	**–**	**10**	**(10)**	**–**
% of Revenues	*–*	*16.9*		
Capital expenditures	**7**	**13**	**(6)**	**(46.2)**

Revenues in the first nine months of 2007 amount to euro 1,106 million and record an increase of euro 444 million (+67.1%) compared to the first nine months of 2006. Organic growth for the period, that is, on a comparable consolidation basis, is euro 190 million, +20.7%. This result is supported by the increase in the Broadband customer portfolio, due both to the growth of commercial operations and as a result of the acquisition of AOL Internet activities which, at September 30, 2007, reached 3.3 million accesses (1.1 million of which stem from the acquisition of AOL Germany). Similarly, at the end of the first nine months of 2007, the Narrowband customer portfolio reached 1.0 million accesses compared to 0.3 million in the corresponding period of the prior year.

In the third quarter of 2007, revenues total euro 411 million, gaining 74.9% over the third quarter of 2006.

Specifically, revenues from business conducted in Germany, equal to euro 767 million, show an increase of 104.5% compared to the first nine months of 2006 (+euro 392 million); organic growth is 21.9%. The Broadband customer portfolio in Germany at September 30, 2007 arrived at more than 2.2 million users and grew by about 1.4 million compared to September 30, 2006; the growth would be +0.3 million if the users reached with the new acquisitions are excluded.
With regard to the French area, in the first nine months of 2007, revenues amount to euro 282 million, up 24.2% compared to the corresponding period of the prior year (+ euro 55 million). In the Broadband area, there was an increase in both access revenues (+euro 25 million) and "Voice over IP" revenues (+euro 20 million). Compared to the first nine months of 2006, the Broadband customer portfolio increased by 23.9% (+170,000 new customers).
The Netherlands contributed euro 57 million to total revenues, with a euro 2 million decrease compared to the first nine months of 2006 due to the loss of Wholesale ADSL lines (– 63,000 lines). This was only partly compensated by the increase in the number of customers in the Retail, Voice and Fiber (Wholesale and Retail) area (+54,000 lines).

EBITDA is euro 161 million and recorded an increase of euro 121 million compared to the first nine months of 2006. The percentage of EBITDA to revenues is 14.6% against 6.0% in the same period of the prior year.

In the third quarter of 2007, EBITDA is equal to euro 73 million and increased by euro 47 million compared to the third quarter of 2006.

At the organic level, EBITDA grew over the first nine months of 2006 by euro 89 million (+117.1%). Details are as follows:

(millions of euro)	9 months to 9/30/2007	9 months to 9/30/2006	Change amount	%
HISTORICAL EBITDA	**161**	**40**	**121**	**302.5**
Effect of change in scope of consolidation	–	36		
Non-organic (income) expenses:	4	–		
Restructuring costs	*4*	–		
COMPARABLE EBITDA	**165**	**76**	**89**	**117.1**

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

- purchases of materials and external services total euro 821 million, with an increase of 53.2% compared to 2006 (+euro 285 million), on a par with the growth of business;
- personnel costs amount to euro 142 million and increased by euro 52 million compared to 2006 (+57.8%), partly due to the increase in the headcount as a result of the acquisition of AOL Germany.

EBIT is a negative euro 59 million, an improvement of euro 47 million (+ 44.3%) compared to the first nine months of 2006.

In the third quarter of 2007, EBIT is a negative euro 7 million and shows an improvement of euro 21 million compared to third quarter of 2006.

At the organic level, EBIT grew by euro 21 million (+ 27.6%) compared to the first nine months of 2006. Details are as follows:

(millions of euro)	9 months to 9/30/2007	9 months to 9/30/2006	Change amount	%
HISTORICAL EBIT	**(59)**	**(106)**	**47**	**44.3**
Effect of change in scope of consolidation	–	30		
Non-organic (income) expenses already described under EBITDA	4	–		
COMPARABLE EBIT	**(55)**	**(76)**	**21**	**27.6**

The improvement in EBIT was achieved despite a considerable increase in depreciation and amortization charges (+ euro 74 million). Such charges were due to both significant investments in network infrastructures and information systems and to commercial development where subscriber acquisition and activation costs, under contracts binding the customer to the company for at least 12 months and with the right to consideration in the event of early cancellation (like in the French case), are capitalized and amortized.

Capital expenditures amount to euro 363 million, an increase of euro 19 million compared to the same period of 2006. This increase is mainly due to technical projects (network and IT) and higher Customer Activations.

Headcount at September 30, 2007 is 4,503, an increase of 1,437 compared to December 31, 2006 including 751 people with temp work contracts (626 at December 31, 2006). The increase is principally due to the AOL Germany acquisition (1,101 people), with the remaining number attributable to the growth of the operating departments (call centers and networks) of HanseNet, Telecom Italia S.A.S. and the BBNed Group.

Key factors and general information on services

France

During the third quarter of 2007, the French market was again highly competitive with bundled plans offering rich content at some of the lowest prices on the European market: about euro 30 per month for dual and triple play rate plans (Video, Voice and Data).
The technological evolution of the offering continued with the launch of the first packages for Ultra-broadband services on fiber by the Iliad group and the development of similar projects by France Telecom and Neuf Cegetel.

In this context, the Telecom Italia Group’s French subsidiary continued to focus its strategy on achieving excellence both in terms of operations and profitability by:

- developing the product range, with particular reference to triple play content. The main achievements during the third quarter of 2007 refer to:
  - the extension of international destinations included in the basic Voice Bundle package;
  - the enhancement of the Voice Premium offering for calls to new international destinations and mobile numbers;
- increasing the extent of the network which, during the third quarter of 2007, reached a total of 677 Unbundling “Ready for Service” sites;
- continuing the focus of commercial activities on the LLU offering;
- reinforcing, through specific initiatives, the “Alice pour Vous” campaign which contractually formalizes the commitment to excellence in the quality of service offered, with mechanisms to monetarily reimburse the customer in case the commitment undertaken is not met.

Germany

During the third quarter of 2007, the German broadband market is confirmed as being concentrated in the hands of four or five players and HanseNet is seen as one of the main broadband operators in terms of the number of customers. 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**: during this quarter, commercial channels are still being integrated, functional to the Alice multichannel strategy, and there continues to be a positive trend in the upselling of Alice rate plans to the existing AOL customer base (broadband and narrowband);

- **innovating the offering**: HanseNet is today the only alternative operator on the German market to have a complete Quadruple Play proposition, integrating ADSL2+, Voice, IPTV and Mobile offering (namely MVNO - Mobile Virtual Network Operator). During the third quarter of 2007, the mobile component was further enhanced with an offering focused on families which gives the opportunity to request multiple SIM cards, “On-Net” traffic promotions and unified invoicing.

On the front of pricing, promotions were offered in order to maintain Alice’s competitive positioning. Expansion of LLU coverage continued in the third quarter through the proprietary network which, at September 30, 2007, had 829 sites; the sites covered by the Group’s partners QSC and Telefonica, also reported a significant gain, reaching a total of 1,429 sites.

Netherlands

The Dutch market has undergone an important consolidation process within the sphere of the wholesale offering due to the fact that KPN has acquired numerous ISPs; there is also a particularly significant offering of broadband cable services. The incumbent KPN’s announcement of a plan to develop the VDSL offering fits into this context. It led to moves by the Dutch regulator (OPTA) to reach agreements with operators about how the technological change of the offering and the consequent period of transition should be managed. This negotiation process led to the signing of a Memorandum of Understanding between BBNed and KPN at the beginning of the month of July 2007.
The response of the Dutch subsidiary in this context is moving in the direction of rationalizing its offering on the market and developing new technological platforms. Efforts are concentrated in this sense also on action to reposition the company vis à vis the competition and the goal-oriented development of the Consumer and Business retail offering.
Consequently, during the third quarter of 2007, the acquisition was finalized for the InterNLnet operator which is active in retail residential, ADSL and fiber offerings. Integration of the technology platforms was therefore set in motion in addition to aligning them to the Group standards, together with the integration of personnel and acquisition of clientele, with the aim of maximizing synergies arising therefrom.
On August 16, 2007, the Retail Alice ADSL Dual Play offering was launched also in the Netherlands bringing Dutch customers connections with speeds of up to 20 Mega.

Brazil mobile

The structure of the Business Unit

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

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

Main operating and financial data

The following table shows the key results in the third quarter and in the first nine months of 2007, compared to the corresponding periods of 2006.

	(millions of euro)				(millions of BRL)					
	3rd Quarter 2007	3rd Quarter 2006	9 months to 9/30/07	9 months to 9/30/06	3rd Quarter 2007	3rd Quarter 2006	9 months to 9/30/07	9 months to 9/30/06	Change %	
(millions of euro)	(a)	(b)	(c)	(d) (1)	(e)	(f)	(g)	(h) (1)	(e/f)	(g/h)
Revenues	1,281	1,070	3,603	2,792	3,381	2,951	9,694	7,595	14.6	27.6
EBITDA	239	250	824	604	625	690	2,216	1,644	(9.4)	34.8
% of Revenues	*18.5*	*23.4*	*22.9*	*21.6*	*18.5*	*23.4*	*22.9*	*21.6*		
EBIT	(25)	31	44	(47)	(71)	82	118	(128)		
% of Revenues	*(2.1)*	*2.8*	*1.2*	*(1.7)*	*(2.1)*	*2.8*	*1.2*	*(1.7)*		
Capital expenditures	171	136	442	329	453	375	1,190	895	20.8	33.0
Headcount at period-end (number)			9,842	9,531			9,842	9,531		3.3

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

Consolidated revenues of the Tim Brasil group in the first nine months of 2007 total BRL 9,694 million and grew by BRL 2,099 million compared to the same period of 2006, with an increase of 27.6% (+ 32.5% for revenues from services alone). The improvement is due to the growth of voice services and value-added services sustained by the continual expansion of the customer base (+ 21.1% compared to the same period of 2006) and the success of commercial offerings.

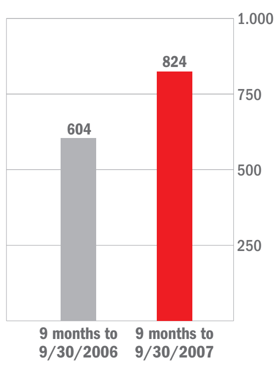
In the third quarter of 2007, consolidated revenues of the Tim Brasil group total BRL 3,381 million and grew by BRL 430 million (+14.6%) compared to the corresponding period of the 2006 (+ 19.2% for revenues from services alone).

In July 2006, Anatel (the Brazilian regulatory agency) eliminated the “Bill and Keep” regulation under which Mobile Operators, until that date, had not received or paid interconnection charges on the minutes of local mobile-mobile traffic when the balance between the incoming and outgoing minutes exchanged with the Operator fell within a 45-55 range. The growth of consolidated revenues in the first nine months of 2007 on a comparable regulatory basis would have been 16.2% for total revenues and 19.2% for revenues from services.

Consolidated *EBITDA* in the first nine months of 2007 totaling BRL 2,216 million increased by BRL 572 million compared to the first nine months of 2006 (+ 34.8%). As a percentage of revenues, EBITDA is 22.9% and shows an improvement of 1.3% compared to the corresponding period of 2006.

In the third quarter of 2007, EBITDA is BRL 625 million, a contraction of BRL 65 million (– 9.4%) compared to the same period of last year.

EBITDA (millions of euro)



Good sales performance exemplified by the growth of revenues was absorbed by higher selling costs to promote the acquisition of new customers and the launch of new converging products as well as initiatives to boost retention.
In addition, with the implementation of the new system to manager credit and collections during the quarter, the company conducted a thorough review of its trade receivables regarding installment sales of cell phones and recorded lower receivables for a total of BRL 173.3 million. This adjustment led to the writeoff of installment sales revenues of BRL 54.7 million for which, under the aforementioned retention initiatives, a decision was made to not take action to recover the receivables from the customers, and the recognition of losses on receivables of BRL 118.6 million for installment sales made to parties which at this time are no longer active customers of the company.

Excluding these adjustment, revenues grew during the quarter compared to 2006 by BRL 485 million (+ 16.4%), whereas EBITDA rose to BRL 798.3 million, with an improvement of BRL 108.3 million (+ 15.7%). As a result, the percentage of EBITDA is 23.2% or 0.2% lower than the same period of 2006.
The increase in network and interconnection costs of BRL 181 million compared to the same period of 2006 is due to the sharp expansion of traffic volumes (+19.7%) as a result of the growth of the customer base, particularly the postpaid segment (+32.2%). Moreover, during July 2007, Anatel revised the interconnection rates with other mobile operators (VUM) increasing rates on average by about 2%.

The organic growth of EBITDA compared to the same period of 2006 is equal to BRL 562 million (+ 34.0%). Details are as follows:

(millions of BRL)	9 months to 9/30/2007	9 months to 9/30/2006	Change amount	%
HISTORICAL EBITDA	**2,216**	**1,644**	**572**	**34.8**
Non-organic (income) expenses:	–	10		
Corporate reorganization costs	–	*10*		
COMPARABLE EBITDA	**2,216**	**1,654**	**562**	**34.0**

Consolidated *EBIT* in the first nine months of 2007 is a positive BRL 118 million (a negative BRL 128 million in the corresponding period of 2006). The improvement in the result compared to 2006 was achieved despite higher depreciation and amortization charges, from BRL 1,772 million in 2006 to BRL 2,083 million in 2007, mainly as a result of capital expenditures for network infrastructures, IT systems and subscriber acquisition costs.
In particular, total amortization charges relating to subscriber acquisition costs capitalized on contracts binding the customer to the company for at least 12 months and with the right to consideration in the event of early cancellation, amount to BRL 271 million.

In the third quarter of 2007, EBIT is a negative BRL 71 million (a positive BRL 82 million in the same period of 2006).

At the organic level, EBIT in the first nine months of 2007 is BRL 235 million higher than the corresponding period of the prior year. Organic growth is analyzed as follow:

(millions of BRL)	9 months to 9/30/2007	9 months to 9/30/2006	Change amount	%
HISTORICAL EBITDA	**118**	**(128)**	**246**	
Non-organic (income) expenses:		11		
Non-organic (income) expenses already described under EBITDA	–	10		
Additional non-organic (income) expenses	–	1		
Other expenses	–	*1*		
COMPARABLE EBITDA	**118**	**(117)**	**235**	

Capital expenditures for the period amount to BRL 1,190 million (BRL 895 million in the first nine months of 2006), an increase of BRL 295 million mainly as a result of expenditures to augment the customer base, for which an amount of BRL 270 million was capitalized during the period.

Headcount at September 30, 2007 is 9,842, up 3.3% compared to December 31, 2006 (9,531).

Events subsequent to September 30, 2007

These include the following:
- the commercial launch of the first convergent offer of fixed-mobile services took place in October 2007 with “TIM Casa Flex”. This was made possible by the switched fixed-line license acquired during the first half of this year. The offer allows the customer to utilize the benefits of the fixed network in association with the mobility of cell phone service;
- the new sales initiative called “Plano 1” launched in mid-October 2007 which, consistently with the strategy to penetrate new market segments, aims to promote a plan for lower-income groups based on top-up charges and rates that better reflect the economic conditions of that segment.

Key factors

In the third quarter of 2007, the Brazilian market of mobile lines continued to grow at a strong pace, reaching a total of 112.8 million lines (59.4% penetration of the population), compared to 99.9 million at the end of 2006 (53.2% penetration), with a growth of 12.9%.
The Tim Brasil group consolidated its position as the second-largest operator on the market with 29.2 million lines and growth of 15% compared to the end of 2006, increasing its market share of the lines to 25.9% compared to 25.4% at the end of 2006. Approximately 95.2% of the Tim Brasil customer base uses GSM technology. At September 2007, the gap between the group and the largest operator narrowed even more (1.9 percentage points compared to 3.7 percentage points at the end of 2006.)

In the third quarter of 2007, the strategy of the Tim Brasil group focused on:
- launching and developing convergent rate plans in the sphere of voice/data/Internet services with bundled packages such as “TIM Mais Completo”;
- continuing to improve the level of customer service and reinforcing loyalty and retention policies in the high-consumption segments;
- developing the portfolio of Advanced Services and data transmission (GPRS and EDGE) services, such as “TIM Web” for mobile internet access;
- preparing and commercially launching (in October) the convergent offering “TIM Casa Flex” which marks the entrance of TIM Brasil in the fixed-line services market, reinforcing its position on convergent services;
- offering promotions intended to boost ‘on net’ traffic and the community concept (“7 centavos” and “zero rate” plans).

* * *

Finally, on September 27, 2007, the Tim Brasil group was awarded 14 additional frequencies on the 900/1800 Mhz band through a tender offer set up by the Regulator, Anatel.
These additional frequencies will consolidate the coverage capacity and the quality of domestic GSM services.

Media

The Business Unit

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

– the “**Television**” Business Area operates in the sector of producing and broadcasting editorial content through the use of analog and digital broadcasting networks.
  This Business Area manages satellite channels and pay-per-view services using Digital Terrestrial TV. In particular, in 2007, in response to the evolution of the reference context the Group adapted its Business Model based on the following activities:
  - *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 (Web 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 and special reports from its offices in Rome and Milan and from abroad (Brussels, New York and Moscow).

The structure of the Business Unit

The Business Unit is organized as follows:

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

Major corporate events/scope of consolidation

As part of the process to complete the merger of HMC S.p.A. and HMC Pubblicità S.r.l. in liquidation in Telecom Italia Media S.p.A., on July 13, 2007, the merger deed was signed with effect on July 17, 2007.

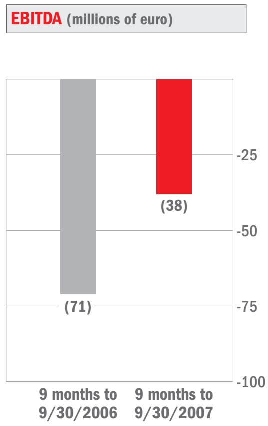
The transaction did not involve any changes to the bylaws or any increase in share capital to service the merger, since Telecom Italia Media held, directly and indirectly, 100% of the share capital of the two merged companies.

Main operating and financial data

The following table shows the key results in the third quarter and in the first nine months of 2007, compared to the corresponding periods of 2006.

	3rd Quarter 2007	3rd Quarter 2006	9 months to 9/30/07	9 months to 9/30/06	Change %	
(millions of euro)	(a)	(b)	(c)	(d) [1]	(a/b)	(c/d)
Revenues	53	38	178	136	39.5	30.9
EBITDA	(17)	(19)	(38)	(71)	10.5	46.5
% of Revenues	*(32.1)*	*(50.0)*	*(21.3)*	*(52.2)*		
EBIT	(32)	(32)	(84)	(111)	–	24.3
% of Revenues	*(60.4)*	*(84.2)*	*(47.2)*	*(81.6)*		
Capital expenditures	8	6	54	65	33.3	(16.9)
Headcount at period-end (number)			1,020	919		11.0

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



Revenues in the first nine months of 2007 total euro 178 million, with an increase of 30.9% compared to euro 136 million in the corresponding period of 2006. The gain made in revenues can be attributed to the increase in the gross domestic advertising business (+ 14.9%). This is in sharp contrast to the market trend which posted a contraction of 2.0% in the first eight months of 2007 (source Nielsen), confirming the consensus of the editorial content of the broadcasting of the two channels and the considerable rise in the revenues of the Digital Terrestrial TV platform as a result of broadcasting Serie A soccer games.

In the third quarter of 2007, revenues total euro 53 million and grew by euro 15 million (+39.5%) compared to revenues in the third quarter of 2006.

Additional details are provided as follows:
– in the first nine months of 2007, revenues from analog Free to Air transmission total euro 116 million, an increase of 15.8% compared to the same period of the prior year. The revenues of the two broadcasters La7 and MTV from analog transmission grew, respectively, by 19.8% and 12.0%, and advertising on La7 rose by 19.3% (+15.8% in the first quarter, +18.3% in the second quarter and +27.3% in the third quarter);
– revenues from the Multimedia sector amount to euro 20 million, an increase of 34.2% compared to the corresponding period of the prior year, and benefit from the considerable advertising contribution, especially on internet platforms;
– revenues from Digital Terrestrial TV operations stand at euro 36 million, more than double the euro 15 million reported 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 for broadcasting the audio-visual content of Serie A soccer games on the DTT and DVBH platforms. The robust growth recorded in the first half is also confirmed in third quarter of 2007 which posted revenues of euro 14 million compared to euro 6 million in the third quarter of 2006;
– revenues from the News Business Area amount to euro 7 million, an increase of 5.8% compared to the corresponding period of 2006.

EBITDA in the first nine months of 2007 is a negative euro 38 million, with an improvement of euro 33 million (+46.5%) compared to a negative EBIT in the corresponding period of 2006 of euro 71 million.

In the third quarter of 2007, EBITDA is a negative euro 17 million, an improvement of euro 2 million compared to third quarter of 2006.

Organic growth is euro 29 million (+43.9%). Details are as follows:

(millions of euro)	9 months to 9/30/2007	9 months to 9/30/2006	Change amount	Change %
HISTORICAL EBITDA	**(38)**	**(71)**	**33**	**46.5**
Non-organic (income) expenses:	1	5		
Restructuring costs	*1*	*4*		
Other (income) expenses, net	*–*	*1*	–	
COMPARABLE EBITDA	**(37)**	**(66)**	**29**	**43.9**

In particular, operating profitability during the first nine months of 2007 shows an improvement in analog Free to Air broadcasting of euro 8 million, driven by the growth of national advertising (+ 13.9%). The improvement is also a reflection of La7's actions to concentrate its resources on adding more programs to its schedule with a higher audience/advertising return, which made it possible to improve the EBITDA by euro 6 million during the period, and on MTV's actions to develop new multi-channel/multi-platform strategies. Digital Terrestrial TV activities, which improved by euro 22 million compared to the first nine months of 2006, not only reflect the above-mentioned increase in revenues (+ euro 21 million), but also more efficient management of the platform and the effect of steps taken to rationalize costs on the digital Free to Air channels (La7 Sport and QOOB).

EBIT in the first nine months of 2007 is a negative euro 84 million, improving by euro 27 million (+ 24.3%) compared to the corresponding period of 2006 (when it was a negative euro 111 million). The improvement in operating income, previously described, was reduced in part by higher depreciation and amortization charges during the period (+ euro 6 million) as a consequence of both capital expenditures during the first nine months of 2007 for digital network infrastructures and greater use of television rights in the program schedule during the first part of the year.

In the third quarter of 2007, EBIT is a negative euro 32 million and is unchanged compared to the third quarter of 2006.

The organic change is a positive euro 23 million (+ 21.7%), calculated as follows:

(millions of euro)	9 months to 9/30/2007	9 months to 9/30/2006	Change amount	Change %
HISTORICAL EBITDA	**(84)**	**(111)**	**27**	**24.3**
Non-organic (income) expenses already described under EBITDA	1	5		
COMPARABLE EBITDA	**(83)**	**(106)**	**23**	**21.7**

Capital expenditures total euro 54 million (euro 65 million in the first nine months of 2006) and mainly refer to investments in the Television area in connection with Digital Terrestrial TV (euro 23 million) and the acquisition of television rights (euro 23 million).

Headcount at September 30, 2007 is 1,020 (919 at December 31, 2006) and includes 88 people with temp work contracts (47 at December 31, 2006). The increase is principally attributable to the Television sector to meet new TV productions.

Key factors

During the third quarter of 2007, Telecom Italia Media continued to act as "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, 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)

Corporate events/scope of consolidation

Consorzio Mael S.r.l. was merged in Olivetti S.p.A on August 13, 2007.

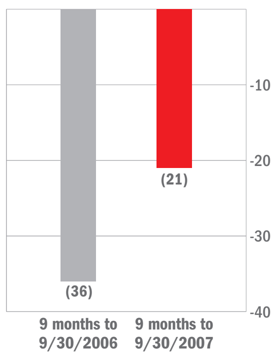
Main operating and financial data

The following table shows the key results in the third quarter and in the first nine months of 2007, compared to the corresponding periods of 2006.

	3rd Quarter 2007	3rd Quarter 2006	9 months to 9/30/07	9 months to 9/30/06	Change %	
(millions of euro)	(a)	(b)	(c)	(d) (1)	(a/b)	(c/d)
Revenues	91	86	283	298	5.8	(5.0)
EBITDA	(4)	(10)	(21)	(36)	60.0	41.7
% of Revenues	*(4.4)*	*(11.6)*	*(7.4)*	*(12.1)*		
EBIT	(8)	(14)	(32)	(49)	42.9	34.7
% of Revenues	*(8.8)*	*(16.3)*	*(11.3)*	*(16.4)*		
Capital expenditures	2	1	7	6	100.0	16.7
Headcount at period-end (number)			1,329	1.428		(6.9)

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

EBITDA (millions of euro)



Revenues in the first nine months of 2007 amount to euro 283 million and record a reduction of euro 15 million (– 5.0%) compared to the first nine months of 2006. This variation remains unchanged net of changes in the scope of consolidation, the foreign exchange effect and the consideration received on the sale of the research activities.

In the third quarter of 2007, revenues amount to euro 91 million and record an increase of euro 5 million (+5.8%) compared to the third quarter of 2006.

From the standpoint of business lines, the decrease in revenues in the first nine months of 2007 can be ascribed mainly to lower sales of ink-jet products and accessories as well as gaming products. Printers used for banking applications, although reporting lower sales because of the weak U.S. dollar against the euro, grew during the period in terms of sales volumes by 10% compared to the first nine months of 2006 and this trend is confirmed for the entire year by the order portfolio.

EBITDA in the first nine months of 2007 is a negative euro 21 million, an improvement of euro 15 million compared to the same period of 2006 (a negative euro 36 million), thanks to the decline in fixed costs following the reconversion and rationalization measures put into place last year. Actions continued in order to diversify in terms of geographic locations and products so as to improve margins. The negative EBITDA refers especially to multifunctional (MFP) products.

In the third quarter of 2007, EBITDA is a negative euro 4 million, an improvement of euro 6 million compared to the third quarter of 2006.

The organic change in EBITDA is a positive euro 8 million (+ 28.6%). Details are as follows:

(millions of euro)	9 months to 9/30/2007	9 months to 9/30/2006	Change amount	Change %
HISTORICAL EBITDA	**(21)**	**(36)**	**15**	**41.7**
Effect of change in scope of consolidation	–	1		
Effect of change in exchange rates	–	(3)		
Non-organic (income) expenses:	1	10		
Restructuring costs	*1*	*3*		
Industrial reconversion costs	–	*7*	–	–
COMPARABLE EBITDA	**(20)**	**(28)**	**8**	**28.6**

EBIT in the first nine months of 2007 is a negative euro 32 million, an improvement of euro 17 million compared to the corresponding period of 2006.

In the third quarter of 2007, EBIT is a negative euro 8 million, an improvement of euro 6 million compared to the third quarter of 2006.

The organic change is a positive euro 10 million (+ 23.8%). Details are as follows:

(millions of euro)	9 months to 9/30/2007	9 months to 9/30/2006	Change amount	Change %
HISTORICAL EBITDA	**(32)**	**(49)**	**17**	**34.7**
Effect of change in scope of consolidation	–	1		
Effect of change in exchange rates	–	(3)		
Non-organic (income) expenses:	–	9		
Non-organic (income) expenses already described under EBITDA	1	10		
Additional non-organic (income) expenses	(1)	(1)		
Other (income) expenses, net	*(1)*	*(1)*		
COMPARABLE EBITDA	**(32)**	**(42)**	**10**	**23.8**

Capital expenditures in the first nine months of 2007 amount to euro 7 million, with an increase of euro 1 million compared to the corresponding period of the prior year.

Headcount at September 30, 2007 is 1,329, of whom 1,192 are in Italy and 137 outside Italy; there are no employees with a temp work contract. The reduction of 99 people, compared to December 31, 2006, is mainly attributable to the termination of employment.

Events subsequent to September 30, 2007

Confronted with the persisting negative performance recorded by Olivetti, which is forecast also in the years to come for the MFP segment, a series of actions has been decided aimed at a rapid economic recovery of the Business Unit, for an estimated cost in the order of euro 40 million.

Other Operations

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

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

With regard to fixed telephony, there were no significant commercial plans offered during the third quarter of 2007. At September 30, 2007, there were 76,977 lines, with an increase of 3.5% compared to December 31, 2006.

Internet and Data activities were again supported in the third quarter of 2007 by special promotions regarding both rates and conditions for activating new Broadband ADSL lines. At September 30, 2007, Broadband customers numbered 13,451, an increase of about 60% compared to December 31, 2006 (about 8,400).

With regard to mobile telecommunications, the promotions which allow the user to double traffic capacity for the same top-up charge, offered also in the third quarter of 2007, made it possible to increase the number of mobile customers. At September 30, 2007, in fact, there were about 1,665,000 mobile customers, an increase of more than 15% compared to December 31, 2006 (1,443,000).

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On March 29, 2007, the Bolivian government, in pursuing its policy of nationalizing numerous privately-owned businesses, 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 S.A. into the hands of the Bolivian government (acquired in 1995, with a payment of USD 610 million, by the Telecom Italia Group through the Dutch vehicle company ETI, owned entirely by Telecom Italia International). 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 October 12, 2007, after an unsuccessful attempt at conciliation, an arbitration request was filed by ETI with ICSID (International Centre for Settlement of Investment Disputes, a body of the World Bank with headquarters in Washington, USA). The arbitration request covers the violation of the international treaty for the protection of foreign investments in Bolivia and the payment of compensation for the damages suffered as a result of the measures put into place by the Bolivian government.
On October 31, 2007, ICSID announced that the ETI arbitration request summoning the Bolivian government had been filed.
The arbitration board will be appointed within the 90 day maximum timeframe.

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A tax dispute is pending for the alleged failure to apply withholding taxes on the portion of share capital reimbursed in 2005 to a foreign shareholder. The alleged taxes evaded, together with additional charges and interest, are estimated at about euro 42 million. The rulings of the courts of the first instance before the *Superintendencia Tributaria* has confirmed the position taken by the Tax Authorities. Entel Chile has thus filed an appeal before the *Corte Suprema de Justicia*. On the basis of opinions by its internal and external experts, the company deems that it has sufficient technical and legal arguments to obtain a ruling in its favor and has therefore not set aside any accruals in the provisions for liabilities.

Other international investments accounted for using the equity method

Telecom Argentina Group
Held by: Telecom Italia and Telecom Italia International through Sofora/Nortel Inversora 13.97%
The Group operates in the sectors of fixed and mobile telecommunications, internet and data transmission in Argentina and also offers mobile telephone services in Paraguay.

At September 30, 2007, land lines in service (also including installed public telephones) are about 4,170,000, with an increase of 1.8% compared to December 31, 2006 (4,095,000). There are about 664,000 broadband accesses, with an increase of 48.2% compared to December 31, 2006 (448,000).

In the mobile business, the customer base of the Group reached approximately 11,665,000 users at September 30, 2007 (12.9% of which is in Paraguay), an increase of about 21.6% compared to December 31, 2006 (9,589,000). The number of postpaid customers increased by 15.1% compared to December 31, 2006 and represents 29.9% of the total customer base (compared to 31.6% at the end of 2006). The customers using GSM services now stand at 94.8% of the total customer base.

ETECSA
Held by: Telecom Italia International 27%
The company operates a monopoly in the sectors of fixed and mobile communications, internet and data transmission in Cuba. The number of land lines in service (also including installed public telephones) is about 1,022,100 at September 30, 2007, an increase of 5% compared to December 31, 2006. Of the lines installed, 50,500 are invoiced in U.S. dollars and the others, associated with the social development of Cuban telecommunications, in Cuban pesos. The number of internet and data customers grew slightly and is just over 22,000 accesses at September 30, 2007 (20,000 at the end of 2006).

In the mobile telephony business, the customer base totals 183,700 at September 30, 2007, an increase of 20.3% compared to December 31, 2006 (152,700). The increase is mainly concentrated on the prepaid clientele, which represents 90% of the total. During the third quarter of 2007, the migration of customers from TDMA towards GSM technology continued and is now used by more than 89% of the total customer base (compared to 81% at the end of 2006).

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

Significant non-recurring events and transactions

The effect of non-recurring events and transactions on the individual lines of the interim 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)	9 months to 9/30/2007 (a)	9 months to 9/30/2006 (b)	Change (a - b)
Purchases of materials and external services, Other operating expenses:			
Corporate reorganization costs	–	(10)	10
Industrial reconversion costs	–	(7)	7
Antitrust fine accrual	(20)	–	(20)
Impact on EBITDA	**(20)**	**(17)**	**(3)**
Gains (losses) realized on non-current assets:			
Gains on properties	10	123	(113)
Gain on sale of Ruf Gestion	–	27	(27)
Loss on sale of Telecom Italia Learning Services	–	(25)	25
Loss on sale of Radio-maritime business segment	–	(9)	9
Impact on EBIT	**(10)**	**99**	**(109)**
Financial income (expenses):			
Release of Avea I.H.A.S. provisions	–	121	(121)
Gain on sale of AVEA I.H.A.S.	–	72	(72)
Gain on sale of Neuf Télécom	–	110	(110)
Gain on sale of Oger Telecom	86	–	86
Gain on sale of Capitalia	38	–	38
Gain on sale of Mediobanca shares	18	–	18
Other gains	1	–	1
Impact on income from continuing operations before taxes	**133**	**402**	**(269)**
Effect of income taxes	(6)	(71)	65
Effect of discontinued operations	(4)	31	(35)
Impact on net income for the period	**123**	**362**	**(239)**

Positions or transactions deriving from atypical and/or unusual transactions

In accordance with Consob Communication dated July 28, 2006, a statement is made to the effect that in the first nine months of 2007 there were no atypical and/or unusual transactions, as defined by the Communication.

Other information

Disputes, litigation and legal proceedings pending

The following is a summary update of the main proceedings involving the Telecom Italia Group compared to the situation disclosed in the 2006 Annual Report and in the 2007 Half-Yearly Report. Except where specifically indicated, no provisions have been made to the reserves for future risks and charges because of the absence of firmly established and objective elements and/or because a negative outcome to the litigation is not considered probable.

Summons served by Fastweb on Telecom Italia under Article 33 of Law 287/1990 and Article 2043 of the Civil Code with regard to Telecom Italia's win-back strategies

On October 31, 2007 Fastweb served a summons on Telecom Italia to appear in the Milan Court of Appeal with a view to obtaining compensation for the damage allegedly incurred, estimated at about euro 970 million, in relation to the alleged abusiveness of Telecom Italia's win-back strategy in the markets for the supply of fixed voice telephony services to residential users and non-residential users and retail broadband Internet access.

The merits of Fastweb's case are based on the order issued on May 16, 2006 in which the Milan Court of Appeal, upholding an urgent appeal by Fastweb, had prohibited Telecom Italia from continuing with some allegedly abusive conduct consisting primarily in:

- the use of information on former clients by its marketing departments for targeted win-back activities consisting in telephone calls to former clients who had migrated to Fastweb;
- the encouragement of its sales network through increased commissions and other forms of incentive linked to the recovery of customers from Fastweb;
- the supply of services at favourable conditions, selectively reserved to Fastweb clients for the purpose of win-back activity;
- the denigration of Fastweb.

Fastweb, arguing that these activities have not ceased, has initiated an action on the merits of the case in order to counter what is alleged to be a strategy for excluding competition on the part of Telecom Italia that would amount to abuse of dominant position.
Fastweb has therefore asked the Milan Court of Appeal to ascertain the responsibility of the defendant for the losses deriving from the abusive conduct referred to above and hence to:

- condemn Telecom Italia to pay euro 880 million, plus interest and an amount for revaluation, as compensation for the damage caused to the plaintiff;
- condemn Telecom Italia to pay euro 91 million as a default penalty payment for the violations of the cease and desist order of May 16, 2006;
- confirm Telecom Italia's being subject to all the provisions of the order of May 16, 2006 referred to above.

Telecom Italia has begun the analysis of the summons served by Fastweb and will defend the case within the relevant time limits, confident that its arguments will prevail.

Challenge of resolutions adopted by the Communications Regulatory Authority concerning inverse termination

On September 21, 2007 the Council of State published its judgment declaring partially illegitimate Resolution 11/03/CIR of the Communications Regulatory Authority, which, together with Resolution 289/03/CONS, had governed inverse termination services.

These resolutions allowed other operators to determine the price for inverse termination independently (by charging amounts that do not necessarily take account of the criterion of reciprocity with respect to that charged by Telecom Italia) and also prohibited differentiating the price to the final user, thus preventing Telecom Italia from passing on to final users any higher costs incurred as a result of the termination prices applied by other operators.

With this judgment the Council of State ordered the Communications Regulatory Authority to establish general principles (based on reasonableness, proportionality and certain duration) that would allow other operators to establish objectively justifiable prices for inverse termination.

These principles will need to be applied right from the entry into force of the asymmetrical measure contained in Resolution 11/03/CIR (and remain in effect until the entry into force of Resolution 417/06/CONS, which contains new rules on inverse termination and, among other things, lays down that up to June 30, 2007 the price for the termination of voice calls on other operators' networks may not exceed euro 1.54 per minute, with provision for a subsequent annual step-reduction mechanism).
In implementing the above-mentioned judgment, on September 25, 2007 the Communications Regulatory Authority adopted Resolution 110/07/CIR suspending the proceeding initiated by Fastweb in December 2005 for the settlement of the dispute over the amount to be paid for the termination of calls on its network until the adoption of the measure identifying the above-mentioned general principles when the Authority completes the procedure it initiated with Resolution 111/07/CIR.

* * *

On October 22, 2007 the Lazio Regional Administrative Court dismissed the action brought by Telecom Italia for the annulment of Resolution 417/06/CONS of the Communications Regulatory Authority. The action was primarily in relation to:
- the price for inverse termination (fixed at euro 1.54 per minute for the period from June 30, 2006 to June 30, 2007, with provision for a subsequent annual step-reduction until the symmetry objective is reached). Telecom Italia contested the fixing of this price with reference both to the method used and to an error in the preliminary inquiry;
- the possibility for OLOs to obtain a derogation from the above price, so that in effect they were granted higher termination values than those established by the resolution.

In dismissing Telecom Italia's appeal, among other things the regional administrative court considered that the Authority had acted legitimately in providing for the authorization of derogations from the maximum price established in the resolution challenged, since it did not follow automatically from an application but was subject to OLOs documenting that they had actually incurred costs not covered by the maximum price referred to above.

Consip tender
With an action filed on September 28, 2007 Telecom Italia applied to the Council of State for the reversal of the judgment of May 2007 in which the Lazio Regional Administrative Court had dismissed the appeal filed by the Company in July 2006 for the annulment of the Consip resolution in which Fastweb was awarded the contract in the tender held in 2005 for the supply to governmental bodies of fixed telephony, IP connectivity and satellite data transmission services.

The regional administrative court had also dismissed the petition filed by Fastweb contesting Consip's decision to verify the fairness of Fastweb's bid and claiming that the requests to access the tender documents, on which Telecom Italia's appeal particularly insisted, were unfounded.
With a counter-appeal and a petition filed on October 16, 2007 Fastweb applied for the dismissal of Telecom Italia's appeal and resubmitted the grounds for the petition to the lower court to the Council of State.

Tiscali
In December 2005 Tiscali brought an action regarding shared access before the Court of Rome with a view to having the obligation established for Telecom Italia in the preliminary petition confirmed and the Company condemned to pay damages, to be determined during the case, for the loss of revenue caused by the impossibility of Tiscali's providing ADSL services to retail customers and for the harm done to its image and reputation.

In the hearing on October 12, 2007 Tiscali filed a written submission with annexed a professional assessment of the damages, equal to about euro 20 million. Telecom Italia will now appoint an expert to draw up a report in response to that produced by the plaintiff.

Levy under Article 20.2 of Law 448/1998

In its judgment on the merits of the case published on October 16, 2007 the Council of State dismissed the appeal submitted by the Ministry for the Economy and Finance and the Ministry for Communications for the annulment of the judgment of the Lazio Regional Administrative Court in July 2006, which had upheld the compliance petition submitted by Telecom Italia and ascertained the obligation for the government to return to the Company the levy paid for 1999 under Article 20.2 of Law 448/1998 and the accrued interest (euro 546 million and euro 100 million respectively).

In November 2006 the Council of State had already dismissed the request for a stay and consequently the Ministry for the Economy and Finance paid the principal amount, but not the interest.

This judgment definitively confirmed Telecom Italia's right not only to retain the capital amounts recently repaid by the Ministry for the Economy and Finance but also to apply to that Ministry for payment of the accrued interest.

Petition against the licence fee for the years 1996-97 (incoming and transit international traffic)

With a judgment published on October 9, 2007 the Council of State dismissed the appeal made by Telecom Italia in 2002 against the unfavourable judgment of the Lazio Regional Administrative Court, which had not upheld the Company's petition for the annulment of the measure concerning licence fees adopted by the Ministry of Communications on January 17, 2000 (ref. no. 1556). In particular, the measure had ordered the Company to include revenues deriving essentially from incoming and transit international telephone traffic in the base for calculating the licence fee for the years 1996-97, with a consequent increase in the fee of Lit. 33.5 billion (about euro 18 million).

Telecom Italia had accused the Ministry of incorrectly applying some clauses of the agreements concluded with Iritel and Italcable (taken over in the meantime by Telecom Italia), which provided for the fee to be applied exclusively to revenues deriving from the application of the amounts fixed in a formal measure (tariffs), whereas from 1994 onwards the revenues deriving from incoming and transit traffic were no longer subject to the tariff regime since they were established by the operators on the basis of commercial agreements.

According to the appeal judge, instead, when there is a formal Ministerial measure, the revenues are calculated on the basis of its provisions, regardless of the agreements between the operators.

Now that the Council of State has confirmed the judgment of the regional administrative court, Telecom Italia will have to pay the balance of the fee, equal to Lit. 33.5 billion (about euro 18 million). An appropriate amount has been set aside in Telecom Italia's accounts.

* * *

Other appeals are pending before the Lazio Regional Administrative Court in which judgment is not expected in the near future. They were filed by Telecom Italia and TIM and also concern the base for calculating the licence fee. In particular:

- the appeal submitted by Telecom Italia in 2003 for the annulment of the letter dated July 9, 2003 ordering the Company to pay Lit. 139.7 billion (euro 72 million) as the balance of the licence fees for the years 1997-98, of which Lit. 60 billion (euro 31 million) for 1997 and Lit. 79 billion (euro 41 million) for 1998. The date for hearing the merits of the case has still to be fixed.
- the appeal submitted by TIM in 2003 for the annulment of the letter dated May 23, 2002, in which the Ministry of Communications had requested payment of the balance of the licence fees paid for the years 1996-98 amounting to Lit. 27 billion (euro 14 million).

An appropriate amount has been set aside in Telecom Italia's accounts.

Restitution of the licence fee for 1998

With reference to the appeal submitted in 2003 by Telecom Italia to determine the Company's right to the restitution of the licence fee paid for 1998 (euro 386 million plus interest), in May 2006 the Lazio Regional Administrative Court applied to the European Court of Justice for a ruling on the compatibility with Community law of the provision (Article 20 of Law 488/1998), which, in an already liberalized market, had extended the obligation to pay the licence fee to 1998. The regional administrative court had considered this provision to be potentially in conflict with Directive 97/13/EC.

On October 25, 2007 the Advocate General of the European Court of Justice delivered his opinion – clearly in Telecom Italia's favour – and proposed that the Court should answer the question referred by the Lazio Regional Administrative Court to the effect that Directive 97/13/EC does not allow member states to subject undertakings (former concessionaires and former holders of exclusive rights) that are currently holders of a telecommunications licence or authorization to other (additional) fees with respect to those explicitly permitted by the above-mentioned directive.

An almost identical appeal submitted by TIM in 2003 to determine that company's right to the restitution of the licence fee paid for 1998 (about euro 143 million plus interest) is currently pending before the Lazio Regional Administrative Court. In view of the opinion of the Advocate General in the Telecom Italia case, this proceeding can now be expected to move ahead.

Antitrust proceeding A-357

As regards this antitrust proceeding, initiated by the Antitrust Authority on February 23, 2005 with an investigation of Telecom Italia Mobile S.p.A. (now Telecom Italia), Vodafone and Wind to establish whether violations of Articles 81 and 82 of the European Community Treaty had been committed, on August 3, 2007 the Authority notified the closure of the procedure with the imposition of a fine of euro 20 million on Telecom Italia for its conduct aimed at excluding competitors from the wholesale termination markets and the related retail fixed-mobile market for sound services for business customers. On October 18, 2007 Telecom Italia appealed against the fine before the Lazio Regional Administrative Court.

As of June 30, 2007 Telecom Italia's accounts contain a special provision for this contingent liability.

With the same measure and for the same reasons the Authority also imposed a fine of euro 2 million on Wind. On October 16, 2007 Wind appealed against this fine.

Between October 22 and 24, 2007 Fastweb, Colt Telecom S.p.A. and BT Italia S.p.A. filed three separate ad *opponendum* actions against Telecom Italia before the Lazio Regional Administrative Court, in which they apply for the dismissal of the latter's appeal against the fine imposed by the Antitrust Authority.

Regulatory framework

Regulatory framework in Italy

Wholesale fixed markets

- **Markets 8, 9 and 10 (Call Collection, Termination and Transit services on the fixed public telephone network)**
  Telecom Italia, on September 5, 2007, published the revision of the Basic Offering 2007 in accordance with the provisions of Order 107/07/CIR notified to Telecom Italia on August 6, 2007.

- **Market 11 (Wholesale unbundled access to metallic loops and sub-loops)**
  Telecom Italia, on September 5, 2007, published the revision of the Basic Offering for the years 2006 and 2007 in accordance with the provisions of Order 107/07/CIR notified to Telecom Italia on August 6, 2007.

  In reference to access services (unbundled access, Bitstream and Wholesale Line Retail WLR services), a "Technical Working Group" is underway in which representatives of the Operators and Telecom Italia are taking part. The purpose is to define the technical means by which to implement the procedures to activate and migrate customers among Operators defined by the NRA in Order 274/07/CONS published in the Gazzetta Ufficiale on June 26, 2007.

- **Market 12 (Bitstream services)**
  On October 9, 2007, the NRA has approved – with changes – the Basic Offering 2007 for the bitstream services which Telecom Italia had published on June 13, 2007 in accordance with the provisions of Order 249/07/CONS.

Mobile markets

With regard to the setting of maximum termination prices on the networks of mobile operators, NRA formulated a new proposal for the fourth-largest operator in Italy, H3G, which was submitted to the European Commission. It calls for the same termination price indicated in the proposal presented in the first quarter of 2007 (16.26 eurocents/min) but starting from January 1, 2008 instead of July 1, 2007. In August 2007, the Commission considered this price too high and asked the NRA to adopt a more meticulous approach, in anticipation of the expected application of the obligation of cost orientation with regard to H3G.

Lastly, NRA decided on the following matters.

- **Order 415/07/CONS (fixed-mobile integrated services)**
  Under Order 415/07/CONS dated August 2, 2007, "Regulatory provisions regarding the introduction of integrated fixed-mobile type services", which came into effect on October 9, 2007, in light of observations made by the European Commission, the NRA issued a general order aimed at any type of integrated fixed-mobile service regardless of the specific features. Under this order, the NRA provides that:
  1) at this time, it is not possible to identify a new market for integrated services, except for the need to monitor the competitive dynamics and to clarify, in terms of market analysis, whether the services can be effectively considered a new market, distinct from the existing markets;
  2) this solution in the short term avoids any undue procedural burden and leaves open the possibility of evaluating at a future date the question of details with regard to the rules of interconnection and interoperability of "Vodafone casa" and "Unico" services within the analysis of the pertinent markets being conducted (markets 15 and 16);
  3) where necessary, after the start of such services, the NRA could establish specific terms and conditions in accordance with art. 42 (power and competences of the NRA on the question of access and interconnection) or a request could be put forward by one of the interested parties, in accordance with art. 23 (resolution of disputes between companies) of the Code.

Under this order, the NRA also provides for a series of rules to protect the user with regard to the use of geographical numbers on mobile networks and on interconnection.

- **Order 416/07/CONS (warning to fulfill obligations regarding residual credit)**
  Under Order 416/07/CONS dated August 2, 2007, NRA warned TIM and the other mobile operators (including the virtual operators active at that time), to fulfill, within 45 days of the notification of the order, the obligation of refunding and transferring the residual credit in the event of either withdrawal or Mobile Number Portability (MNP). Telecom Italia has contested this order (the hearing for discussion is set for February 2008).

  In any case, Telecom Italia has provided for the refund of the credit. Specifically, in the case of the deactivation of the TIM card, any residual traffic purchased and unused continues to be valid for a timeframe equal to the ordinary statute-barred timeframe (10 years from the date of the deactivation of the TIM card). During that period, by request of the customer, the remaining credit can be transferred to another TIM card of the customer or third party or alternatively be refunded, within 90 days of the request date, by check or credit on a current account. In the event of a refund, the residual credit will paid net of euro 5 for the processing costs incurred by Telecom Italia.
  Whenever the amount of the residual credit is lower than or equal to euro 5, the residual credit will remain in the name of the customer in the Telecom Italia IT system or transferred to another TIM card of the customer or third party.

Accounting separation and cost accounting of the mobile network

In compliance with Order 3/06/CONS, work has begun on the preparation of the Regulatory Accounting Report 2005 in order to provide proof of the costs incurred for the mobile termination service.

A "Technical Working Group" initiating discussions between NRA and the four mobile operators ex Order 3/06/CONS was begun in order to set out the methodological guidelines for the implementation of a Long Run model. Moreover, work on a "Technical Working Group" between Telecom Italia, Vodafone and Wind was concluded. The group was set up to provide methodological clarifications to Wind with a view towards ensuring uniformity in the rules and methods used in the preparation of the Regulatory Accounting Report 2005, 2006 and 2007 ex Order 3/06/CONS.

Finally, as part of the opening of the proceedings for "voice call termination on individual mobile networks (market 16 among those identified in the recommendation of the European Commission 200/311/CE)" under Order 342/07/CONS, a "Technical Working Group" was set up involving all four mobile operators to establish the methods to be used in determining the new Network Cap amounts.

Regulatory framework in Brazil

- **Operators with significant market power**
  In 2005, ANATEL published a specific ruling regarding operators with significant market power (PMS) and issued a ruling for "Accounting Separation and Cost Accounting", introducing the obligation of presenting the Account Separation and Allocation Document (DSAC) by the license holders and Groups holding significant market power in the offering of fixed and/or mobile network interconnections and wholesale leased lines. The Groups with PMS and the terms of the presentation of the DSAC are set out in the specific orders of ANATEL. Specifically, all mobile operators are considered PMS in interconnecting services in the area where they render services.

- **Cost orientation tools**
  Order 480 by ANATEL dated August 14, 2007 establishes that mobile network operators with significant market power are required to present the DSAC for the first time by October 31, 2007. Mobile termination amounts guided by cost will presumably be introduced starting from 2010.

  Moreover, between July and September 2007, a public consultation was held on the method used in determining WACC for regulatory purposes for telecommunications companies.

- **Frequencies**
  In September 2007, a call for bids was held to assign additional frequencies in the 900MHz, 1800MHz and 1900MHz ranges. As a consequence, at least four mobile operators will be permitted to operate in each area of Brazil.

  Furthermore, with regard to assignment of third-generation frequencies, between July and August 2007 a public consultation was held on the call for bids published in October 2007 which will be concluded by the end of 2007.

Research and development

TILab, a department of the Operations Technology division, operates as a competence centre for the activities of Research, Development and Testing of the Telecom Italia Group, catalyzing technological innovation for the Group in support of departments in charge of business development. It also operates externally as a center of excellence for the telecommunications industry.
Activities are focused on basic research, evaluation of emerging technologies and in-house development within the various business and operating units. As such, TILab activities range from the revision of basic technology designed to increase the efficiency of networks and systems, to more complex activities that involve the radical redesign of platforms, services and architectures.

With reference to the main activities and the results achieved in the third quarter of 2007, the following should be noted:
- development, integration and testing of the “dual-mode” service launched with the name Unico. The service makes it possible to operate the VoIP landline Alice Voice service and the mobile 2G/3G TIM service with a single mobile dual-mode handset (2G-3G/WiFi);
- design, development, integration and testing of the “soluzione TIM Casa”, which will most probably be launched in the fourth quarter of 2007 after its presentation at the Berlin Convention. The service is compatible with the majority of TIM mobile phones and allows calls to be made on the mobile network at differentiated rates from the customer’s Home Zone rate;
- continuation of solutions engineering work regarding the “NGN2” network in view of the planned deployment initially in the Milan area;
- solution engineering for “naked ADSL” which represents a future move towards the total replacement and the abandonment of traditional analog access, carried out guaranteeing number portability, the reutilization of the domestic installation and the access to non-geographical numbering;
- continuation of innovative activities in high definition and quality digital entertainment services and the self-production of content (High Definition digital and interactive television, Video and Music on Demand, self-production of multimedia content and network diffusion and on line and real time Gaming);
- development, engineering and testing of evolving solutions for HSDPA mobile access and “Service Based handover” functionality capable of optimizing voice traffic management on the two 2G and 3G networks.

Olivetti Group

During the third quarter of 2007, Olivetti research centers completed the development stage by introducing new cash register models on the market which use ink-jet technology.

Statement by the manager responsible for financial reportin

The manager responsible for the financial reporting of the company, in accordance with section 2, article 154 bis of the Consolidated Law on Financial Intermediation, confirms that the financial information included in the Quarterly Report at September 30, 2007 of the Telecom Italia Group agrees with company's accounting records.

The Manager responsible for Financial Reporting
Enrico Parazzini

Milan, November 8, 2007