

**Report of the Board of Statutory Auditors to the Shareholders' Meeting of  
Telecom Italia S.p.A. pursuant to Article 153 of Legislative Decree 58/1998**

Dear shareholders,

During the year ended December 31, 2007 the Board of Statutory Auditors of Telecom Italia S.p.A. (the "Company") performed the supervisory activities required by law, taking into account the standards recommended by the Italian Accounting Profession and the Consob communications on corporate controls and the activity of the board of statutory auditors.

As in previous years, we obtained the information we needed for the performance of our duties of general supervision by holding hearings with managers in the various organizational units and regularly attending the meetings of the Board of Directors, which, even in cases that fall within the scope of the delegated powers of the executive directors, has reserved to itself, on a self-regulatory basis, the task of examining and deciding on strategic transactions and those having the greatest impact on the activity of the Company and the Group. Moreover, the Board of Directors – acting in its collegial capacity, and therefore in our presence – is required to give advance approval to transactions with related parties (including intra-group transactions), except for those of a typical or customary nature to be concluded at standard conditions, in accordance with the "Rules of Conduct for related party transactions", first adopted by the Company on a self-regulatory basis in 2002 and now incorporated into its Self-Regulatory Code.

In addition, we received information on the action taken by the executive directors using their delegated powers and on the implementation of transactions approved by the Board of Directors. This was in accordance with the procedure, adopted by the Company on a self-regulatory basis, governing the flow of information to directors and statutory auditors so as to regulate and coordinate all the mechanisms serving the common purpose of providing them with the information they need on a continuous basis to perform their management and control functions properly. In fact the procedure governs the collection and transmission to directors and statutory auditors of information on: the activity carried out by the Company; the transactions of greatest significance for its profitability, financial position and assets and liabilities; transactions with related parties (including intra-group transactions); and atypical and unusual transactions.

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1. On the basis of the information we received and the analyses we performed, the transactions having the greatest economic, financial and balance-sheet effects entered into by the Company, including those entered into through companies in which it owned a direct or indirect interest, were essentially the following:
  - on February 28, 2007 the purchase from the Time Warner Group of the Internet assets of AOL Germany by the Telecom Italia Group was completed for a consideration of euro 669 million;
  - on June 7, 2007 the sale of Telecom Italia S.p.A.'s 67.33% interest in Domus Academy S.p.A. to Fantastic S.r.l. was completed for a consideration of euro 1.2 million;
  - on July 3, 2007 the sale of the subsidiary TIM International's 10.36% interest in Oger Telecom to Saudi Oger was completed for a consideration of USD 477 million (corresponding to euro 351 million);
  - in September and October 2007, as part of the winding up of the partnership with Pirelli in the consortium company Shared Service Center (SSC), the business unit devoted to the dedicated supply of services to the Pirelli Group was contributed (on the basis of an independent appraisal) to Pirelli Sistemi Informativi (PSI) s.r.l. and SSC's interest in PSI was sold to Pirelli & C. S.p.A.; in November 2007 Telecom Italia purchased Pirelli's 50% interest in SSC for a consideration of euro 1.072 million. Subsequently, in December 2007, Telecom Italia purchased the remaining 4.55% interest in Shared Service Center from Olivetti for a consideration of euro 98,000, thus becoming the sole shareholder;
  - on November 29, 2007 Telecom Italia International sold 1,319,945 ordinary shares and 2,803,679 preference shares of Brasil Telecom Participações S.A. for a total of euro 48 million;

- on December 5, 2007 Brasilco S.r.l., a company held in trust by Credit Suisse for the exclusive benefit of Telecom Italia International, sold its 38% interest in Solpart Participações S.A. to Techold, a partner of Brasilco in Solpart, for a consideration of USD 515 million.
- in 2007 the Company sold 10,453,051 Capitalia ordinary shares, equal to 0.403% of the share capital, for a total of euro 74 million;
- in 2007 the Company sold 15,003,207 Mediobanca ordinary shares, equal to 1.835% of the share capital, for a total of euro 236 million.

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In 2007 Telecom Italia made the following new note issues under the Euro Medium-Term Note Programme approved for a total of €15 billion by the Board of Directors on December 21, 2005:

- o on June 7, 2007 a dual tranche issue for a total of respectively (a) EUR 850 million (coupon 3-month Euribor + 0.20%, issue price 99.915, maturity June 7, 2010); and (b) EUR 400 million (coupon 3-month Euribor + 0.79%, issue price 100%, maturity June 7, 2016);
- o on July 19, 2006, an issue of EUR 500 million (coupon 3-month Euribor + 0.63%, issue price 100%, maturity July 19, 2013).

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The above transactions are all described in the notes to the financial statements for 2007 of the Telecom Italia Group and Telecom Italia S.p.A. and summarized in the Board of Directors' Report on Operations. We verified that they were carried out in conformity with the law, the bylaws and the principles of proper management and that they were not manifestly imprudent or reckless, in contrast with the resolutions approved by the shareholders' meeting or such as to compromise the integrity of the Company's patrimony.

2. We did not find any evidence during 2007 of atypical and/or unusual transactions entered into with third parties or related parties (including Group companies).

Information on the main intra-group transactions and those with other related parties that were carried out last year, together with a description of their characteristics and economic effects, can be found in the notes to the financial statements for 2007 of the Telecom Italia Group and Telecom Italia S.p.A.

After obtaining information on the checks carried out by the external auditors, Reconta Ernst & Young, and drawing on the support of the Group Compliance Officer, we verified that the Company had adopted practices aimed at ensuring the fairness and transparency of the decision-making and implementation of the transactions carried out by Telecom Italia with related parties. In particular, we monitored compliance with the principles adopted by the Company. In fact last year saw the continued application of the "Rules of Conduct for Related Party Transactions", which since March 2007 have been incorporated into the Company's Self-Regulatory Code at Point 11, Related party transactions (for more details, see the Corporate Governance section of the 2007 Annual Report).

3. The information given in the notes to the financial statements of the Telecom Italia Group and Telecom Italia S.p.A. regarding the Company's transactions with related parties and intra-group transactions is adequate in relation to the size and structure of the Company and the Group.
4. On March 26, 2008 the audit firm, Reconta Ernst & Young, issued the reports referred to in Article 156 of Legislative Decree 58/1998 attesting that the financial statements of Telecom Italia S.p.A. and the Telecom Italia Group for the year ended December 31, 2007 complied with the provisions governing the preparation of financial statements, had been drawn up clearly and gave a true and fair view of the Company's and the Group's balance-sheet situation, financial position and results for the year.

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In fulfilling the obligations deriving from the Board of Statutory Auditors acting as the Company's Audit Committee pursuant to US law, in 2005 we adopted a procedure for the receipt, retention and treatment of reports, which can be of the following types:

- "statements of violations" submitted by shareholders concerning matters deemed to be censurable;
- "complaints" by any person, thus including non-shareholders, concerning alleged irregularities, censurable facts or, more generally, any problem or issue deemed to merit investigation by the control body;
- "complaints" submitted by any person regarding "accounting, internal accounting controls or auditing matters"
- "concerns" submitted anonymously or otherwise by employees of the Company or the Group regarding "questionable accounting or auditing matters"

The Governance section of the Company's website contains the instructions for submitting reports (statements of violations, petitions, complaints and concerns) in paper-based and electronic form to the Board of Statutory Auditors/Audit Committee.

5. In 2007 we received three complaints under Article 2408 of the Civil Code.

In particular, during the shareholders' meeting held on April 16, 2007 we received a complaint from two shareholders who disputed the legitimacy of the manner of conducting the discussion in the meeting, which, as provided for by the Chairman, addressed all the items on the agenda of the ordinary session together, and noted that the behaviour of the Chairman, although it did not constitute a violation of any specific provisions, could nonetheless be considered as the arbitrary exercise of powers granted to him by the bylaws and the meeting regulations that was incompatible with the purpose (and the rationale) of those provisions, to protect shareholders' right to participate in shareholders' meetings.

Again with reference to the shareholders' meeting held on April 16, 2007, we received another complaint under Article 2408 of the Civil Code, this time from a corporate shareholder engaged in an ongoing dispute with the Company. The shareholder complained that having put some questions during the meeting to its Chairman and the Chairman of the Board of Statutory Auditors (concerning the Company's wiretapping and investigation activity, which might have involved matters related to legal actions against Telecom Italia and its failure to make adequate allocations to provisions), it had received no reply from the Chairman of the Board of Statutory Auditors and contested the content of the replies from the Chairman of the meeting. It should also be noted that subsequently the same shareholder submitted a complaint to Consob about "irregularities in the financial statements and other corporate communications" and informed us accordingly.

In 2007 another shareholder sent us a statement of violations alleging a censurable fact consisting in the Company's failure to adapt the bylaws to Law 262/2005 and Legislative Decree 303/2006 within the prescribed time limit (June 30, 2007), since Board of Directors did not approve the necessary amendments until July 24, 2007.

In addition, in February 2008 the Board of Statutory Auditors received a complaint from a shareholder under Article 2408 of the Civil Code concerning some aspects of the Company's operations (the reference is to disposals of buildings, the manner of concluding facility management contracts, data security and wiretapping, the manner of purchasing products from companies belonging to the Pirelli Group, and the manner of disposing of 38% of Brasil Telecom). Such complaint had been preceded by two requests for information from the same shareholder, having substantially the same content.

We have carried out appropriate inquiries into all the reports without as yet finding any omissions, censurable facts or irregularities to report to the shareholders' meeting.

6. During the year we received 53 petitions, basically concerning technical, commercial, accounting and administrative problems. With the assistance of the person responsible for internal control and the Group

Compliance Officer, we have carried out appropriate inquiries into all the petitions without as yet finding irregularities to report to the shareholders' meeting.

7. During the 2007 fiscal year the Company engaged Reconta Ernst & Young to perform services other than the statutory audit. The table below shows the fees for this work, excluding out-of-pocket expenses and VAT.

	(euro)
Agreed procedures for the issue of comfort letters in respect of the euro 15,000,000,000 Euro Medium Term Note Programme	90,000.00
Audit procedures performed in relation to the Telecom Italia Group's minority interests and holdings giving joint control at December 31, 2006	140,000.00
Performance of SAS 70 Type II tests and issue of a report for the fiscal year ended December 31, 2006 (exclusively with reference to the period 07.01-12.31.2006) on Telecom Italia's management in outsourcing of the service of running and maintaining the SAP R/3 system on behalf of Endesa Italia	76,500.00
Engagement to perform agreed test procedures on the Multilocation Company Training Plan LA/PIFAM/06/660 so as to produce a report to be issued to Fondimpresa, in accordance with the requirement contained in "Guide to the management of and reporting on Company Training Plans"	15,000.00
Professional services provided in connection with the issue of the attestation of sales revenue for the tender organized by Consip S.p.A. for the "Supply of voice networks within buildings, local network equipment and related services for governmental bodies"	10,000.00
Assistance and accounting advisory services provided in connection with the review of Telecom Italia's Form 20-F 2005 conducted by the Securities and Exchange Commission (SEC)	65,000.00
Agreed test procedures with reference to some costs for professional services and advisory services incurred by the Security Function of the Telecom Italia Group in prior fiscal years	140,000.00
Agreed test procedures for the issue of the attestation of sales revenue for the tender organized by Consip S.p.A. for the "Supply of Microsoft Office user licences, CD-Roms, manuals and related services for governmental bodies"	2,000.00
Agreed test procedures for the issue of the attestation of specific sales revenue declared by Telecom Italia for the tender organized by Consip S.p.A. for the "Award of mobile telephony services for governmental bodies"	2,000.00
Agreed test procedures with reference to data prepared by Telecom Italia for the "Mobile termination cost procedure for 2005, in accordance with the request made by Agcom in Resolution no. 03/06/CONS"	3,000.00
Agreed test procedures with reference to the reclassified income statement and balance sheet for the "mobile network services" for the year ended December 31, 2005	20,000.00
Agreed test procedures with reference to the reclassified income statement and balance sheet for the "fixed network services" for the year ended December 31, 2005	30,000.00
Assistance and accounting advisory services provided in connection with Consob's request pursuant to Article 115.1a) of Legislative Decree 58/1998 on Telecom Italia's consolidated financial statements for the year ended December 31, 2006 and the review of Telecom Italia's Form 20-F 2006 conducted by the Securities and Exchange Commission (SEC)	146,000.00
Agreed procedures for testing the compliance with IFRS and/or US GAAP of the accounting standards and policies adopted by Telecom Italia in relation to some "matters of interest (accounting treatment of Subscriber Acquisition Costs ("SAC"), the reorganization of the shareholdings in Brazil, the disposal of the shareholding in Solpart to Brasilco S.r.l., various derivative contracts, change to the useful lives of tangible assets, ...)"	200,000.00
Agreed test procedures for the issue of the attestation of specific sales revenue declared by Telecom Italia for the tender organized by Consip S.p.A. for the "Supply, installation and maintenance of private telephony systems and products and related services for governmental bodies"	3,000.00
Audit of the Progetto Italia S.p.A. interim financial statements for the period ended September 30, 2007	18,500.00
Agreed test procedures for the issue of the attestation of specific sales revenue declared by Telecom Italia as requested by the tender for the "Award of the service of broadband network connectivity between branches of the Treviso no. 9 Local Health Unit	11,000.00
Agreed procedures for testing the security of the systems for treating traffic data and managing	

activities carried out on behalf of the judicial authorities	900,000.00
<b>Total</b>	<b>1,872,000.00</b>

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8. In 2007 the Company had some services performed by persons linked to Reconta Ernst & Young by continuous work relationships and/or companies belonging to the Ernst & Young international network (in particular Ernst & Young Financial – Business Advisors S.p.A.). The fees for this work, excluding out-of-pocket expenses and VAT, are summarized below:

	(euro)
Support for compliance of the 2005 and 2006 regulatory framework and accounting separation with the new Agcom resolutions and IAS rules	350,000.00
Support for the analysis and testing of the evolutionary aspects of reporting for regulatory accounting and processing for accounting separation	100,000.00
Opinion on the methodological approach adopted by Telecom Italia S.p.A. with reference to the new regulatory framework for the introduction of accounting separation and regulatory accounting for 2005, considering the external certification process that Agcom can activate	32,500.00
<b>Total</b>	<b>482,500.00</b>

9. During the year we issued two opinions pursuant to the third paragraph of Article 2389 of the Civil Code concerning the remuneration of directors entrusted with particular duties
10. In 2007 the Board of Directors of the Company held 9 meetings, in all of which we participated. The Internal Control and Corporate Governance Committee met 11 times, the Remuneration Committee 6 times and the Strategy Committee 4 times.

We met 29 times; depending on the problems to be addressed, many of these meetings were held jointly with the Internal Control and Corporate Governance Committee. We also took part in all of the meetings held by the Internal Control and Corporate Governance Committee with the participation of our Chairman (or at least one statutory auditor designated by him).

We participated in the shareholders' meeting of the Company held on April 16, 2007.

11. For matters within its sphere of authority, the Board of Statutory Auditors monitored compliance with the principles of proper management by organizing hearings, carrying out checks and investigations, gathering information from the heads of functional units and members of the management, and holding meetings with the person responsible for internal control, the Company's Group Compliance Officer, the Internal Control and Corporate Governance Committee and the audit firm, Reconta Ernst & Young (in the latter case for the exchange of data and information relevant for the performance of their respective duties, in accordance with Article 150.3 of Legislative Decree 58/1998).

More specifically, as regards the decision-making of the Board of Directors, we ensured, by participating in the directors' meetings, the compliance of operational decisions with law and the bylaws. We also verified that the resolutions in question were backed by analyses and checks – with recourse made to external experts when necessary – concerning the economic and financial fairness of transactions and their correspondence with the Company's interest.

We are of the opinion that the corporate governance mechanisms adopted by the Company are an effective means of ensuring compliance with the principles of correct management of operations; moreover, we were

kept constantly informed about the revision of some of these mechanisms during the year to bring them into line with the intervening changes in the law and the self-regulatory framework. We express a basically positive opinion on them and the other corporate governance mechanisms the Company has adopted.

12. We obtained information and monitored the adequacy of the Company's organizational structure through reports from the competent structures, hearings of the heads of functional units, and meetings with the persons responsible for the internal and external audit functions.

At December 31, 2007 the Telecom Italia Group was organized into: Business Units responsible for the growth of the various businesses; TLC Business Departments and Functions, responsible for the results of the related activities, especially through the running and development of the business of fixed and mobile telephony and Internet services; Group Functions, responsible for (i) ensuring direct control over the telecommunications business support system and the coordination, direction and control at Group level of the activities for which they are competent, and in particular for the formulation of policies and the overall governance of matters of transversal interest to Departments, Functions and Business Units; (ii) promoting a governance model within the Group that will guarantee the guidance of the Professional Families, with special reference to developing, enhancing and coordinating the specific competences and to creating paths of intragroup mobility; and (iii) ensuring the governance across the Group of any transversal operations serving the business.

The following report to the Chairman (who, in order to ensure that the activity of the Board of Directors is efficient and effective, is responsible for overseeing the formulation of strategic, business and financial plans, the definition of the organizational arrangements, the economic and financial performance of the Group, and the overall governance of the internal control system): the Group Functions General Counsel & Corporate and Legal Affairs, and Public Affairs, as well as Telecom Italia Audit & Compliance Services.

The following report to the CEO (who is responsible for the overall governance of the Group, with special reference to the definition, development and implementation of strategic, business and financial plans, the definition of organizational arrangements, and the development and management of the business): the Group Functions Administration and Control, Human Resources, Organization and Security, Domestic Legal Affairs and Judicial Authorities Services, International Legal Affairs, Purchasing, External Relations, International Affairs, Investor Relations and Strategy, the Departments/Functions of the TLC business, TIM Brasil and the Olivetti and Media Business Units.

As of January 1, 2008 the Telecom Italia Group has reorganized some of its activities. In particular, the Security Function has been placed directly under the CEO, so that the Human Resources, Organization and Security Group Function has been renamed Human Resources, Organization and Industrial Relations. In addition, a Business Strategies & International Development Department has been created (to which the following Functions report: Strategy, Business Development, National Wholesale Services, International Wholesale & Broadband Services, International Affairs and International Legal Affairs) and a Technology & Operations Department.

In addition, the Business Management & Intellectual Property Rights Function has been abolished, while the position of Executive Assistant has been created.

The creation of the Business Strategies & International Development Department led to a change in the list of Telecom Italia managers with strategic responsibilities to take account of the new arrangements. The head of the new department was deemed to qualify, while the Strategy and International Affairs Functions have been merged into the new structure and their heads are no longer recognized as having strategic responsibilities.

Accordingly, at February 4, 2008 the following persons had strategic responsibilities: the executive directors (the Chairman and the CEO), the general managers, the pro tempore heads of the following Group Functions: Public Affairs, Finance Administration and Control, General Counsel & Corporate and Legal Affairs, Human Resources, Organization and Industrial Relations, and Purchasing, and the heads of the Business Strategies & International Development Department and the Media Business Unit.

The purpose of the Group Committees (which are a means of forging links and making comparisons with a view to providing support for top management's guidance and control role, guaranteeing the effective overall governance of the business and integrating the Group's operations) is to:

- monitor the implementation of strategies, the development of plans and the results obtained;
- ensure the overall coordination of business activity and governance of matters of transversal interest;
- enhance the necessary operational synergies between the various functions involved in technological, business and support processes.

The system of Group Committees is currently under review. At December 31, 2007 the situation was as follows:

- the "Information Technology Governance Committee" (reconfigured in 2007) defines the information technology guidelines for the Group, guides the technological choices and IT investments in accordance with the needs of the business, and monitors the progress of the main IT initiatives and the quality and cost effectiveness of the solutions;
- the "Risk Management Committee" (reconfigured in 2007) identifies, assesses and manages Group risks, establishes guidelines for IT and data security, coordinates the contingency plans serving to ensure business continuity and monitors the effectiveness of the measures adopted;
- the "Security Committee" provides integrated coordination of the Group's security and crisis management activities and monitors the progress of the main projects and the effectiveness of the solutions adopted;
- the "Steering Committee for Relations with Telefónica" identifies areas and activities offering scope for synergies between the two Groups, proposes plans for their realization, and verifies their consistency with national and international legislation, the rules of regulatory authorities and self-regulatory measures.

In January 2008 the "Quality Governance Committee" was established to guide and supervise initiatives and activities aimed at achieving end-to-end improvement in the quality of processes, by monitoring the results obtained, and by analyzing these in light of the quality requirements of regulatory authorities, the most important complaints of customers and, more generally, the feedback coming from all the Company's stakeholders. In addition, the committee oversees the process of creation and quality certification and the launch of new customer products and services, especially those that have the greatest impact in terms of image and competitive positioning in the market, without prejudice to the operational responsibilities of the technical and business structures involved.

13. In 2007 we monitored the internal control system adopted by the Company and assessed its adequacy, including by means of periodic meetings with the management and the person responsible for internal control, participation in the meetings of the Internal Control and Corporate Governance Committee, joint meetings of the Board of Statutory Auditors with that Committee (depending on the subjects to be discussed) and the acquisition of documents.

As for the complex architecture of the internal control system, for some time now the performance of the internal audit function within the Company and the Group has been entrusted to a consortium company called Telecom Italia Audit & Compliance Services, whose primary object is the impartial and independent performance, on behalf of the members of the consortium, of "internal auditing", i.e. the activities aimed at checking and improving the effectiveness and efficiency of the internal control and risk management system. In view of the activity carried out by Telecom Italia Audit & Compliance Services, Telecom Italia (in the same way as the other Group company in the consortium, Telecom Italia Media) has made the internal audit consortium company, in the person of the director designated by the Company, the "person responsible for internal control".

This person reports on his work to the Board of Statutory Auditors, the Internal Control and Corporate Governance Committee and the Managing Director in charge of the internal control system (until December 3, 2007 the Executive Deputy Chairman and then the Chairman), who is charged with determining, in accordance with the guidelines laid down by the Board of Directors, the mechanisms and procedures for implementing the internal control system and any corrective action that needs to be taken.

The activity of the person responsible for internal control is based on quarterly programmes (comprising interventions identified autonomously by the person himself or following indications received from the Company's management, the control bodies or the audit firm). The existence of these plans obviously does not exclude ad hoc unplanned interventions in response to requests from the Company or the control bodies or made necessary by problems that arise during the year. The person responsible for internal control reports periodically on the results obtained to the director responsible for the internal control system, the Board of Statutory Auditors and the Internal Control and Corporate Governance Committee.

The Group Compliance Officer, a position created within Telecom Italia in 2005, is charged with linking and coordinating plans for improving the Group's internal control system and with overseeing and facilitating the relationship between management and the system. The Group Compliance Officer is also required to ensure the soundness of the methods employed in the management of risk. In addition, a number of specialists on the staff of Telecom Italia Audit & Compliance Services have been appointed as Compliance Managers to play a supporting role.

Moreover, to ensure the centralized coordination of risk management, the Risk Management Committee was "redefined" in 2007 in connection with IT and data security.

Further progress was made in revising and implementing the two transversal projects involving the internal control system of the entire Group:

- the "404 Project" is intended to ensure the traceability and documentation of the controls serving to provide basic financial information and to achieve full compliance with Section 404 of the Sarbanes-Oxley Act as regards the attestations to be made on internal controls over financial reporting. In this respect it should be noted that we have continued to monitor, jointly with the Internal Control and Corporate Governance Committee, the progress of the "404 Project", receiving reports from the ad hoc working group set up within the Company and from the external auditor;
- the Control Risk Self-Assessment project, aimed at providing management with support in the monitoring, analysis and assessment of the main operational risks encountered in the Group's various businesses and identifying appropriate remedial measures. As of 2005 the project has led to the identification of a Portfolio of Group Risks and to the adoption of appropriate action plans for those considered of greatest importance.

As part of the check on the ability of the internal control system to ensure compliance with the provisions of Legislative Decree 231/2001 regarding administrative liability for offences committed by employees and collaborators, we remind you that in 2003 the Company adopted an "Organizational Model" based on "Rules of conduct" and "internal control checklists" listing the main phases of every process, the offences that can be committed in connection with individual processes and the control activities serving to forestall the related risks.

The Model is revised periodically, both to take account of the experience gained in its application and to incorporate additional cases provided for by law. During 2007 the 231 Organizational Model was updated and progressively improved; some interventions were made necessary by changes in the law and others deemed desirable in the light of experience with the Model.

Monitoring of the functioning of and compliance with the Model is performed by a Supervisory Panel made up of a statutory auditor, an independent director on the Internal Control and Corporate Governance Committee and the person responsible for the internal control system. A special unit has been created within Telecom Italia Audit & Compliance Services to provide operational support to the Supervisory Panel by handling reports



of violations of the organizational model and conducting compliance audits on the basis of the data received by way of the information flows provided for in the Model.

As noted in our report to the 2006 annual shareholders' meeting and in our comments on the half-year report as of June 30, 2007, management informed us of the engagement awarded to a leading independent advisor to:

- identify the parts of the Company's 231 Organizational Model to be updated (Gap Analysis);
- draw up a detailed plan involving the structures of the Group for the implementation of the amendments and updates decided (Master Plan);
- participate in the performance of the implementation activities carried out by the structures of the Group.

We were informed by management that the activities involved in the first two stages of the consultancy engagement had been completed with the identification of some parts of the model that could be improved (mostly of minor importance) and the specification of a plan for implementing the recommendations put forward in relation to the parts to be improved. In the early months of 2008 we took note of the work the Company is doing to implement the above-mentioned Master Plan and expressed a positive opinion thereon while recommending management do everything possible to carry out the necessary and/or desirable measures.

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The internal control system, considered as a whole and allowing for its necessarily "evolutionary" nature, did not show major problems.

Pursuant to Article 153 of Legislative Decree 58/1998, in our report to the 2006 annual shareholders' meeting we described the weaknesses of the system in the Group Security sector and technical and organizational shortcomings in the Company's management of compliance with the rules on privacy. We also described the corrective action taken by the Company and the analyses that we performed in the 2006 report referred to above and in our comments on the half-year report as of June 30, 2007 (published on October 31, 2007 and to be understood as referred to in full).

It is worth highlighting here that in the last few months of 2007 and the first few months of 2008 we continued to perform our supervisory activity on the security of the network and the management of traffic data, as well as other aspects connected with the judicial affairs in which the former head of the Group Security Function and some of its managers were involved.

In particular, we checked that the weaknesses found in the working of the internal control system in the Group Security sector and highlighted by the test procedures agreed with the audit firm were progressively reduced and then virtually eliminated during 2007 by the corrective measures of a procedural and organizational nature implemented by the Company.

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In our report to the 2006 annual shareholders' meeting we noted that, for precautionary purposes and at our request, the person responsible for internal control had begun an audit of expenses for consultancy and professional services registered in the cost centre of the executive officers.

We have examined the results of the work done by the person responsible for internal control; it revealed only a few weaknesses in the application of the procedures, which we consider not to be significant.

14. We evaluated and monitored the adequacy of the administrative and accounting system and its reliability in correctly representing transactions. We performed this task by obtaining information from the heads of the competent organizational structures, examining Company documents and analyzing the results of the work carried out by the audit firm, Reconta Ernst & Young.

We examined the procedures followed by management (which availed itself of the assistance of an outside consultant) to assess the recoverable amount of the value of goodwill (impairment testing) and the fairness of the valuation of equity investments. As regards the impairment test, we have been informed by management that the recoverability of the value of goodwill was confirmed by later tests that took account of the recent decline in the price of the Company's shares on the stock exchange, although this occurred after the approval of the draft financial statements by the Board of Directors.

We also took note of the results of the checks performed by the external auditor, Reconta Ernst & Young, concerning the correct use of the applicable accounting standards in preparing the consolidated Group financial statements and the financial statements of Telecom Italia S.p.A.

15. We examined the instructions issued by Telecom Italia to its subsidiaries pursuant to Article 114.2 of Legislative Decree 58/1998 and deemed that they were adequate for the purpose of fulfilling the Company's legal disclosure obligations. It should be noted in this respect that the Company has formal procedures governing the flow of information from its subsidiaries, especially regarding major transactions.

The "Procedure for the management and public disclosure of inside information" governs the management of inside information regarding the whole Telecom Italia Group and is addressed to the members of the governing bodies, employees and outside collaborators of all the companies of the Group. It also applies as instructions to all subsidiaries for the purpose of promptly obtaining the information needed for timely and correct compliance with public disclosure requirements. The procedure also governs the register of persons with access to inside information, which has been operational since April 1, 2006.

16. We checked – on the basis of information obtained from management and the audit firm, Reconta Ernst & Young – the Company's compliance with IFRS as well as with the statutory and regulatory provisions governing the layout and preparation of the financial statements of Telecom Italia S.p.A., the consolidated financial statements for the Telecom Italia Group and the Report on Operations. In particular, we inform you: i) that the Group results by business sector and geographical area are presented taking account of IAS 14 (in accordance with the relevant Consob regulations); and ii) that the disclosures referred to in Consob Resolution 15519 of July 27, 2006 and Consob Communication Dem/6064293 of July 28, 2006 have been made.
17. We monitored the implementation of the principles of corporate governance laid down in the Corporate Governance Code drawn up by Borsa Italiana's Committee for the Corporate Governance of Listed Companies, which the Company has adhered to by adopting its own Self-Regulatory Code and other corporate governance mechanisms.

The Telecom Italia Board of Directors (with 17 members at present) has 15 non-executive directors, 8 of whom the Board considers to qualify as independent. It should be noted in this respect that the Company has adopted the criteria established by Borsa Italiana's Corporate Governance Code for determining whether directors qualify as independent and that, on the basis of the information in the Company's possession, the Board verified that each of the directors classified as independent satisfied the independence requirements at the time of their appointment. It was not considered necessary to repeat the assessment in view of the imminent termination of the Board' term of office.

The assessment of the independence of the members of the Board of Directors, the results of which were communicated to the market, was followed by the Board of Statutory Auditors, which also carried out the checks for which it was competent, finding compliance with the requirements for the membership of the Board of Directors (the presence of at least two members satisfying the independence requirements established by law for statutory auditors).

In conformity with the recommendations of Borsa Italiana's Corporate Governance Code, since 2000 the Board of Directors has had an Internal Control and Corporate Governance Committee, composed entirely of independent directors, charged with providing advice and making proposals. The Board has also had a

Remuneration Committee since 2000; it too is made up exclusively of independent directors and is entrusted with proposing the remuneration of directors who hold particular offices and the criteria for the remuneration of the Company's senior management. Since 2004 it has had a Strategy Committee, entrusted with assisting the Board in making strategic choices in relation to the evolution of the competitive environment.

With further regard to independent directors, in 2004 the Company created the position of Lead Independent Director, to provide a point of reference and coordination for the needs and inputs of the independent directors and, inter alia, to call "Independent Directors' Executive Sessions", i.e. special meetings of the independent directors to discuss issues related to operations or the working of the Board.

The Company considers that the slate voting system meets the need otherwise served by the creation of a nominations committee. Moreover, formalizing an existing practice, since 2007 the Company's Self-Regulatory Code charges the Internal Control and Corporate Governance Committee with the task of proposing candidates when it is necessary to co-opt an independent director. In such cases the committee passes the names of candidates to the Board of Directors for it to choose a replacement to fill the vacancy.

We refer you to the Corporate Governance section of the 2007 Annual Report for more details on the Company's system and inform you that we were constantly involved in the analysis, implementation and revision of the Company's corporate governance arrangements, on which we pass a basically favourable judgment.

18. The oversight, monitoring and control activities we carried out as described above did not bring to light any significant facts or circumstances that needed to be mentioned in this Report or reported to the regulatory authorities and control bodies.

We also report that no objections came to light in the information we received on the activity performed by the boards of statutory auditors of the Company's subsidiaries or in the statements provided by the audit firm concerning its audit reports on subsidiaries. Nor did we find any objections in the reports issued, pursuant to Articles 153 and 156 of Legislative Decree 58/1998, by the board of statutory auditors and the external auditor of Telecom Italia Media (a subsidiary whose shares are listed on the market organized and operated by Borsa Italiana S.p.A.) and Olivetti (a business unit set up in corporate form).

19. After examining the Company's financial statements for the year ended December 31, 2007, we have no objections to the resolutions proposed by the Board of Directors regarding the allocation of the net income for the year or the size of the dividend to be paid.

\* \* \*

The mandate granted to the Board of Directors by the shareholders' meeting of April 16, 2007 expires with the shareholders' meeting called to approve the financial statements for the year ended December 31, 2007. We therefore invite you to take the necessary steps.

Milan, March 27, 2008

The Board of Statutory Auditors  
The Chairman