

TELECOM ITALIA S P A  
Form 20-F  
May 08, 2008  
Table of Contents

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

**FORM 20-F**

.. REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934  
OR

x ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the fiscal year ended: December 31, 2007

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
For the transition period from N/A to N/A

OR

.. SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934  
Date of event requiring this shell company report

Commission file number 1-13882

**Telecom Italia S.p.A.**

(Exact name of Registrant as specified in its charter)

**Italy**

(Jurisdiction of incorporation or organization)

**Piazza degli Affari 2, 20123 Milan, Italy**

(Address of principal executive offices)

**Enrico PARAZZINI**

**Chief Financial Officer**

**Telecom Italia S.p.A.**

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

**Securities registered or to be registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
American Depositary Shares, each representing 10 Ordinary Shares of 0.55 par value each (the Ordinary Share ADSs )	The New York Stock Exchange
Ordinary Shares of 0.55 par value each (the Ordinary Shares )	The New York Stock Exchange*
American Depositary Shares, each representing 10 Savings Shares of 0.55 par value each (the Savings Share ADSs )	The New York Stock Exchange
Savings Shares of 0.55 par value each (the Savings Shares )	The New York Stock Exchange*

**Securities registered or to be registered pursuant to Section 12(g) of the Act:**

None

(Title of Class)

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:**

None

(Title of Class)

**Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.**

Ordinary Shares 13,254,959,926

Savings Shares 6,026,120,661

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act: Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934. Yes  No

Note: Checking the box above will not relieve any registrant required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 from their obligations under those Sections.

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer  Accelerated filer  Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statement included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued by the International Accounting Standards Board  Other

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If  Other  has been checked in response to the previous question indicate by check mark which financial statement item the registrant has elected to follow  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

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\* Not for trading, but only in connection with the registration of American Depositary Shares representing such Ordinary Shares or Savings Shares, as the case may be, pursuant to the requirements of the Securities and Exchange Commission.

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**Table of Contents****TABLE OF CONTENTS**

<u>INTRODUCTION</u>	1
<u>KEY DEFINITIONS</u>	3
<b><u>PART I</u></b>	4
<b><u>Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS</u></b>	4
<b><u>Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE</u></b>	4
<b><u>Item 3. KEY INFORMATION</u></b>	4
<u>3.1 RISK FACTORS</u>	4
<u>3.2 EXCHANGE RATES</u>	13
<u>3.3 SELECTED FINANCIAL AND STATISTICAL INFORMATION</u>	14
<u>3.4 DIVIDENDS</u>	18
<b><u>Item 4. INFORMATION ON THE TELECOM ITALIA GROUP</u></b>	20
<u>4.1 BUSINESS</u>	20
<u>4.2 BUSINESS UNITS</u>	32
<u>4.3 REGULATION</u>	55
<u>4.4 GLOSSARY OF SELECTED TELECOMMUNICATIONS TERMS</u>	68
<u>4.5 DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT</u>	77
<b><u>Item 4A. UNRESOLVED STAFF COMMENTS</u></b>	78
<b><u>Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS</u></b>	79
<u>5.1 GENERAL FACTORS AFFECTING THE TELECOM ITALIA GROUP'S BUSINESS</u>	79
<u>5.2 SIGNIFICANT TRENDS IMPACTING OUR CORE BUSINESSES</u>	80
<u>5.3 CRITICAL ACCOUNTING POLICIES AND ESTIMATES</u>	81
<u>5.4 RESULTS OF OPERATIONS FOR THE THREE YEARS ENDED DECEMBER 31, 2007</u>	86
<u>5.5 LIQUIDITY AND CAPITAL RESOURCES</u>	122
<u>5.6 RESEARCH, DEVELOPMENT AND INNOVATION</u>	134
<u>5.7 CAUTIONARY STATEMENT FOR PURPOSES OF THE "SAFE HARBOR" PROVISIONS OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995</u>	138
<b><u>Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES</u></b>	139
<u>6.1 DIRECTORS</u>	139
<u>6.2 EXECUTIVE OFFICERS</u>	145
<u>6.3 BOARD OF AUDITORS</u>	148
<u>6.4 EXTERNAL AUDITORS</u>	149
<u>6.5 EMPLOYEES</u>	150
<u>6.6 COMPENSATION OF DIRECTORS, OFFICERS AND MEMBERS OF THE BOARD OF AUDITORS</u>	152
<u>6.7 OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT</u>	158
<b><u>Item 7. MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS</u></b>	159
<u>7.1 MAJOR SHAREHOLDERS</u>	159
<u>7.2 RELATED-PARTY TRANSACTIONS</u>	166
<b><u>Item 8. FINANCIAL INFORMATION</u></b>	167

8.1 HISTORICAL FINANCIAL STATEMENTS

167

8.2 LEGAL PROCEEDINGS

168

**Table of Contents**

<b><u>Item 9. LISTING</u></b>	169
<u>9.1 TRADING OF TELECOM ITALIA ORDINARY SHARES AND SAVINGS SHARES</u>	169
<u>9.2 TRADING OF OLD TELECOM ITALIA ORDINARY SHARES AND SAVINGS SHARES</u>	171
<u>9.3 SECURITIES TRADING IN ITALY</u>	172
<u>9.4 CLEARANCE AND SETTLEMENT OF TELECOM ITALIA SHARES</u>	173
<b><u>Item 10. ADDITIONAL INFORMATION</u></b>	174
<u>10.1 CORPORATE GOVERNANCE</u>	174
<u>10.2 EXCHANGE CONTROLS AND OTHER LIMITATIONS AFFECTING SECURITY HOLDERS</u>	192
<u>10.3 DESCRIPTION OF BYLAWS</u>	193
<u>10.4 DESCRIPTION OF CAPITAL STOCK</u>	194
<u>10.5 DESCRIPTION OF AMERICAN DEPOSITARY RECEIPTS</u>	199
<u>10.6 TAXATION</u>	207
<b><u>Item 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISKS</u></b>	212
<b><u>Item 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES</u></b>	213
<b><u>PART II</u></b>	214
<b><u>Item 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES</u></b>	214
<b><u>Item 14. MATERIAL MODIFICATION TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS</u></b>	215
<b><u>Item 15. CONTROLS AND PROCEDURES</u></b>	216
<u>15.1 DISCLOSURE CONTROLS AND PROCEDURES</u>	216
<u>15.2 MANAGEMENT'S ANNUAL REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING</u>	216
<u>15.3 CHANGES IN INTERNAL CONTROL OVER FINANCIAL REPORTING</u>	218
<b><u>Item 16. [RESERVED]</u></b>	219
<b><u>Item 16A. AUDIT COMMITTEE FINANCIAL EXPERT</u></b>	219
<b><u>Item 16B. CODE OF ETHICS AND CONDUCT</u></b>	219
<b><u>Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES</u></b>	220
<b><u>Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES</u></b>	222
<b><u>Item 16E. REPURCHASES OF EQUITY SECURITIES</u></b>	222
<b><u>PART III</u></b>	223
<b><u>Item 17. FINANCIAL STATEMENTS</u></b>	223
<b><u>Item 18. FINANCIAL STATEMENTS</u></b>	224
<b><u>Item 19. FINANCIAL STATEMENTS AND EXHIBITS</u></b>	224

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**Table of Contents**

**Introduction**

**INTRODUCTION**

Telecom Italia S.p.A. is incorporated as a joint stock company under the laws of Italy. As used in this Annual Report, unless the context otherwise requires, the term Company means Telecom Italia S.p.A. the operating company for fixed and mobile telecommunications services in Italy and the holding company for various businesses, principally telecommunications, and the terms we, us and our refers to the Company, and, as applicable, the Company and its consolidated subsidiaries.

Unless otherwise indicated, the financial information contained in this Annual Report has been prepared in accordance with International Financial Reporting Standards issued by the IASB International Accounting Standard Board ( **IFRS** ). IFRS also include all effective International Accounting Standards ( **IAS** ) and all Interpretations issued by the International Financial Reporting Interpretations Committee ( **IFRIC** ), comprising those previously issued by the Standing Interpretations Committee ( **SIC** ). Unless otherwise indicated, any reference in this Annual Report to Consolidated Financial Statements is to the Consolidated Financial Statements of the Telecom Italia Group (including the notes thereto) included elsewhere herein.

Telecom Italia adopted IFRS for the first time in its annual Consolidated Financial Statements for the year ended December 31, 2005, which included comparative financial statements for the year ended December 31, 2004. See Item 3. Key Information 3.3 Selected Financial and Statistical Information .

**Cautionary Statement for Purposes of the Safe Harbor Provisions of the United States Private Securities Litigation Reform Act of 1995.** The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. This Annual Report contains certain forward-looking statements. Forward-looking statements are statements that are not historical facts and can be identified by the use of forward-looking terminology such as believes, may, is expected to, will, will continue, seeks or anticipates or similar expressions or the negative thereof or other comparable terminology, or by the forward-looking nature of discussions of strategy, plans or intentions.

The forward-looking statements in this Annual Report include, but are not limited to, the discussion of the changing dynamics of the telecommunications marketplace, including the continuing developments in competition in all aspects of our businesses from new competitors and from new and enhanced technologies, our outlook for growth in the telecommunications industry both within and outside of Italy, including our outlook regarding developments in the telecommunications industry, and certain trends we have identified particularly in our core Italian market, including regulatory measures regarding pricing and access for other local operators. Such statements include, but are not limited to, statements under the following headings: (i) Item 3. Key Information 3.1 Risk Factors , (ii) Item 4. Information on the Telecom Italia Group 4.1 Business 4.1.7 Updated Strategy , (iii) Item 4. Information on the Telecom Italia Group 4.3 Regulation , (iv) Item 5. Operating and Financial Review and Prospects , (v) Item 8. Financial Information 8.2 Legal Proceedings and (vi) Item 11. Quantitative and Qualitative Disclosures About Market Risks , including statements regarding the likely effect of matters discussed therein.

Actual results may differ materially from those projected or implied in the forward-looking statements. Such forward-looking information is based on certain key assumptions which we believe to be reasonable but forward-looking information by its nature involves risks and uncertainties, which are outside our control, that could significantly affect expected results.

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The following important factors could cause our actual results to differ materially from those projected or implied in any forward-looking statements:

- the continuing impact of increased competition in a liberalized market, including competition from established domestic competitors and global and regional alliances formed by other telecommunications operators in our core Italian domestic fixed-line and wireless markets;
- our ability to restructure our organizational model from one based on technology (fixed and mobile) to one based on customer segments (consumers, SOHOs, SMEs, Corporates) in order to focus on customers and their needs in utilizing our products and services;
- our ability to utilize our relationship with Telefónica to attain synergies primarily in areas such as network, IT, purchasing, sales activities in Germany and international mobile roaming;



**Table of Contents**

**Introduction**

- our ability to introduce new services to stimulate increased usage of our fixed and wireless networks to offset declines in the traditional fixed-line voice business due to the continuing impact of regulatory required price reductions, market share loss, pricing pressures generally and shifts in usage patterns;
- our ability to successfully implement our internet and broadband strategy both in Italy and abroad;
- our ability to successfully achieve our debt reduction targets;
- the impact of regulatory decisions and changes in the regulatory environment in Italy and other countries in which we operate;
- the impact of economic development generally on our international business and on our foreign investments and capital expenditures;
- our services are technology-intensive and the development of new technologies could render such services non-competitive;
- the impact of political and economic developments in Italy and other countries in which we operate;
- the impact of fluctuations in currency exchange and interest rates;
- our ability to successfully implement our strategy over the 2008-2010 period;
- our ability to build up our business in adjacent markets (pay-TV and IT services) and in international markets (particularly Brazil in mobile telecommunications and Europe Germany in BroadBand), due to our specialist and technical resources;
- our ability to achieve the expected return on the investments and capital expenditures we have made and continue to make in Brazil on mobile and in Europe on BroadBand;
- the amount and timing of any future impairment charges for our licenses, goodwill or other assets; and
- the outcome of litigation, disputes and investigations in which we are involved or may become involved.

The foregoing factors should not be construed as exhaustive. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof, including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.



Table of Contents

Key Definitions

**KEY DEFINITIONS**

The following terms appearing in this Annual Report have the meanings set forth below.

<b>EU</b>	means the European Union.
<b>IASB</b>	means the International Accounting Standards Board.
<b>IFRS</b>	means International Financial Reporting Standards issued by the IASB. IFRS also include all effective International Accounting Standards ( <b>IAS</b> ) and all Interpretations issued by the International Financial Reporting Interpretations Committee ( <b>IFRIC</b> ), comprising those previously issued by the Standing Interpretations Committee ( <b>SIC</b> ).
<b>Merger</b>	means the merger of Old Telecom Italia into Olivetti, which became effective on August 4, 2003.
<b>Old Telecom Italia and Old Telecom Italia Group</b>	means Telecom Italia as well as Telecom Italia and its consolidated subsidiaries, respectively, as they existed immediately prior to the effective date of the Merger.
<b>Olivetti</b>	unless otherwise indicated, means Olivetti S.p.A., the holding company and controlling shareholder of Old Telecom Italia.
<b>Olivetti Group</b>	means Olivetti and its consolidated subsidiaries, including Old Telecom Italia.
<b>Ordinary Shares</b>	means the Ordinary Shares, 0.55 par value each, of Telecom Italia.
<b>Parent</b>	means Telecom Italia S.p.A..
<b>Savings Shares</b>	means the Savings Shares, 0.55 par value each, of Telecom Italia.
<b>Telecom Italia</b>	means the entity which resulted from the Merger.

**Telecom Italia Group and Group**

means the Company and its consolidated subsidiaries.

**Telecom Italia Media**

Telecom Italia Media is the Telecom Italia Group's subsidiary operating in the Media business.

**TIM**

means Telecom Italia Mobile S.p.A., the Telecom Italia Group's subsidiary which operated in the mobile telecommunications business, and merged with and into Telecom Italia, with Telecom Italia as the surviving company, effective as from June 30, 2005.

**Tim Italia**

means the company deriving from the spin-off of TIM's domestic mobile operations, effective as from March 1, 2005. After the merger of TIM with and into Telecom Italia, Tim Italia became a wholly-owned subsidiary of Telecom Italia. Subsequently Tim Italia merged with and into Telecom Italia, with Telecom Italia as the surviving company, effective as from March 1, 2006.

**Table of Contents**

**Item 1. Identity of Directors, Senior Management and Advisers /**

**Risk Factors**

**Item 2. Offer Statistics and Expected Timetable**

**Item 3. Key Information**

**PART I**

**Item 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS**

Not Applicable

**Item 2. OFFER STATISTICS AND EXPECTED TIMETABLE**

Not Applicable

**Item 3. KEY INFORMATION**

**3.1 RISK FACTORS**

**RISKS RELATED TO TELECOM ITALIA**

***Our business will be adversely affected if we are unable to successfully transform the Group by implementation of our revised strategic objectives. Factors beyond our control may prevent us from successfully implementing our strategy.***

On March 7, 2008, we set out our strategic priorities for the 2008-2010 period.

Our strategy is aimed at implementing a deep transformation of the Telecom Italia Group in order to put it back on a growth and development track. To achieve this goal, the Group will leverage its strengths (a leading competitive position in our domestic market, sustained by strong internal know how in technology, marketing and customer service, and a relevant international presence) while at the same time addressing its weaknesses (the level of service quality to be improved, a high level of litigation and substantial debt). The new guidelines aim to create the conditions for Telecom Italia to become a leader on the domestic and international market through plans that will provide for:

- a new business operations model on the domestic market based on:
  - service quality and improved relations with competitors and regulatory authorities;
  - convergence, a tool for managing market positioning vis-à-vis the various types of customer and the dynamics of fixed to mobile market migration;
  - development of innovative/adjacent businesses, particularly ICT and Digital Media & Advertising; and
  - the customer, by transforming the organizational model from one based on technology (fixed-mobile) to one based on customer needs;
  
- the search for new efficiencies and synergies in domestic and international activities through:
  - integration and rationalization of sales channels, along the lines of the new organizational focus on customer segments;
  - rationalization of information systems development and integration of operating processes and network systems (OSS) and business systems (BSS);
  - organizational integration of network operating activities and field services;
  - rationalization of staff structures; and
  - pursuit of synergies with the Telefónica group;
  
- a strategy to recover international scope by consolidating the Group's presence in countries that have good growth prospects, divesting where our market share is marginal or significant growth prospects cannot be achieved and assessing new business opportunities in markets with strong development potential through financial alliances and partnerships;

**Table of Contents**

**Item 3. Key Information**

**Risk Factors**

- a financial plan aimed at reducing the debt to profit ratio by:

the monetization of non-core assets;

a dividend policy sustainable in the long-term; and

a careful management of resources earmarked for investments with priority given to organic development and a prudent selection of opportunities to expand in key international markets.

Our ability to implement and achieve these strategic objectives and transform the Group may be influenced by certain factors, including factors outside our control, such as:

- growing market competition with a consequent decline in the prices of services;
- our ability to manage costs;
- our ability to attract and retain highly qualified employees;
- entry of new competitors in the Italian telecommunications market which could cause Telecom Italia to lose further market share;
- our ability to strengthen our competitive position through our focus on adjacent markets (pay-TV and IT services) and in international markets (particularly Brazil for mobile telecommunications and Europe for broadband), based on our specialized skills and technical resources;
- our ability to develop and introduce new technologies attractive to the market, to manage innovation, to supply value-added services and to increase the use of our fixed and mobile networks;
- the effect of adverse economic trends in the major markets in which the Group operates;
- the success of disruptive new technologies which could cause significant reductions in revenues from fixed and mobile telephony;
- the effect of exchange rate fluctuations on the operating revenues and margins and financial management of Telecom Italia.

*There can be no assurance that the objectives identified by management could effectively be attained in the manner and within the time frames described.*

***The Group remains highly leveraged and the inability to reduce our debt could have a material adverse effect on our business.***

Net financial debt of the Telecom Italia Group at December 31, 2007 amounted to 35,701 million ( 37,301 million at December 31, 2006) against total equity (attributable to equity holders of Parent and the minority interest) of 26,985 million ( 27,098 million at December 31, 2006). See Item 5. Operating Financial Review and Prospects 5.4 Results of Operations for the Three Years Ended December 31, 2007 5.4.2 Non-GAAP Financial Measures , which reconciles our net financial debt to the gross financial debt.

Our new strategy focuses on our most important assets (domestic market, Brazil, Germany and Argentina) and is based on competences and disciplined financial management to resume a path to growth.

Telecom Italia, therefore, intends to sustain its capital expenditures in the 2008-2010 three-year plan while maintaining appropriate dividend levels and gradually reducing its Net Financial Debt to EBITDA ratio (with EBITDA calculated for these purposes as Operating profit before depreciation and amortization, capital gains (losses) realized and impairment reversals (losses) on non-current assets).

Factors which are beyond our control such as a deterioration in the performance by the fixed and/or mobile telephone sectors, unfavorable fluctuations in the interest rates and/or exchange rates, continuing disruptions in the capital markets, particularly debt capital markets, and, in a broader sense, deterioration in general economic conditions, could have a significant effect on our ability to reduce our debt, or on the ability of the Group to refinance existing debt through further access to the financial markets.



**Table of Contents**

**Item 3. Key Information**

**Risk Factors**

Due to the competitive environment and the economic conditions in which the Telecom Italia Group operates, there could be a deterioration in our results of operations and balance sheet ratios. To this end, rating agencies base their ratings on the Group's ability to repay its debt using these same ratios.

The most recent ratings of Telecom Italia S.p.A. are:

- Moody's: Baa2 with a Negative outlook: rating confirmed on February 20, 2008;
- Standard and Poor's: BBB with a Stable outlook: one notch downgrade which occurred on March 17, 2008;
- Fitch Ratings: BBB+ with a Stable outlook : rating confirmed on March 10, 2008.

Although ratings downgrades do not have an immediate impact on outstanding debt, except for outstanding debt instruments that specifically contemplate ratings in order to determine payouts, or on its relative cost to us, downgrades could lead to a greater risk with respect to refinancing existing debt or higher refinancing costs.

The management and further development of our business require us to make further significant investments. We may therefore incur additional debt in order to finance such investments. Our future results of operations may be influenced by our ability to enter into such transactions, which in turn will be determined by market conditions and factors that are outside our control. In addition, if such transactions increased our leverage it could adversely affect our credit ratings.

***Our strategic objectives include expansion and further investments in our international activities and we may not achieve the expected return on our significant investments and capital expenditures in our international markets.***

Telecom Italia intends to rebuild its international presence by consolidating its international activities in countries or regions that have good growth prospects, divesting where its market share is marginal or it is believed that there are not significant growth prospects and assessing new business opportunities in markets with a high development potential through financial alliances and partnerships which could increase the technological and business competences of the Group.

Our strategic plans provide for:

- improving our position in Germany through organic growth as well as taking advantage of any opportunities originating from the consolidation process currently underway in that market;

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- growth in Brazil by strengthening mobile operations and the development of convergent offerings;
- a build up of International Wholesale by proposing Telecom Italia as a hub for the Mediterranean regions, the Middle East and Southeast Asia and developing innovative solutions for multinational companies; and
- increasing our ownership interest in Sofora, the indirect controlling shareholder of Telecom Argentina.

Telecom Italia could fail to obtain an adequate return on foreign investments, owing, among other things, to growing competition and changes in technologies in the countries where the Group has an international business presence.

***System failures could result in reduced user traffic and reduced revenues and could harm Telecom Italia's reputation.***

Our technical infrastructure (including our network infrastructure for fixed-line and mobile telecommunication services) is vulnerable to damage or interruption from information and telecommunication technology failures, power loss, floods, windstorms, fires, terrorism, intentional wrongdoing, human error and similar events. Unanticipated problems at our facilities, system failures, hardware or software failures, computer viruses or hacker attacks could affect the quality of our services and cause services interruptions. Any of these occurrences could result in reduced user traffic and reduced revenues and could harm our reputation.

**Table of Contents**

**Item 3. Key Information**

**Risk Factors**

***Our business depends on the upgrading of our existing networks.***

We must continue to upgrade our existing wireless and fixed-line networks in a timely and satisfactory manner in order to retain and expand our customer base in each of our markets, to enhance our financial performance and to satisfy regulatory requirements. Among other things, we could be required to:

- upgrade the functionality of our networks to permit increased customization of services;
- increase coverage in some of our markets;
- expand and maintain customer service, network management and administrative systems; and
- upgrade older systems and networks to adapt them to new technologies.

Many of these tasks are not entirely under our control and may be affected by applicable regulation. If we fail to execute them successfully, our services and products may be less attractive to new customers and we may lose existing customers to our competitors, which would adversely affect our business, financial condition and results of operations.

***We are continuously involved in disputes and litigation with regulators, competitors and other parties. The ultimate outcome of such legal proceedings is generally uncertain. When finally concluded, they may have a material adverse effect on our results of operations and financial condition.***

We are subject to numerous risks relating to legal and regulatory proceedings, in which we are currently a party or which could develop in the future. Litigation and regulatory proceedings are inherently unpredictable. Legal or regulatory proceedings in which we are or come to be involved (or settlements thereof) may have a material adverse effect on our results of operations or financial condition.

Furthermore, our involvement in litigation and regulatory proceedings may adversely affect our reputation.

The Italian Collective Action for Damages for the Protection of Consumers was recently introduced and will enter into force at the end of June 2008. The new law will allow collective action lawsuits and is similar in many respects to common law class actions. Contracts between public utilities and consumers and the business practices of companies that provide public services (such as Telecom Italia) are covered by the Collective Action law. Therefore there will be a risk of claims against Telecom Italia by consumers' associations on behalf of broad classes of consumers.

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For information concerning the most important legal and regulatory proceedings pending in which the Telecom Italia Group is involved, please refer to the Note Contingent assets and liabilities, commitments and other guarantees of the Notes to Consolidated Financial Statements included elsewhere herein in this Annual Report.

For information concerning our regulatory framework, see Item 4. Information on the Telecom Italia Group 4.3. Regulation .

### ***Fluctuations in currency exchange rates and interest rates could have an adverse effect on our results of operations***

In the past, the Telecom Italia Group has made substantial international investments, principally in U.S. dollars, and has significantly expanded its operations outside the euro zone, particularly in Latin America.

The Group generally hedges its foreign exchange exposure, but not the translation risk relating to its foreign subsidiaries. Therefore, fluctuations in the euro exchange rates against other currencies (and particularly against the Brazilian real) could have an adverse effect on our consolidated results. A rise in value of the euro against other currencies in certain countries in which the Group operates or has made investments could reduce the relative value of revenues or assets of the Group in those countries and, therefore, could have an adverse effect on the operating results or the financial position of the Group.

In addition, the Group has raised, and could raise in future, financing denominated in currencies other than the euro, principally in U.S. dollars and British pounds. The Group systematically hedges currency exchange risk exposure relating to non-euro denominated liabilities using cross currency and interest rate swaps.

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**Table of Contents**

**Item 3. Key Information**

**Risk Factors**

Furthermore, the Telecom Italia Group has entered into derivative transactions to hedge interest rate exposure and to diversify debt parameters in order to reduce debt cost and volatility to within predefined limits.

***Risks associated with Telecom Italia s ownership chain***

Telco S.p.A. ( **Telco** ) a company in which interests are held by the Generali group (28.1%), Intesa San Paolo S.p.A. (10.6%), Mediobanca S.p.A. (10.6%), Sintonia S.A. (8.4%) and Telefónica S.A. (42.3%) is Telecom Italia s largest shareholder with an interest of approximately 24.5% of the voting rights.

From 2001, the main shareholder of Telecom Italia was Olimpia S.p.A. (80% of its capital was held by Pirelli & C. S.p.A. and the remaining percentage by Sintonia S.p.A., and Sintonia S.A.) which held approximately 18% of the ordinary share capital of the Company. 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 industry operators to sell their 100% interest in Olimpia S.p.A..

The acquisition by Telco was finalized on October 25, 2007 and, on the same date, Mediobanca S.p.A. and companies in the Generali group contributed 5.6% of Telecom Italia Ordinary Shares to Telco, such that Telco had a total investment of 23.59% in Telecom Italia Ordinary Share capital.

On March 20, 2008, Telco acquired another 121.5 million Ordinary Shares bringing its investment in Telecom Italia to 24.5%.

Although Telco does not own a controlling interest in Telecom Italia voting shares, Telco may exert a significant influence on all matters to be decided by a vote of shareholders. In addition, as a result of its proposal and election of twelve of the recently elected 15 Telecom Italia Board members, Telco may be able to influence certain corporate actions. In principle, the interests of Telco in deciding shareholder matters could be different from the interests of Telecom Italia s other Ordinary Shareholders, and it is possible that certain decisions could be taken that may be influenced by the needs of Telco. In addition, Telefónica is the largest shareholder of Telco. Presently Telefónica and Telecom Italia are direct competitors in certain countries outside of their respective domestic markets; nevertheless, the agreement among the above mentioned parties provides that the Telecom Italia and Telefónica groups will be managed autonomously and independently. For further information on this topic, please see Item 10. Additional Information 10.1 Corporate Governance 10.1.2 General Impact of Shareholders Agreements on the Nomination of Telecom Italia Group s Companies Boards .

Telco is a holding company and the sole operating company in which it has an interest is Telecom Italia. Therefore, should Telco be unable to obtain funding from its shareholders, present or future, or from other sources, its cash flows would be entirely dependent upon the dividends paid on the Telecom Italia shares for its funding needs.

The financial position of Telecom Italia is independent of that of Telco and Telecom Italia has no obligation to repay the debt held by Telco since they are two distinct legal entities, even though certain rating agencies consider the Telco level of debt a hurdle to a

quick reduction of Telecom Italia's debt due to the fact that Telco is likely to absorb a significant portion of free cash through dividends to repay Telco's debt.

For additional information on the ownership structures and shareholders' agreements, please refer to Item 7.1. Major Shareholders.

***The Italian State, through the Treasury, is in a position to exert certain powers with respect to Telecom Italia.***

Although no shareholder is in a position to prevent a takeover of Telecom Italia, the Italian State, through the Treasury, is in a position to exert certain powers with respect to Telecom Italia through the exercise of the special powers included in Telecom Italia's Bylaws pursuant to compulsory legal provisions. The exercise of such powers could make a merger with or takeover of Telecom Italia more difficult or discourage certain bidders from making an offer. Please see Item 7. Major Shareholders and Related-Party Transactions-7.1 Major Shareholders-7.1.3 Continuing Relationship with the Italian Treasury for more information.

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**Table of Contents**

**Item 3. Key Information**

**Risk Factors**

**RISKS RELATED TO THE TELECOMMUNICATIONS INDUSTRY AND FINANCIAL MARKETS**

***The value of our operations and investments may be adversely affected by political and economic developments in Italy or other countries.***

Our business is dependent to a large degree on general economic conditions in Italy, including levels of interest rates, inflation and taxes. A significant deterioration in these conditions could adversely affect our business and results of operations. We may also be adversely affected by political and economic developments in other countries where we have made significant investments. Certain of these countries have political, economic and legal systems that are unpredictable. Political or economic upheaval or changes in laws or their application in these countries may harm the operations of the companies in which we have invested and impair the value of these investments.

***Because we operate in heavily regulated business environments, regulatory decisions and changes in the regulatory environment could materially adversely affect our business.***

Our fixed and mobile telecommunications operations, as well as our broadband services and television broadcasting businesses, are subject to extensive regulatory requirements in Italy and our international operations and investments are subject to regulation in their host countries.

As a member of the EU, Italy has adapted its telecommunications regulatory framework to the legislative and regulatory framework established by the EU for the regulation of the European telecommunications market. The EU Commission approved a new electronic communications framework in March 2002, which has been effective in Italy since September 2003. See Item 4. Information on the Telecom Italia Group-4.3. Regulation .

Included within this new framework is the obligation on the part of the Italian regulator responsible for the regulation of the telecommunications, radio and television broadcasting sector (the Italian Communications Authority or **AGCom** ) to identify operators with significant market power based on a market analysis in the relevant retail and wholesale markets that are deemed to be susceptible to ex-ante regulation. The framework established criteria and procedures for identifying remedies applicable to operators with significant market power . During 2006 and 2007, AGCom concluded the first round of the analysis of the markets and introduced regulatory measures as a result of this analysis. The ongoing second round of market analysis may modify the current regulatory measures. For further details please see Item 4. Information on the Telecom Italia Group-4.3. Regulation .

In Italy, we are subject to universal service obligations, which require us to provide fixed-line public voice telecommunications services in non-profitable areas. We are the only operator in Italy which has this obligation. In addition, the AGCom has identified us as an operator having significant market power in most relevant markets. As a result, we are, and, if we continue to be identified as having significant market power in most relevant markets, will be, subject to a number of regulatory constraints, including:

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- a requirement to conduct our business in a transparent and non-discriminatory fashion;
- a requirement to have our prices for fixed voice telephony services and the tariffs charged to other operators to utilize our network, subject, respectively, to a price cap and a network cap mechanism. This cap mechanism places certain limits on our ability to change our prices for certain services; and
- a requirement to provide interconnection services, leased lines and access to the local loop to other operators at cost-orientated prices. These services include allowing other operators to connect to our network and transport traffic through the network as well as offering certain services related to our local access network, or local loop, on an unbundled basis to these other operators to enable these operators to directly access customers connected to the network by leasing the necessary components from us.

These constraints have had an adverse impact on our fixed line network pricing and service offerings and future regulatory decisions are expected to continue to have an adverse impact on our market shares and margins.



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**Table of Contents**

**Item 3. Key Information**

**Risk Factors**

***In addition, AGCom intends to address other markets that are currently not subject to regulation (for example virtual private networks and VoIP). VoIP is an emerging market for nomadic voice telephony services that are based on the Internet and are not dependent on specific customer telephone lines. Nevertheless, AGCom has included VoIP in the same market as conventional voice telephony services. Therefore these markets may be treated in the same way as the market for conventional telephone services for the purpose of regulation and may also be subject to price regulation.***

We are unable to predict the impact of any proposed or potential changes in the regulatory environment in which we operate both in Italy and internationally. Changes in laws, regulation or government policy could adversely affect our business and competitiveness. In particular, our ability to compete effectively in our existing or new markets could be adversely affected if regulators decide to expand the restrictions and obligations to which we are subject or extend them to new services and markets. Finally, decisions by regulators regarding the granting, amendment or renewal of licences, to us or to third parties, could adversely affect our future operations in Italy and in other countries where we operate.

Changes in the rules relating to radio and television broadcasting could adversely affect the development of our activities in this field.

Please see Item 4. Information on the Telecom Italia Group-4.3. Regulation in this report for more information on the regulatory requirements to which we are subject.

***Strong competition in Italy may further reduce our core market share for telecommunication services and may cause further reductions in prices and margins thereby having an adverse effect on our results of operations.***

Strong competition exists in all of the principal telecommunications business areas in Italy in which we operate, including, most significantly, the fixed-line and mobile voice telecommunications businesses. The use of the single European currency and the liberalizations of the Italian telecommunication market (since January 1998) have intensified competition by facilitating international operators' entry into the Italian market and direct competition with our fixed-line and mobile telephony businesses, particularly in the local and long-distance markets.

Competition continued to intensify during 2007. As of December 31, 2007, there were a number of significant competitors offering fixed-line services and three other operators (in addition to Telecom Italia) offering mobile services in the Italian domestic market. Some virtual mobile operators entered the Italian mobile market in 2007 as a result of commercial agreements reached with operators of mobile networks, some of which originated from fixed line operators, which is further evidence of the trend towards convergence. This competition may further increase due to the consolidation and globalizations of the telecommunications industry in Europe, including Italy, and elsewhere.

We anticipate that in the short to medium-term there may be a stronger entry of peer-level international competitors into markets with existing operators, including Italy, increasing the direct competition we face in our Italian domestic fixed-line and mobile telephony businesses and in the local and long-distance markets.

Competition in our principal lines of business could lead to:

- further price and margin erosion for our products and services;
- a loss of market share in core markets;
- loss of existing or prospective customers and greater difficulty in retaining existing customers;
- obsolescence of existing technologies and more rapid deployment of new technologies;
- an increase in costs related to investments in new technologies that are necessary to retain customers and market share; and
- difficulties reducing debt and strategic and technological investments if we cannot generate sufficient profits and cash flow.

**Table of Contents**

**Item 3. Key Information**

**Risk Factors**

Although we have taken a number of steps to realize additional efficiencies and introduce innovative and value added services over our networks, and although our plans take into account that we face significant competition from a number of operators in all the markets in which we operate, if any or all of the events described in the preceding paragraph should occur, the impact of such factors could materially adversely affect our results of operations.

***Our business may be adversely affected and we may be unable to increase our revenues if we are unable to continue the introduction of new services to stimulate increased usage of our fixed and wireless networks.***

In order to sustain growth in revenues despite increased competition and lower prices, particularly in our core Italian domestic market, our strategy has been to introduce new services in our fixed-line and wireless businesses to increase traffic on our networks and find alternative revenue sources, in addition to carrying voice traffic on our networks. In the past three years the Group's strategy to increase revenues has been to focus on penetration of the broadband retail market with various broadband offers as well as to increase value added services (VAS) in the mobile businesses. In addition, our strategy is to increasingly focus on service quality, customer care and further development of innovative and convergent services. The broadband and mobile VAS markets have been growing the past three years in line with increased use of the Internet and the enhanced services offered by mobile operators. However, if these markets do not continue to expand, our revenues may not grow, or even decrease, as revenues from other parts of our business, particularly our traditional fixed-line business, decline due to competition or other price pressures.

In addition, these strategic initiatives have required, and will continue to require, substantial expenditures and commitment of human resources. Although these initiatives are core to our strategy, we may be unable to introduce commercially these new products and services, and even if we introduce them, there can be no assurance they will be successful.

***Continuing rapid changes in technologies could increase competition, reduce usage of traditional services or require us to make substantial additional investments.***

Many of the services we offer are technology-intensive and the development or acceptance of new technologies may render such services non-competitive, replace such services or reduce prices for such services. In addition, as convergence of services accelerate, we make and will have to make substantial additional investments in new technologies to remain competitive. The new technologies we choose may not prove to be commercially successful. In addition, we may not receive the necessary licenses to provide services based on new technologies in Italy or abroad. Furthermore, our most significant competitors in the future may be new entrants to our markets who do not have to maintain an installed base of older equipment.

As a result, we could lose customers, fail to attract new customers or incur substantial costs in order to maintain our customer base or to maintain revenues from such customer base.

***The mobile communications markets have matured in recent years and competition has increased.***

In recent years, our consolidated revenues have grown modestly in large part because of the rapid growth in the mobile communications business which has offset substantially flat revenues in our Italian fixed-line business. However, as a result of this growth, the mobile communications markets are approaching maturity levels in the voice services segment while the data and value-added services segments are growing.

We acquired a third generation mobile telephone, or UMTS, license to provide UMTS services in Italy for 2,417 million and have made significant investments, in accordance with the terms and conditions of our licenses, to create the infrastructure to offer UMTS services. We commenced offering UMTS services in Italy in the second half of 2004 and have made in the past, and will have to continue to make in the future, significant investments in promotional activities relating to our UMTS services. Given the substantial costs of upgrading our existing networks to support UMTS, the ongoing costs to market and support these new services, and the significant competition among operators who offer these new services, including one operator only offering 3G services, we may not be able to recoup our investments, as planned if at all.

**Table of Contents**

**Item 3. Key Information**

**Risk Factors**

Continued growth in the mobile telecommunications markets in which we operate will depend on a number of factors, many of which are outside our control. These factors include:

- the activities of our competitors;
- competitive pressures and regulations applicable to retail and wholesale prices;
- the development and introduction of new and alternative technologies for mobile telecommunications;
- products and services and their attractiveness to customers;
- the success of new disruptive or substitutive technologies; and
- the development of the mobile communications markets.

In addition, as our core domestic Italian market has become increasingly saturated, the focus of competition has shifted to customer retention from customer acquisition, and increasing the value of existing customers. Such focus could result in increased expenses to retain customer loyalty or if we are unable to satisfactorily offer better value to our customers our market share and revenues could decline.

If the mobile telecommunications markets in which we operate do not continue to expand, or we are unable to retain our existing customers or stimulate increases in customer usage, our financial condition and results of operations may be harmed.

***We may be adversely affected if we fail to successfully implement our Internet and broadband strategy in Italy and internationally.***

The introduction of Internet and broadband services is an important element of our growth strategy and means to increase the use of our networks in Italy and expand our operations outside of Italy, particularly in Europe. The broadband market has continued to grow in 2007 at the same rate as 2006 but competitive pressure has also grown. Our strategy is to replace the mature, traditional voice services with value added content and services to consumers and small and medium-sized companies. Our ability to successfully implement this strategy may be affected if:

- Internet usage in Italy grows more slowly than anticipated, for reasons such as changes in Internet users' preferences;

- broadband penetration in Italy and other European countries does not grow as we expect;
- competition increases, for reasons such as the entry of new competitors, consolidation in the industry or technological developments introducing new platforms for Internet access and/or Internet distribution or other operators can provide broadband connections superior to those that we can offer; and
- we experience any network interruptions or related problems with network infrastructure.

Outside of Italy our ability to implement this strategy will depend on whether we are able to acquire assets or networks or utilize networks of incumbent operators that will allow us to offer such services. Any of the above factors may adversely affect the successful implementation of our strategy, our business and results of operations.

***Actual or perceived health risks or other problems relating to mobile handsets or transmission masts could lead to litigation or decreased mobile communications usage.***

The effects of and any damage caused by exposure to an electromagnetic field were and are the subject of careful evaluations by the international scientific community, but until now there is no scientific evidence of harmful effects on health. We cannot rule out that exposure to electromagnetic fields or other emissions originating from wireless handsets will not be identified as a health risk in the future.

Our mobile communications business may be harmed as a result of these alleged health risks. For example, the perception of these health risks could result in a lower number of customers, reduced usage per customer or potential consumer liability. In addition, although Italian law already requires strict limits in relation to transmission equipment, these concerns may cause regulators to impose greater restrictions on the construction of base station towers or other infrastructure, which may hinder the completion of network build-outs and the commercial availability of new services and may require additional investments.

**Table of Contents****Item 3. Key Information****Exchange Rates****3.2 EXCHANGE RATES**

We publish our consolidated financial statements in euros. References to **€**, **euro** and **Euro** are to the euro, the single unified currency that was introduced in Italy and 10 other member states of the EU on January 1, 1999. References to **U.S. dollars**, **dollars**, **U.S.\$** or **\$** are to U.S. dollars, the currency of the United States of America.

For convenience only (except where noted otherwise), certain euro figures have been translated into dollars at the rate (the Euro/Dollar Exchange Rate) of 1.00= U.S.\$ 1.4603, using the noon buying rate in The City of New York for cable transfers in foreign currencies as announced by the Federal Reserve Bank of New York for customs purposes (the Noon Buying Rate) on December 31, 2007.

These translations should not be construed as a representation that the euro amounts actually represent such dollar amounts or have been or could be converted into dollars at the rate indicated.

For the purpose of this Annual Report, **billion** means a thousand million.

The following table sets forth for the years 2003 to 2007 and for the beginning of 2008 certain information regarding the Noon Buying Rate for Dollars expressed in U.S.\$ per 1.00.

<b>Calendar Period</b>	<b>High</b>	<b>Low</b>	<b>Average(1)</b>	<b>At Period end</b>
2003	1.2597	1.0361	1.1411	1.2597
2004	1.3625	1.1801	1.2438	1.3538
2005	1.3476	1.1667	1.2448	1.1842
2006	1.3327	1.1860	1.2563	1.3197
2007	1.4862	1.2904	1.3705	1.4603
2008 (through May 5, 2008)	1.6010	1.4495	1.5211	1.5491
<b>Monthly Rates</b>				
December 2007	1.4759	1.4344	1.4559	1.4603
January 2008	1.4877	1.4574	1.4728	1.4841
February 2008	1.5187	1.4495	1.4759	1.5187
March 2008	1.5805	1.5195	1.5520	1.5805
April 2008	1.6010	1.5568	1.5754	1.5568
May 2008 (through May 5, 2008)	1.5491	1.5431	1.5460	1.5491

(1) Average of the rates for each month in the relevant period except for May, 2008 for which the dates used are through May 5, 2008.

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The Ordinary Shares, par value 0.55 (the **Ordinary Shares**) and Savings Shares, par value 0.55 (the **Savings Shares**) of Telecom Italia trade on *Mercato Telematico Azionario* (**Telematico**), managed by Borsa Italiana S.p.A. (**Borsa Italiana**) in euro. Fluctuations in the exchange rate between the euro and the U.S. dollar will affect the U.S. dollar equivalent of the euro price of the Ordinary Shares and the Savings Shares and the price of the Ordinary Share American Depositary Shares (**Ordinary Share ADSs**) and the Savings Share American Depositary Shares (**Savings Share ADSs**), on the New York Stock Exchange (**NYSE**). Cash dividends are paid in euro. Exchange rate fluctuations will affect the U.S. dollar amounts received by owners of Ordinary Share ADSs and Savings Share ADSs upon conversion by the Depositary of cash dividends paid in euro on the underlying Ordinary Shares and Savings Shares. See Item 10. Additional Information 10.5 Description of American Depositary Receipts .

On completion of the Merger, Telecom Italia (formerly Olivetti) became a successor registrant to Old Telecom Italia under the Securities Exchange Act of 1934, as amended (the **1934 Act**) and, therefore, became subject to and continues to file periodic reports under the 1934 Act required for a foreign private issuer. Telecom Italia (formerly Olivetti) obtained a listing of the Ordinary Shares and Savings Shares issued at completion of the Merger, on the NYSE where such Ordinary Shares and Savings Shares trade in the form of ADSs.



**Table of Contents**

**Item 3. Key Information**

**Selected Financial And Statistical Information**

**3.3 SELECTED FINANCIAL AND STATISTICAL INFORMATION**

The summary selected financial data set forth below are consolidated financial data of the Telecom Italia Group as of and for each of the years ended December 31, 2007, 2006, 2005 and 2004, which have been extracted or derived from the Consolidated Financial Statements of the Telecom Italia Group prepared in accordance with IFRS as issued by IASB and which have been audited by the independent auditor Reconta Ernst & Young S.p.A..

Until December 31, 2004, Telecom Italia prepared its consolidated financial statements and other interim financial information (including quarterly and semi-annual reports) in accordance with Italian GAAP.

Pursuant to SEC Release No. 33-8567, *First-Time Application of International Financial Reporting Standards*, Telecom Italia is only required to include Selected Financial Data prepared in compliance with IFRS extracted or derived from the Consolidated Financial Statements for the years ended December 31, 2007, 2006, 2005 and 2004 (earlier periods are not required to be included).

Furthermore, pursuant to SEC Release No. 33-8879, *Acceptance from Foreign Private Issuers of Financial Statements Prepared in Accordance with International Financial Reporting Standards Without Reconciliation to U.S. GAAP*, Telecom Italia includes Selected Financial Data prepared in compliance with IFRS, without reconciliation to U.S. GAAP.

The selected financial data below should be read in conjunction with the Consolidated Financial Statements and notes thereto included elsewhere in this Annual Report.

**Table of Contents****Item 3. Key Information****Selected Financial And Statistical Information**

	Year ended December 31,				
	2007	2007	2006	2005	2004
	(millions of U.S. dollars, except percentages and per share amounts)(1)		(millions of Euro, except percentages and per share amounts)		
<b>Income Statement Data:</b>					
<b>Revenues</b>	<b>45,693</b>	<b>31,290</b>	<b>31,275</b>	<b>29,919</b>	<b>28,292</b>
<b>Operating profit</b>	<b>8,417</b>	<b>5,764</b>	<b>7,437</b>	<b>7,499</b>	<b>7,603</b>
<b>Profit from continuing operations</b>	<b>3,532</b>	<b>2,419</b>	<b>2,996</b>	<b>3,140</b>	<b>2,952</b>
Profit (loss) from Discontinued operations/Non-current assets held for sale	53	36	7	550	(118)
<b>Profit for the year</b>	<b>3,585</b>	<b>2,455</b>	<b>3,003</b>	<b>3,690</b>	<b>2,834</b>
<i>of which:</i>					
• Profit attributable to equity holders of the Parent(2)	3,575	2,448	3,014	3,216	1,815
• Profit (loss) attributable to Minority Interest	10	7	(11)	474	1,019
<b>Financial Ratios:</b>					
Revenues/Employees (average number in Group) (thousands of )(3)	573.9	393.0	391.0	374.6	355.4
Operating profit/Revenues (ROS)(%)	18.4	18.4	23.8	25.1	26.9
<b>Basic and Diluted earnings per Share (EPS)(4):</b>					
<b>Ordinary Share</b>	0.18	0.12	0.15	0.17	0.11
<b>Savings Share</b>	0.19	0.13	0.16	0.18	0.12
<i>Of which:</i>					
<i>From continuing operations:</i>					
• Ordinary Share	0.18	0.12	0.15	0.14	0.12
• Savings Share	0.19	0.13	0.16	0.15	0.13
<i>From Discontinued operations/Non-current assets held for sale:</i>					
• Ordinary Share				0.03	(0.01)
• Savings Share				0.03	(0.01)
<b>Dividends:</b>					
• per Ordinary Share	0.1168	0.0800(5)	0.1400	0.1400	0.1093
• per Savings Share	0.1329	0.0910(5)	0.1510	0.1510	0.1203

**Table of Contents****Item 3. Key Information****Selected Financial And Statistical Information**

	As of December 31,				
	2007	2007	2006	2005	2004
			(millions of Euro, except percentages and employees)		
	(millions of U.S. dollars, except percentages and employees)(1)				
<b>Balance Sheet Data:</b>					
<b>Total Assets</b>	<b>127,667</b>	<b>87,425</b>	<b>89,457</b>	<b>96,010</b>	<b>81,834</b>
<b>Equity:</b>					
• Equity attributable to equity holders of the Parent	37,854	25,922	26,018	25,662	16,248
• Equity attributable to Minority Interest	1,552	1,063	1,080	1,323	4,550
<b>Total Equity</b>	<b>39,406</b>	<b>26,985</b>	<b>27,098</b>	<b>26,985</b>	<b>20,798</b>
<b>Total liabilities</b>	<b>88,261</b>	<b>60,440</b>	<b>62,359</b>	<b>69,025</b>	<b>61,036</b>
<b>Total equity and liabilities</b>	<b>127,667</b>	<b>87,425</b>	<b>89,457</b>	<b>96,010</b>	<b>81,834</b>
<b>Share capital(6)</b>	<b>15,486</b>	<b>10,605</b>	<b>10,605</b>	<b>10,599</b>	<b>8,809</b>
<b>Financial Ratios:</b>					
• Net financial debt/Net invested capital (debt ratio)(%)(7)	57.0	57.0	57.9	59.6	61.2
• Employees (number in Group at year-end, excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale and including personnel with temp work contracts)	83,429	83,429	83,209	85,484	82,620

**Table of Contents****Item 3. Key Information****Selected Financial And Statistical Information**

	<b>As of and for the year ended December 31,</b>				
	<b>2007</b>	<b>2006</b>	<b>2005</b>	<b>2004</b>	<b>2003</b>
<b>Statistical Data:</b>					
<b>Domestic Fixed:</b>					
Fixed network connections in Italy (thousands)	22,124	23,698	25,049	25,957	26,596
Physical accesses (Consumer + Business) (thousands)	19,221	20,540	21,725	22,395	22,962
Voice pricing plans (thousands)	6,375	6,468	6,321	5,883	5,547
BroadBand accesses in Italy (thousands)	7,590	6,770	5,707	4,010	2,040
Virgilio page views powered by Alice (millions)	14,737	13,283	9,842	7,902	6,612
Virgilio powered by Alice average monthly single visitors (millions)	21.7	19.1	15.7	13.9	12.0
Network infrastructure in Italy:					
• access network in copper (millions of km pair)	106.8	105.7	105.2	105.2	105.2
• access network and transport in optical fiber (millions of km of fiber)	3.8	3.7	3.7	3.7	3.6
Network infrastructure abroad:					
• European backbone (km of fiber)	55,000	51,000	51,000	39,500	39,500
• Mediterranean (km of submarine cable)	7,000	7,000	7,000	7,000	7,000
• South America (km of fiber)	30,000	30,000	30,000	30,000	30,000
<b>Domestic Mobile:</b>					
Mobile telephone lines in Italy at year-end (thousands)	36,331	32,450	28,576	26,259	26,076
Prepaid lines at year-end (thousands)	30,834	28,080	25,365	23,398	23,386
<b>European BroadBand:</b>					
BroadBand accesses in Europe at year-end (thousands)	3,439	1,890	1,313	420	160
<b>Brazil Mobile:</b>					
Mobile telephone lines in Brazil at year-end (thousands)	31,254	25,410	20,171	13,588	8,304
<b>Media:</b>					
La7 average audience share Free to Air (analog mode) for the year (%)	3.0	3.0	2.7	2.4	2.2
La7 average audience share Free to Air (analog mode) for the month of December (%)	3.1	3.1	3.1	2.6	2.2

(1) For the convenience of the reader, Euro amounts for 2007 have been converted into U.S. dollars using the Euro/Dollar Exchange Rate in effect on December 31, 2007, of 1.00 = U.S.\$ 1.4603.

(2) For the purposes of IFRS, Parent, as used in this Annual Report, means Telecom Italia S.p.A..

(3) The average number of employees in the Group (excluding employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale and including personnel with temp work contracts) was 79,628, 79,993, 79,869 and 79,602 in 2007, 2006, 2005 and 2004, respectively.

(4) In accordance with IAS 33 (*Earnings per share*), basic earnings per Ordinary Share is calculated by dividing the Group's profit available to shareholders by the weighted average number of shares outstanding during the year, excluding treasury shares. Since Telecom Italia has both Ordinary and Savings Shares outstanding, the calculations also take into account the requirement that holders of Savings Shares are entitled to an additional dividend equal to 2% of the par value of shares above dividends paid on the Ordinary Shares.

For the purpose of these calculations, the weighted average number of:

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- Ordinary Shares was 13,254,934,303 for the year ended December 31, 2007, 13,254,860,233 for the year ended December 31, 2006, 12,283,195,845 for the year ended December 31, 2005 and 10,208,327,613 for the year ended December 31, 2004;
- Savings Shares was 6,026,120,661 for the years ended December 31, 2007 and 2006, 5,930,204,164 for the year ended December 31, 2005 and 5,795,921,069 for the year ended December 31, 2004.

For diluted earnings per share the weighted average number of shares outstanding is adjusted assuming conversion of all dilutive potential shares. Potential shares are those securities that, if converted into shares, would increase the total number of shares outstanding and reduce the earnings attributable to each share. Potential shares include options, warrants and convertible securities. The Group's profit is also adjusted to reflect the impact of the conversion of potential shares net of the related tax effects.

- (5) Telecom Italia's dividend coupons for the year ended December 31, 2007, were clipped on April 21, 2008 and were payable from April 23, 2008.
- (6) Share capital represents share capital issued net of the par value of treasury shares.
- (7) Net Financial Debt is a Non-GAAP Financial Measure as defined in Item 10 of Regulation S-K under the 1934 Act. For further details please see Item 5. Operating and Financial Review and Prospects 5.4 Results of Operations for the Three Years Ended December 31, 2007 5.4.2 Non-GAAP Financial Measures .

**Table of Contents****Item 3. Key Information****Dividends****3.4 DIVIDENDS**

The determination of our future dividend policy, and the amounts thereof, will depend upon a number of factors, including but not limited to our earnings, financial condition and cash requirements, prospects and such other factors as may be deemed relevant at the time.

*Dividends declared by Telecom Italia (formerly Olivetti).* The following table sets forth the dividends per Ordinary Share and per Savings Share declared by Telecom Italia with respect to each of the last five fiscal years and the aggregate dividends paid in such years. Actual dividends paid are rounded to the nearest whole cent.

<u>Year ended December 31,</u>	<u>Dividends on Ordinary Shares</u>			<u>Dividends on Savings Shares</u>		
	<u>Euro per Share</u>	<u>U.S. dollars per Share(1)</u>	<u>(millions of Euro)</u>	<u>Euro per Share</u>	<u>U.S. dollars per Share(1)</u>	<u>(millions of Euro)</u>
2003	0.1041	0.1278	1,072.95	0.1151	0.1413	667.11
2004	0.1093	0.1431	1,225.99	0.1203	0.1575	697.25
2005	0.1400	0.1753	1,873.12	0.1510	0.1891	909.94
2006	0.1400	0.1903	1,873.13	0.1510	0.2052	909.94
2007(2)	0.0800	0.1253	1,070.36	0.0910	0.1426	548.38

(1) Euro amounts have been translated into U.S. dollars using the Noon Buying Rate in effect on the respective payment dates.

(2) Approved at the Annual Shareholders Meeting held on April 14, 2008. Pursuant to Italian Stock Exchange rules, dividends on the Ordinary Shares and the Savings Shares are payable from the fourth trading day after the third Friday of each month, and in any case, at least four business days after the Shareholders Annual Meeting approving the dividends. Telecom Italia's dividend coupons for the year ended December 31, 2007 were clipped on April 21, 2008, and were payable from April 24, 2008.

Payment of annual dividends is subject to approval by the holders of Ordinary Shares at the annual general shareholders meeting, which must be convened within 120 days after the end of the financial year to which it relates. In addition, Article 21 of the Company's Bylaws gives the Board of Directors the power to approve the distribution of interim dividends. Pursuant to Italian law, the distribution may be approved after the final approval of the preceding year's financial statements, and the interim dividends may not exceed the lower of (i) the difference between profits from the preceding fiscal year and amounts required to be attributed to legal and statutory reserves and (ii) available reserves. Once paid in compliance with applicable laws, shareholders cannot be required to repay interim dividends to the Company if the shareholders collected such dividends in good faith. Dividends not collected within five years from the date they become payable will be forfeited in favor of the Company. If profits are not fully distributed, additional reserves are created.

According to the Italian Civil Code, before dividends may be paid with respect to any year, an amount equal to 5% of the profit of the Company for such year must be set aside to the legal reserve until the legal reserve, including amounts set aside during prior years, is at least equal to one-fifth of the par value of the Company's issued share capital. This legal reserve is not available for payment of dividends. Such restriction on the payment of dividends applies, on a non-consolidated basis, to each Italian subsidiary of the Telecom Italia Group. The Company may also pay dividends out of available retained earnings from prior years or other

reserves.

Dividends in respect of Ordinary Shares and Savings Shares held with Monte Titoli S.p.A. ( **Monte Titoli** ) are automatically credited to the accounts of the beneficial owners with the relevant participant of Monte Titoli, without the need for presentation by such beneficial owners of any documentation. See Item 10. Additional Information 10.4 Description of Capital Stock .

Arrangements between Euroclear or Clearstream and Monte Titoli permit the shareholders to collect the dividends through Euroclear or Clearstream. Holders of American Depositary Receipts ( **ADRs** ) are entitled to receive payments in respect of dividends on the underlying Ordinary Shares and Savings Shares, as the case may be, in accordance with the relevant Deposit Agreement.

Dividends payable on the Company's Ordinary Shares and Savings Shares may be subject to deduction of Italian withholding tax. See Item 10. Additional Information 10.6 Taxation . Italian regulations do not contain any specific restrictions on the payment of dividends to non-residents of Italy. See Item 10. Additional Information 10.2 Exchange Controls and Other Limitations Affecting Security Holders .

**Table of Contents**

**Item 3. Key Information**

**Dividends**

Pursuant to Italian law, in connection with the payment of dividends, participants of Monte Titoli are required to supply to the Italian tax authorities certain information concerning the identity of non-resident shareholders holding Ordinary Shares or Savings Shares. Shareholders are required to provide their Italian tax identification number, if any, or alternatively, in the case of legal entities, their name, country of establishment and address, or in the case of individuals, their name, address and place and date of birth, or in the case of partnerships, the information required for legal entities and the information required for individuals with respect to one of their representatives.

In the case of Ordinary Share ADSs and Savings Share ADSs owned by non-residents of Italy, Telecom Italia understands that the provision of information concerning the Depository, in its capacity as holder of record of the Ordinary Shares and Savings Shares, as the case may be, will satisfy these requirements. The Depository, in accordance with Telecom Italia, will provide information to beneficial owners of Ordinary Share ADSs and Savings Share ADSs, that are considered U.S. residents for purposes of applicable law, to the extent such owners wish to benefit from reduced withholding tax rates on dividends under an income tax convention, and claims for such benefits therefore must be accompanied by the required information. See Item 10. Additional Information 10.6 Taxation .



**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business**

**Item 4. INFORMATION ON THE TELECOM ITALIA GROUP**

**4.1 BUSINESS**

For a glossary of selected telecommunications terms used in the following description of Telecom Italia Group's business and elsewhere see 4.4 Glossary of Selected telecommunications Terms .

**4.1.1 BACKGROUND**

The legal and commercial name of the company is Telecom Italia S.p.A..

Telecom Italia is a joint-stock company established under Italian law with registered offices in Milan at Piazza degli Affari 2. The company is recorded in the Milan Companies Register at number 00488410010, R.E.A. number 1580695, R.A.E.E. number IT08020000000799.

The duration of the company, as stated in the company's Bylaws, extends until December 31, 2100.

On July 18, 1997, Old Telecom Italia's predecessor company was merged with and into Società Finanziaria Telefonica per Azioni ("**STET**"), its parent holding company, with STET as the surviving corporation. As of the effective date of the merger, STET changed its name to "Telecom Italia S.p.A.". In November 1997, the Ministry of the Treasury of the Republic of Italy completed the privatization of Telecom Italia, selling substantially all of its stake in the Old Telecom Italia Group through a global offering and a private sale to a stable group of shareholders.

On May 21, 1999, Olivetti, through a tender offer, obtained control of the Old Telecom Italia Group when approximately 52.12% of Old Telecom Italia Ordinary Shares were tendered to Olivetti. Through a series of transactions which started in July 2001, Olimpia acquired a 28.7% stake in Olivetti which resulted in the replacement of the then boards of directors of Olivetti and Old Telecom Italia.

On December 9, 2002, the Ministry of the Treasury sold its remaining stake in Old Telecom Italia Ordinary and Savings share capital.

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On August 4, 2003, Old Telecom Italia merged with and into Olivetti (the "**Merger**") with Olivetti as the surviving company changing its name to "Telecom Italia S.p.A.". Following the Merger, the proportionate ownership of Telecom Italia's share capital by shareholders unaffiliated with Olimpia or Pirelli & C. S.p.A. ("**Pirelli**"), Olimpia's largest shareholder, increased substantially to approximately 88.43% of the outstanding Ordinary Shares. Following the Merger, Olimpia acquired additional shares through market purchases and, prior to the acquisition by Telecom Italia of the share capital in TIM it did not already own (the "**TIM Acquisition**"), Olimpia held approximately 17% of Telecom Italia's Ordinary Shares, making it the largest shareholder of Telecom Italia. As a result of a series of transactions in December 2004 and March 2005, Olimpia acquired additional Ordinary Shares reaching approximately 21.4% of the outstanding Ordinary Shares.

Following the issuance of shares of Telecom Italia in exchange for outstanding shares of TIM held by third parties, as a result of the merger of TIM into Telecom Italia through which the TIM Acquisition was effected, Olimpia's stake was diluted to approximately 18%.

On April 28, 2007, a group of investors (the "**Investors**" or the "**Parties**"), made up of 1) Assicurazioni Generali S.p.A., Sintonia S.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A. (the "**Class A Shareholders**") and 2) Telefónica S.A., entered into a Co-Investment Agreement establishing terms and conditions for their participation in Telco, the vehicle through which the Investors purchased the entire share capital of Olimpia, from Pirelli and Sintonia S.p.A. and Sintonia S.A. (together "**Sintonia Sellers**").

On May 4, 2007, the Investors entered into a Share Purchase Agreement with Pirelli and the Sintonia Sellers to purchase the entire share capital of Olimpia. The acquisition was subject to the necessary regulatory approvals from the competent authorities.

After having received such authorizations, the acquisition was completed on October 25, 2007 by Telco, to which Ordinary Shares equal to 5.6% of the ordinary share capital were contributed on the same date by

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**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business**

Mediobanca S.p.A. and companies in the Generali Group. The total investment held by Telco S.p.A. was therefore equal to 23.595% of Telecom Italia's ordinary share capital, of which 17.99% were held through Olimpia.

Telco is held by Generali Group (28.1%), Intesa Sanpaolo S.p.A. (10.6%), Mediobanca S.p.A. (10.6%), Sintonia S.A. (8.4%) and Telefónica S.A. (42.3%).

Effective December 18, 2007, Olimpia merged with and into Telco, with Telco as the surviving company and directly holding a stake of 23.595% in Telecom Italia ordinary share capital.

On March 20, 2008 Telco acquired a further 121.5 millions of Ordinary Shares and increased its ownership in Telecom Italia's share capital to 24.5%.

Upon completion of the acquisition of the entire share capital of Olimpia, all the previous shareholders' agreements between Pirelli & C. S.p.A., the Sintonia Sellers, Olimpia and the relevant Investors (e.g. Assicurazioni Generali S.p.A. and Mediobanca S.p.A.) concerning Olimpia and Telecom Italia ceased to have any effect. The only existing agreements amongst its direct and indirect shareholders that Telecom Italia is aware of are the agreements among the Investors and Telco. See Item 7 Major Shareholders and Related Party Transaction for a description of the new shareholder arrangements.

**4.1.2 DEVELOPMENT**

In August 2003, following Old Telecom Italia's merger into Olivetti, Olivetti adopted Telecom Italia's corporate purpose and name.

In June 2005, TIM was merged into Telecom Italia, after the spin-off of the corporate operations of the domestic mobile communications business to Tim Italia, a wholly-owned subsidiary of TIM and, after TIM's merger into Telecom Italia, of Telecom Italia.

During the course of 2005, activities in the Internet sector, which were under the control of Telecom Italia Media, were also integrated into Telecom Italia through the acquisition of the assets of Virgilio (through Finanziaria Web and Matrix) and Tin.it (through Nuova Tin.it).

The final stage in this reorganization process took place in October 2005 when the Telecom Italia Board of Directors adopted a new business model based on the integration of its wireline and mobile businesses (the so-called **One Company Model**). In line with this decision, Tim Italia was merged into Telecom Italia (with effect from March 1, 2006). The One Company Model also led to the integration of the Internet activities in the Parent Company and, in the second half of 2006, the wholly-owned subsidiary Nuova

Tin.it S.r.l. was merged into Telecom Italia with effect from October 1, 2006.

The adoption of the One Company Model was our strategic response to changes in the demand for telecommunications services, increased competitive pressure and technological innovations, which were progressively erasing the traditional distinctions between fixed and mobile business areas. We considered at the time that our ability to offer wireline, mobile and Internet services, as the demand for these services converged, provided us with a longer term competitive advantage which, if exploited, would be the means of achieving our targets of growth and profitability.

In January 2007, the Group implemented a new organizational plan which, while still recognizing the importance of fixed/mobile convergence, reverted to a more direct focus on specific markets (fixed, mobile, broadband).

Following the acquisition by Telco of its stake in Telecom Italia and the installing of a new senior management team, the organizational structure and focus further evolved. As part of its 2008-2010 strategic plan Telecom Italia is planning to move from a model based on technology (fixed and mobile) to a model based on customer segments and customer focus and needs. See Item 4.1.7 Updated Strategy .

An important element of the Group s strategy and new structure is the creation of a new division of Technology and Operations that will independently and transparently manage the entire Telecom Italia access network

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**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business**

( **Open Access** ). Open Access is intended to ensure that other operators and internal customers (Telecom Italia's offers and services on the network) benefit from a service that meets market expectations in compliance with AGCom recommendations and as part of a process set out by AGCom. Open Access will operate separately and autonomously from commercial operations of the Group.

For more details about the organizational structure deriving from this approach, please see 4.1.8 The Organizational Structure .

**4.1.3 BUSINESS**

The Telecom Italia Group operates mainly in Europe, the Mediterranean Basin and South America. The Group is engaged principally in the communications sector and, particularly, in telephone and data services on fixed lines, for final retail customers and wholesale providers, in the development of fiber optic networks for wholesale customers, in innovative BroadBand services, in Internet services, in domestic and international mobile telecommunications (especially in Brazil), in the television sector using both analog and digital terrestrial technology and in the office products sector.

Telecom Italia is one of three mobile operators licensed to provide services using GSM 900 technology in Italy and one of three operators licensed to provide services using GSM 1800 (formerly DCS 1800) technology in Italy. It is also one of four operators holding a UMTS license and providing third-generation telephony services in Italy.

At December 31, 2007, the Telecom Italia Group was one of the world's largest wireline operators, with approximately 22.1 million fixed network connections in Italy. In addition, the Telecom Italia Group was the leading mobile operator in Italy, with 36.3 million domestic mobile telephone lines at December 31, 2007; and as of the same date Telecom Italia Group had 31.3 million mobile telephone lines in Brazil. We have significantly expanded into BroadBand in recent years and, at December 31, 2007, we had 11.1 million BroadBand accesses, 7.6 million in Italy and 3.5 million elsewhere in Europe (France, Germany and The Netherlands).

**4.1.4 DISPOSALS AND ACQUISITIONS OF SIGNIFICANT EQUITY INVESTMENTS IN 2007**

For a description of disposals and acquisitions of significant equity investments in 2007 please see Note Form and Content and Other General Information , Note Business Combinations and Transactions among Companies Under Common Control , Note Other Non-Current Assets and Note Discontinued operations/Non-current assets held for sale of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**4.1.5 RECENT DEVELOPMENTS DURING 2008**

***Telecom Italia and 3 Italia sign nationwide roaming services agreement***

On April 8, 2008, Telecom Italia and 3 Italia signed a nationwide roaming agreement to renew the companies' previous commercial agreement. As a result of this agreement, 3 Italia customers will be able to use the Telecom Italia mobile network, covering all of Italy, for voice and data services.

The agreement is an example of Telecom Italia's strategy of working with Italy's other telecommunications carriers. The four-year contract is worth around 280 million.

This agreement creates value from Telecom Italia's mobile network infrastructure. It also encourages mobile market competition by offering access to 3 Italia's virtual mobile carrier partners. Customer benefits range from higher quality of service standards to further development of the innovative services in which Telecom Italia is a leader.

Telecom Italia and 3 Italia have also agreed a new SMS interconnection deal.

For a description of other recent developments please see Note Events Subsequent to December 31, 2007 of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**Table of Contents****Item 4. Information On The Telecom Italia Group****Business****4.1.6 OVERVIEW OF THE TELECOM ITALIA GROUP'S MAJOR BUSINESS AREAS**

The following is a chart of the Telecom Italia Group's Business Units as of December 31, 2007:

(1) In the process of being sold. For accounting purposes it will be treated as a discontinued operation as of January 1, 2008.

The table below sets forth revenues, operating profit (loss), capital expenditures and number of employees by Business Units, for the periods indicated. The data relating to 2006 and 2005 have been reclassified and presented consistently with the 2007 presentation.

		<u>Domestic</u>	<u>European Broad Band</u>	<u>Brazil Mobile</u>	<u>Media</u>	<u>Olivetti</u>	<u>Other Operations</u>	<u>Adjustments and eliminations</u>	<u>Consolidated Total</u>
		(millions of Euro, except number of employees)							
Revenues(1)	2007	24,220	1,545	4,990	263	408	251	(387)	31,290
	2006	25,785	915	3,964	207	440	234	(270)	31,275
	2005	25,820	565	2,900	180	452	280	(278)	29,919
Operating profit (loss)	2007	5,751	(69)	150	(117)	(66)	63	52	5,764
	2006	7,676	(125)	21	(137)	(50)	37	15	7,437
	2005	7,895	(117)	(190)	(130)	(38)	17	62	7,499
Capital expenditures	2007	4,064	508	865	69	8	16	(10)	5,520
	2006	3,894	467	699	85	10	21	(62)	5,114
	2005	3,941	304	842	65	19	21	(19)	5,173
Number of employees at year-end(2)	2007	64,362	4,551	10,030	1,016	1,279	2,191		83,429
	2006	66,835	3,066	9,531	919	1,428	1,430		83,209
	2005	69,362	2,494	9,043	886	1,750	1,949		85,484

(1) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

- (2) The number of employees at year-end excludes employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale, and includes personnel with temp work contracts.



## Table of Contents

### Item 4. Information On The Telecom Italia Group

### Business

For a description of the selected statistical data for the Telecom Italia Group's Business Units please see Item 3. Key Information 3.3 Selected Financial and Statistical Information .

#### 4.1.7 UPDATED STRATEGY

On March 7, 2008, we set out our priorities for the 2008-2010 period.

Our strategy is aimed at implementing a transformation of the Telecom Italia Group in order to put it back on a growth and development track.

To achieve this goal, the Group will leverage its strengths (a leading competitive position in our domestic market, sustained by strong internal know how in technology, marketing and customer service, and a significant international presence) while at the same time addressing its weaknesses (the level of service quality to be improved, an often difficult relationship with regulatory authorities, a high level of litigation with competitors and significant debt levels versus profitability), and operating in a collaborative and transparent manner towards shareholders and other stakeholders.

The telecommunications sector in recent years has been characterized by significant technological and market changes. On the one hand traditional services (fixed and mobile voice services, traditional access and connectivity) have undergone significant price erosion linked to competitive pressure and relevant regulatory intervention. On the other hand, the demand for innovative services, technologies, offers and business models has been constantly growing. Given the maturity of voice and traditional services, future growth will increasingly come from the development of fixed and mobile broadband services, from the demand of Value Added Services ( **VAS** ), and from the development of the Information and Communication Technology ( **ICT** ) market in which Telecom Italia can play a significant role, due to its technological and marketing capabilities.

The new guidelines therefore want to create the conditions for Telecom Italia to be a key player on the domestic and international market through:

- a stronger sense of collaboration with all stakeholders;
- a new way of conducting our business, in particular on the domestic market, centered on quality of service, convergence of technologies, development of innovative markets, with a value rather than volume based approach; and
- a strict financial discipline, aimed at reducing debt levels and improving profitability.

*There can be no assurance that these objectives will actually be achieved.*

## Transformation in the Domestic Market

The plan is based on the following lines of action to create value: 1 quality, 2 convergence, 3 expansion in adjacent markets, 4 new segment based organization:

- **Quality** Focus on quality is one of the most relevant changes compared to past strategies. Quality produces higher profitability because it justifies higher prices both in fixed, mobile and broadband services. Telecom Italia wants to focus on customer needs concentrating on:

improving performance on technical and network platforms;

re-engineering of customer care and field services processes, enhancing the value of on-line solutions;

improving the service creation process, with greater priority given to quality of new services launched in the market;

focusing on transparency in sales activities and far greater care in the provision of services, in customer care and post sales activities.

**Table of Contents****Item 4. Information On The Telecom Italia Group****Business**

- **Convergence** Convergence is another key factor to profitability as it helps to fine tune market positioning with respect to different customer segments and fixed mobile migration. Convergence will allow for:

more effective defense of the fixed line business through retention of richer customer segments (the residential and business customers that want voice but also integrated fixed mobile and internet services) via the offering of convergent voice (mostly mobile) and fixed broadband services;

better management of migration for voice only customers to mobile only solutions. The increasing penetration of fixed broadband will also allow, in a seamless offer framework, to develop and take advantage of opportunities in the mobile broadband segment.

- **Expansion in adjacent markets** Due to the global knowledge of customers, the capability to manage as a whole state-of-the-art networks and technological platforms, and due to the underlying changes in the ICT and Digital Media & Advertising markets (primarily convergence of information technology and communication services, and new business models linked to electronic distribution of multimedia contents), Telecom Italia will have the opportunity to broaden its activities in these markets, integrated and synergistic with its present telecommunications business.
- **New Organization** A key element to reach planned results is the organizational restructuring of the Group. The new organization will evolve from a present model based on technology (fixed and mobile) to a model based on customer segments (consumers, SOHOs, SMEs, Corporates) in order to maximize focus on customers and their needs in all operations and operating processes. The new organization will be gradually implemented during 2008 in order to allow for compliance with accounting regulation and will be fully reflected in the budgeting process from 2009. In particular, inside the Technology and Operations area, the Open Access group, will allow for greater cost efficiency and better quality both for the retail and wholesale markets attributable to the integrated management of the access network.

The evolution of our offers are expected to follow customer segmented guidelines:

- **Residential customers:**

evolution of mobile towards Personal Communication services, with segmented offers targeting higher value customers and a strengthening of the brand and of the client relationship;

evolution of home services (primarily fixed) towards a Convergent Broadband Environment with strong development of fixed and mobile broadband accesses and usage of new offer options enabled by convergence (Triple play and Quadruple play offerings). The objective is to strengthen the relationship with the client to control churn, support voice value, but primarily seek to achieve broadband average revenue per unit ( **ARPU** ) increase through up-selling and cross-selling, i.e. the migration of the customer base to flat packages and bundled (Triple/Quadruple play) solutions;

evolution of Internet services towards Community and Web 2.0 patterns, building on the know-how and the assets of a telecommunications operator (localization, reach, profiling) to capture part of the value present in adjacent markets (Pay TV, Advertising, E-commerce).

- **Business customers:**

fixed access as a central element to convergent offer in a full IP environment;

improvement of customer satisfaction by differentiating service levels according to customer value and creating a partner relationship with customers (such as joint planning, joint project management, and shared assurance tools);

offer segmentation tied to the specific needs of every customer segment (such as small shops, non-loyal customers, mono and multi site companies, large companies and public companies);

adoption of an integrated multi-channel sales approach based on the analysis of customers' priorities and needs with renewed importance given to face to face contact, greater internal vs. external skills segmentation, and sales proactivity tied to potential customer value;

development of net-centric IT services (introduction of segmented industry convergent solutions) also by means of partnerships with IT players.

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**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business**

• **Wholesale customers:**

the wholesale market represents an important long term sustainable value proposition, with key issues centred on the possible trade-off between loss of volumes in the retail market (primarily fixed) and the increase in cash flow from the wholesale business. To adequately perform on wholesale, Telecom Italia must establish a new relationship with the market, building on the creation of Open Access, setting the tone for greater collaboration and dialogue with other licensed operators, and calling for reduced intervention by regulators:

- greater opening of the network with a broader set of services offered as wholesale;
- further increase in transparency and smoothness in the delivery of regulated services;
- improvement in the quality of services and customer service levels.

*There can be no assurance that these objectives will actually be achieved.*

**Network and Service Platforms Evolution**

The technological evolution of the network and service platforms must be consistent with the projected evolution of customer needs and therefore the Group's offerings. The transformation from a connectivity network to a services network will entail:

- the development of capacity and coverage of fixed and mobile broadband access, and longer term the development of a convergent ultra-broadband network based on a full-IP transport and aggregation platform;
- the development of service centres and platforms for the consumer market (e.g. unified messaging, IPTV/HDTV, web 2.0) and the business market (e.g. VPN, Telepresence, Software as a Service applications, disaster recovery, vertical applications);
- the transformation of Information Technology activities and processes to better support services development, quality improvement, efficiency and key convergent processes (such as customer relationship management and billing).

The evolution of the network will also allow greater openness of the network with a broader set of services offered wholesale to third parties (other licensed operators, internet service providers, mobile virtual operators).

*There can be no assurance that these objectives will actually be achieved.*

## Strengthening of International Presence

Telecom Italia does not possess adequate financial resources to sustain high profile international growth by acquisition, and the Group priority is the consolidation and strengthening of those existing assets able to guarantee a strong competitive position and which provide growth opportunities. Telecom Italia will therefore endeavour to:

- continue investment in Brazil: consolidating its position on the mobile market, ensuring profitability of low ARPU customers, capturing fixed-line revenues (increase share of spending on Tim Brasil customer base) with convergent fixed and mobile offers;
- consolidate its position in broadband in Germany, participating in attractive opportunities linked to market consolidation and focusing on efficiency and operating excellence;
- take the necessary steps, to acquire control of Telecom Argentina that offers solid operations both economically and financially, and interesting growth prospects;
- evaluate disengagement from markets or business segments no longer considered attractive or where the Group believes it does not have adequate critical size to compete in the medium to long term;
- in the International Wholesale business, consolidate its leadership position on the cross-border voice and data traffic market, with particular focus on development of the Mediterranean, Middle East and South East Asia areas. In Europe and North and South America, we will continue to leverage existing assets.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business**

Development opportunities especially in mobile will be monitored in emerging markets characterized by strong growth, taking into account possible maximization in the use of the Group's state-of-the-art know how, and opportunities of plug and play solutions.

International expansion also will be possible through joint-ventures, alliances and financial partnerships in order to facilitate target levels of reduction of net financial debt.

*There can be no assurance that these objectives will actually be achieved.*

**Efficiency**

A key strategic objective is to identify a business model adaptable to the new market conditions, able to handle both the need for maximum efficiency and the need for innovation and flexibility.

Efficiencies will be derived from a change of internal processes, with the adoption of a leaner, flat organization, in order to:

- reduce market response time;
- optimize field services costs and IT cash costs through the integration of previously fragmented organizations and processes;
- reduce energy, real estate and site sharing costs;
- reduce sales and customer care costs;
- reduce overhead and staff processes costs.

Management believes the relationship with Telefónica will facilitate a significant part of future efficiencies primarily in areas such as network, IT, purchasing, sales activities in Germany and international mobile roaming.

*There can be no assurance that these objectives will actually be achieved.*





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**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business**

**4.1.8 THE ORGANIZATIONAL STRUCTURE**

The following diagram highlights the organizational structure of the Telecom Italia Group as of May 7, 2008:

The organizational structure of the Telecom Italia Group as of May 7, 2008 is as follows:

- **Group Functions** responsibility for:

guaranteeing direct control over the system supporting the Telecommunications Business in addition to the coordination, direction and control at Group level of their specific activities, particularly ensuring the definition of policies and the overall governing of issues across the Departments and Functions and Business Units;

promoting, within the Group, a control model which ensures guidance over the Professional Families with particular emphasis on the development, utilization and coordination of distinctive expertise as well as the implementation of paths for intragroup mobility;

ensuring, across the entire Group, control over any operating activities serving the business.

- **TLC Business Departments/Functions** responsibility for the specific results of their areas of competence, particularly, through the business management and development of fixed and mobile Telecommunications and Internet services.
- **Business Units** responsibility for business development in their respective businesses.

**The Chairman of the Board of Directors** is entrusted with, for the purpose of ensuring functionality and effectiveness of the actions of the board of directors, responsibility for the supervision and development of strategic, industrial and financial plans, organizational structure for the Group and the economic and financial performance of the Group as well as the overall governance of the internal control system. The following report to the Chairman:

- **the Group Functions:**

*General Counsel & Corporate and Legal Affairs;*

*Public Affairs;*

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business**

- **the Company:**

*Telecom Italia Audit & Compliance Services.*

**The Chief Executive Officer** is assigned responsibility for the overall governance of the Group, especially with regard to the development and implementation of strategic, business and financial plans, the definition of the organizational structure and also business development and management. The following report to the Chief Executive Officer:

- **the Group Functions:**

*Finance, Administration and Control;*

*Human Resources and Organization;*

*Purchasing;*

*Domestic Legal Affairs and Judicial Authority Services;*

*Investor Relations;*

*External Relations;*

*Regulatory Affairs; and*

*Security.*

- **The Departments:**

*Business Strategies and International Development, with responsibility for:*

strategic planning of the Group, designated to provide consistency in the relative implementation policies and the transversal integration of the plans of the individual areas of business;

operational coordination of the international development initiatives;

consistency of the management of national licensee operators and international wholesale services;

coordinating international BroadBand initiatives; and

supervising and managing the legal interests of the Group internationally.

The following Functions report to the *Business Strategies & International Development Department*:

*Strategy;*

*Business Development;*

*National Wholesale Services;*

*International Wholesale & BroadBand Services;*

*International Affairs; and*

*International Legal Affairs.*

*Domestic Fixed Services*, with responsibility for at the national level business development and management relating to fixed telecommunications for consumer and business customers;

*Domestic Mobile Services*, with responsibility for at the national level business development and management relating to mobile telecommunications for consumer and business customers;

*Top Clients & ICT Services*, with responsibility for business development and management relating to fixed and mobile Telecommunications and the related ICT services for Top Clients;

*Technology & Operations*, with responsibility for the technological innovation of the Group and the integrated control of the development, implementation and operation of the network, property and installation infrastructures and Information Technology, as well as the processes of delivery and assurance of services to the customers.

## Table of Contents

### Item 4. Information On The Telecom Italia Group

Business

- **The Company:**

*TIM Brasil*, with responsibility for business development and management of mobile telecommunications in Brazil.

- **The Business Units:**

*Olivetti*, for product development and Information Technology solutions;

*Media*, content offerings (as the competence center of the Telecom Italia Group), news and television.

- **The Function:**

*Steering Committee of the Group for Relations with Telefónica*, responsible for coordinating and monitoring the projects related to the development and implementation of the business synergies identified between Telecom Italia and Telefónica Group, while strengthening the relations between the parties.

\* \* \*

## Committees

One of the most important tools for the management and operational integration of the Group is the *Group Committee System*, which aims at:

- monitoring the implementation of strategies and the development of plans and results;
- ensuring the overall coordination of business actions and management of relative cross-over business issues; and
- building-up the necessary operating synergies between the various functions involved in the technological, business and support processes.

The Group Committee System is currently under review. As of May 7, 2008, the following committees were operating:

- *Risk Management Committee* of the Group, responsible for the identification, assessment and management of the risks of the Group as well as the policy regarding IT security and information, coordinating preventive action plans designed to

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ensure the operating continuity of the business and monitoring the effectiveness of the countermeasures adopted;

- *IT Governance Committee* of the Group, responsible for establishing 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 and monitors quality of solutions and cost effectiveness;
- *Security Committee* of the Group, responsible for the integrated coordination of security and crisis management activities of the Group, monitoring the progress on major projects and effectiveness of the solutions adopted;
- *Steering Committee of the Group for Relations with Telefónica* which aims to meet the following objectives:

identify areas and business activities suitable for possible business synergies between the two groups;

design consequent plans for execution; and

control compliance with national and international laws, with regulations or orders of public authorities and with rules of self-regulation.

- *Group Quality Governance Committee*, responsible for:

directing and supervising initiatives and activities geared to the end-to-end improvement of the quality of the operating processes;

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business**

monitoring the results of the quality obtained and also analyzing them according to the quality requisites required by our regulatory authorities, as well as the most important or recurring customer complaints and generally feedback from all the stakeholders; and

supervising the process for the creation, quality certification and launch of new products and services offered to the customer in particular those with a greater impact in terms of image and competitive market positioning with the specific operating responsibilities of the technical structures and the businesses involved remaining unchanged.

- *Steering Committee of the Group for the Coordination of the Purchase of Editorial Content*, responsible for coordinating and harmonizing the purchase of editorial content for all platforms of the Group.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business Units**

**4.2 BUSINESS UNITS**

**4.2.1 DOMESTIC**

The Domestic Business Unit is the consolidated market leader in Italy for telephone and data services on fixed and mobile networks for final customers (retail) and other operators (wholesale). On an international level, the Business Unit develops fiber optic networks for wholesale customers in Europe, the Mediterranean and South America.

The Domestic Business Unit is organized as follows as of December 31, 2007:

<b>FIXED</b>	<b>MOBILE</b>	<b>SUPPORT ACTIVITIES</b>
<p><b>Telecom Italia S.p.A.</b> Fixed telecommunications services</p> <p>Loquendo S.p.A.</p> <p>Matrix S.p.A.</p> <p>Path.Net S.p.A.</p> <p>Telecontact Center S.p.A.</p> <p>Telsy Elettronica e Telecomunicazioni S.p.A.</p>	<p><b>Telecom Italia S.p.A.</b> Mobile telecommunications services</p>	<p><b>Telecom Italia S.p.A.</b> Group functions</p> <p>Olivetti Multiservices S.p.A.</p> <p>Tecnoservizi Mobili S.r.l.</p> <p>Telecom Italia Audit and Compliance Services S.c.a.r.l.</p> <p>Telenergia S.r.l.</p>

Telecom Italia Sparkle group:

- Telecom Italia Sparkle S.p.A.
- Latin American Nautilus group
- Med-1 group



- Mediterranean Nautilus group
- TMI group
- Pan European Backbone
- Telecom Italia Sparkle Singapore
- Telecom Italia San Marino group
- Telecom Italia Sparkle of North America Inc.
- Elettra S.p.A.
- TIS France S.A.S.

The major business areas of the Domestic Fixed Telecommunications Services business are as follows:

- **Retail Telephone** services consist mainly of the supply of services using traditional technologies (PSTN and ISDN) and innovative technologies (VoIP). Retail telephone services include: network access, traffic (in terms of minutes and rate plans), hire of telephone equipment and value added telephone services.
- **Internet** services consist mainly of ADSL services (connections, traffic, services, equipment and portals) and traditional Internet traffic (dial-up access).
- **Data Business** services include data transmission and network services for business customers, leased lines, equipment for data services and value added services.
- **Wholesale** offering includes national and international services for other operators, both for fixed and mobile operators and Internet service providers. Services offered to other domestic operators consist mainly of interconnection to the Telecom Italia network, in terms of access and traffic (collection, termination and transit), BroadBand access (ADSL and XDSL) and leased lines. Services offered to international OLOs consist mainly of traffic (carried traffic and transits) and data accesses.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business Units**

v **KEY FACTORS**

***Fixed Telecommunications***

The Domestic Fixed Telecommunications Services business continued with its strategy to encourage its customers to migrate towards innovative BroadBand solutions which provide access to a new generation of IP services and applications. This strategy has resulted in Telecom Italia having a BroadBand Retail plus Wholesale portfolio of 7.6 million accesses, of which approximately 6.4 million were Retail BroadBand (of which 64% were on flat and semi-flat tariff schemes) and a VoIP portfolio amounting to 1.3 million accesses (about 20% of BroadBand Retail). In the Consumer market, development of the IPTV service is growing and the offering of web content and services is developing.

In the traditional Telephone business, the main strategy has been to increase the penetration of flat-voice rate packages to achieve higher retention rates (at December 31, 2007, there were 6.4 million flat-voice rate pricing packages, more than one-third of the number of accesses); moreover, action with the aim of recapturing customers that switched to competitors continued (more than 1 million returns as of December 31, 2007).

In the Data Transmission sector, there was a rationalization of the available offerings with migration from Traditional Data Transmission to Innovative Data Transmission and BroadBand offerings of integrated solutions with services.

***Mobile Telecommunications***

In 2007, the Domestic Mobile Telecommunications Services business focused on maintaining its market share by using both traditional services (voice) and innovative services (VAS and Mobile Internet). Market share was maintained due to an effective policy regarding the acquisition of customers with a greater take-up of Flat or Bundled packages (both voice and VAS) and a greater penetration of UMTS handsets and users.

The offering portfolio has been improved through the use of various strategies 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).

v **COMMERCIAL AGREEMENTS**

The following significant commercial agreements were signed by the Domestic Business Unit during 2007:

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on March 30, 2007, Telecom Italia and COOP signed an agreement under which COOP will market telephone service with the COOPVoce trademark, utilizing the technological infrastructures and services provided by Telecom Italia;

- on June 8, 2007, Telecom Italia and the Generali Group signed an agreement for Telecom Italia to design and create the new telecommunications network of the insurance company in four European countries, and supply electronic communication services in those same countries and also Italy;
- on July 3, 2007, Telecom Italia was awarded the contract over a three-year period and worth more than 45 million for the development of an integrated telephone and data network for all the offices of the Monte dei Paschi di Siena group;
- on July 18, 2007, the governing body of the Vatican City State and Telecom Italia announced the creation of the institutional portal illustrating the services, activities and organization of Vatican City;
- on July 27, 2007, Telecom Italia and Tiscali signed an agreement which allows Tiscali to become a virtual mobile operator. For the first time in Italy, the operator of an alternative fixed network will also be able to offer mobile and integrated services throughout Italy to residential customers;
- 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, due 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;

**Table of Contents****Item 4. Information On The Telecom Italia Group****Business Units**

- in October 2007, Telecom Italia and Sky Italia reached an agreement to broadcast all Sky channels on Alice Home TV, Telecom Italia's television via ADSL. The distribution of High Definition content is also included; and
- in February 2008, the auction was concluded for Wi-Max frequencies (technology which delivers BroadBand on radio frequencies). The Ministry of Communications is planning on this technology to deliver high-speed Internet throughout the country. The bidding for Wi-Max began in February 2007 with a starting bid of 45 million and after nine rounds of bidding was concluded for 140 million. The amount raised is higher than that in Germany ( 60 million) and France ( 100 million). Telecom Italia S.p.A. secured licenses for the regions of Umbria, Lazio, Abruzzo, Molise, Campania, Puglia, Basilicata and Calabria.

**v CUSTOMERS AND LINES**

The table below sets forth, for the periods indicated, certain statistical data of the Domestic Business Unit.

	As of and for the years ended December 31,		
	2007	2006	2005
<b>DOMESTIC FIXED TELECOMMUNICATIONS</b>			
Fixed network connections in Italy (thousands)	22,124	23,698	25,049
Physical accesses (Consumer + Business) (thousands)	19,221	20,540	21,725
Voice pricing plans (thousands)	6,375	6,468	6,321
BroadBand accesses in Italy (thousands)	7,590	6,770	5,707
Virgilio page views powered by Alice (millions)	14,737	13,283	9,842
Virgilio powered by Alice average monthly single visitors (millions)	21.7	19.1	15.7
Fixed network infrastructure in Italy:			
• access network in copper (millions of km pair)	106.8	105.7	105.2
• access network and transport in optical fiber (millions of km of fiber)	3.8	3.7	3.7
Fixed 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 on the fixed network (billions):	156.8	173.8	185.1
• domestic traffic	140.1	160.1	171.3
• international traffic	16.7	13.7	13.8
<b>DOMESTIC MOBILE TELECOMMUNICATIONS</b>			
Mobile telephone lines in Italy at year-end (thousands)	36,331	32,450	28,576
Prepaid lines at year-end (thousands)(1)	30,834	28,080	25,365
Growth of the customers (%)	12.0	13.6	8.8
Churn rate(2)	16.4	18.9	16.9
Total outgoing traffic per month (millions of minutes)	2,766	2,443	2,314
Total outgoing and incoming traffic per month (millions of minutes)	4,052	3,730	3,550
Average monthly revenues per line(3)	22.2	25.6	29.3

(1) Excludes not-human Subscriber Identity Modules (SIM).

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

At December 31, 2007, the Domestic Business Unit had approximately 22.1 million fixed connections. The decline compared to December 31, 2006 is largely offset by the growth in BroadBand which, at December 31, 2007, consisted of 7.6 million accesses (approximately 6.8 million accesses at December 31, 2006), of which approximately 6.4 million were retail BroadBand accesses, confirming the continuing growth in use of ADSL technology.

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**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business Units**

At December 31, 2007, Telecom Italia had approximately 36.3 million mobile GSM and UMTS lines (of which 6.1 million are UMTS lines), an increase of 12.0% compared to December 31, 2006. This figure includes 30.8 million prepaid lines, which represent 84.8% of all lines.

At December 31, 2007, Telecom Italia's market share calculated on number of lines was 40.3%, in line with the figure at December 31, 2006 (40.4%).

v **TARIFFS FOR FIXED COMMUNICATIONS**

***Changes in rate plans***

Telecom Italia began rebalancing its rate plans in 1991 which led to many alterations through 1997. AGCom has been responsible for tariff regulation since December 1998 and on July 28, 1999 AGCom introduced the price cap mechanism which was designed to promote productivity and efficiency of the Telecom Italia Group as the incumbent operator in markets with a low level of competition.

The price cap is a formula that limits the incumbent's ability to modify the overall level of its prices. The formula is defined as RPI-X, where RPI is the Retail Price Index and X is a pre-defined level of efficiency fixed by AGCom. Therefore, RPI-X is the average percentage variation which the incumbent can apply to its prices. In real terms, at a given level of inflation, RPI, the incumbent is obliged to reduce its prices by X. The higher the level of X, the greater the obligation to reduce prices. If the incumbent wants to maintain the same marginal return with lower prices, it is obliged to increase its efficiency (by a level of X). The price cap mechanism may also be used as a sub-cap, e.g., as a price cap on service(s) of particular importance. For example, if AGCom did not want a raise in monthly rental fees, then this would be achieved by setting a sub-cap of RPI-RPI for monthly rental fees.

Until December 31, 2002, the price cap was applied to an overall basket of public voice telephone services consisting of basic subscription charges, activation charges and charges for local, long distance and international calls.

On July 23, 2003, AGCom introduced a new price cap mechanism, also known as the "safeguard cap" with the aim of controlling the maximum prices applied to voice services during the period 2003-2006.

On January 19, 2006 and November 9, 2006 AGCom amended the price cap mechanism to separately regulate Access and Traffic. With respect to Access, including the retail markets for access to the public telephone network from fixed accesses (i.e. rental charges for the PSTN and ISDN lines of residential and business customers), the price cap mechanism remained in effect up to December 31, 2007. With respect to Traffic, including local and long distance traffic and fixed-mobile traffic (for retention only), and applying to both residential and business customers, the price cap mechanism remains in effect up to December 31, 2009.

In 2007 the following rate plan changes were introduced:

- **Access:** a revenue decrease equal to 21.4 million for residential customers, representing a decrease of 0.83% for this customer segment and a revenue increase of 38.1 million for business customers, representing an increase of 1.99% for this customer segment; when viewed from the standpoint of the access segment as a whole (residential and business), these changes resulted in a revenue increase equal to 16.7 million on a regulatory basis (equal to +0.37%);
- **Traffic:** with respect to fixed-mobile traffic a revenue increase due to retention equal to 9.1 million (or 1.91%).

v **INTERCONNECTION WITH OTHER OPERATORS**

***Fixed Telecommunications***

In compliance with the European Commission Recommendation No. 2003/497 (the Recommendation ) and the Electronic Communications Code (Legislative Decree No. 259 dated August 1, 2003), the public consultations with regard to the 18 significant markets identified in the Recommendation were concluded in 2006 and, in 2007, Telecom Italia implemented the regulatory remedies required by AGCom. AGCom also started and concluded in 2007 market analyses on two new markets: the market for wholesale termination for international routing (market 19), with respect to which AGCom has proposed removal of the existing restraints as no operator with

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**Table of Contents****Item 4. Information On The Telecom Italia Group****Business Units**

significant market power has been identified, and the market for retail dial-up internet traffic (market 20), which is considered to be a market subject to competition. AGCom has also started a new cycle of market analyses concerning the wholesale market for access and call origination in mobile telephone networks, the market for termination on individual mobile networks and the markets for retail and wholesale fixed access.

On November 13, 2007, the European Commission issued a new recommendation for the identification of significant markets and a proposal to review the regulatory framework. The new recommendation confirms the regulatory approach for wholesale markets and modestly reduces obligations on retail markets, which is in force starting from 2008. On the contrary, the new Directives will not be adopted before 2010.

During 2007, AGCom renewed the network cap mechanism until 2009. This mechanism, approved by AGCom in 2003, regulates interconnection charges, i.e. the amounts which operators must pay Telecom Italia if they use the Telecom Italia network to offer their telecommunication services. Beginning with the 2003 Reference Offering ( **RO** ), the market has achieved a higher level of transparency with regard to interconnection services, allowing other operators to base their business plans on stable, pre-established economic values.

The 2007 RO for interconnection services, which was approved by AGCom, includes the economic terms for the **FRIACO** service ( Flat-Rate Internet Access Call Origination ) operating since 2001 for billing and for the risk of bad debts.

Telecom Italia is required to offer a billing service to OLOs deciding not to invoice their customers who access Non-Geographic Numbers ( **NGNs** ) (such as customers who are connected to the network through the indirect access service). On the basis of the network cap mechanism AGCom has fixed the price level of the billing service at a value per call equal to 0.81.

With respect to Local Loop Unbundling ( **LLU** ), once the market analysis related to market 11 of the Recommendation was concluded, in 2007, Telecom Italia published a new RO for LLU (including shared access), which has been approved by AGCom. In particular, the price of LLU defined through the network cap mechanism is equal to euro 7.81/month and is the lowest in Europe and significantly lower than the retail price of access. With reference to implementation, the Italian LLU market reported the fastest growth in Europe, with about 2,903,000 unbundled lines activated at December 31, 2007 (Italy is second after Germany where the LLU had started about two years earlier) and with an increase of approximately 1,198,000 LLU lines compared to December 31, 2006. Furthermore, Telecom Italia has the most detailed and complete LLU offering in Europe (i.e. physical LLU, sub loop unbundling, shared access and different ways of collocation) and has complied with all of AGCom's requirements in terms of making available sites requested by other OLOs. During 2007, the OLOs increased their use of the shared access service with 417,000 lines activated by the end of the year.

In May 2007, AGCom issued its regulatory measures on wholesale BroadBand access services ( **bitstream** services). In 2007, Telecom Italia published its 2007 RO for BroadBand access services which was approved by AGCom.

With respect to broadcasting services with dedicated capacity and as required by AGCom, Telecom Italia has redefined its wholesale offering, transforming its previous wholesale line rental from end-to-end services to interconnection services (markets 13



and 14 of the Recommendation, i.e. terminating segment and interurban circuits trunks). On October 31, 2006, the 2007 RO was published but has not yet been approved by AGCom. The transition from the old offering to the new one is quite complex and, until market stability can be achieved, operators will continue to use the previously available services.

In May 2007, AGCom started a public consultation on the regulatory aspects related to the structure of the access network and the prospects for the BroadBand Next Generation Access Networks ( **NGANs** ). The purpose is an evaluation of regulatory options related to the competitive dynamics of the fixed public telecommunication network. The main topics are:

- regulation of the access network;
- functional separation;
- evolution towards the next generation NGANs.

The consultation was closed in July 2007.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business Units**

In November 2006, AGCom defined the procedure for setting up the Wholesale Line Rental ( **WLR** ) offering (that is interconnection and access to the Telecom Italia system required by other operators in order to provide to end users fixed access services to the public network, to make and/or receive telephone calls and related services). The service is marketed at local urban exchanges not open to unbundled access and at local urban exchanges open to unbundled access through which, due to technical problems, the unbundled access services cannot be provided. In 2007 Telecom Italia published its RO concerning the WLR service for 2007, which was approved by the AGCom. The WLR service has been marketed since December 15, 2007.

In 2007 the following contracts with other operators were signed or renewed:

- 3 direct interconnection agreements (of which 2 at BBN level);
- 2 supplementary reverse agreements, termination on the network of another operator;
- 53 agreements to supply high speed access through the xDSL technology (of which 7 CVP and 46 ADSL);
- 2 carrier preselection contracts and 4 number portability contracts;
- 4 contracts for the shared access service on the local network and 5 LLU contracts;
- 13 contracts to supply Digital Data Circuits or partial circuits;
- 2 agreements for fiber optic infrastructures.

In 2007 Telecom Italia presented its separate and regulatory accounts for fiscal year 2005.

***Mobile Telecommunications***

At December 31, 2007, there were 236 GPRS agreements in 102 countries, 59 3G agreements in 35 countries and 196 Camel agreements, which allow international roaming for prepaid mobile services in 92 countries.

2007 was characterized by the regulation of the international roaming market. Since August 30, 2007, a standard wholesale charge equal to euro 0.30 for calls made within the EU has been introduced; the same Regulation (EC) No. 717/2007 has scheduled further price reductions on September 1, 2008 and September 1, 2009.

To compensate for the negative effects of the regulation and support international wholesale revenues we implemented the following:

- an MTC (Mobile Terminated Call) mutual charge increase;
- an increase of charges for Visitor SMS starting in July; and
- sign 83 Inter Operator Tariff ( **IOT** ) discount agreements (valid in 68 countries) to reduce the costs of TIM Roamers abroad.

v **MARKETING AND DISTRIBUTION**

***Fixed Telecommunications***

The sales structure of the Company is organized according to a vertical, multi-channel approach, in which different types of distribution channels are specialized in different customer segments of the market. This approach rewards the focus and customization of the channel-offering-market mapping.

The top 20,000 customers benefit from direct coverage by almost 500 sales personnel, each one of which has a dedicated portfolio to supervise and develop over the whole range of offerings: fixed, mobile, telephone, data, ICT services and products.

All other customers (both Business and Consumer) are managed by Indirect Commercial Channels, with a total of approximately 300 partners, 2,600 commercial staff and 7,000 telephone operators, who handle approximately 3,000,000 contracts a year. Selling techniques range from sales through physical consultancy to sales by phone through the outbound network.

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**Table of Contents**
**Item 4. Information On The Telecom Italia Group****Business Units**

The main channels are:

- *the Telesales channel*: an Outbound network of about 40 partners with more than 5,000 operators who are assisted by about 200 internal resources, which focuses on volume acquisitions (for example, pricing offers, ADSL);
- *the One Team channel*: a territorial network of about 35 partners and 850 agents (commercial staff), which focuses on volumes, and is directed towards the Consumer market supervised according to a list and door to door supervision;
- *the ET Expert Team channel*: a territorial network of 9 partners with approximately 400 agents and 1,400 Outbound operators which focuses on the development of the SOHO segment through offers with regard to pricing, ADSL and products, geared mainly to commercial businesses, small professional firms and SOHO;
- *the BP Business Partner channel*: a network of about 85 partners and 1,200 agents, which focuses on supervising SME (Small and Medium-size companies), the development of BroadBand, and the sale of products;
- *the VAR Value Added Reseller channel*: a territorial network with about 65 partners and 250 commercial staff which focuses on the development of VAS, the customized offering and complex networks;
- *the Public Telephone channel*: a network of about 40 partners focusing on National and International prepaid card services and associated traffic packages.

In addition to these partners, there is the pull channel, consisting of the retail network of shops, dealers, and organized and specialized large-scale distribution, amounting to a total of about 5,000 retail points of sale.

**Mobile Telecommunications**

At December 31, 2007, Telecom Italia's physical distribution network consisted of 4,463 points of sale belonging to 2,325 distribution partners and 32 shops owned by Telecom Italia.

The points of sale are geographically widespread and of many different types which we believe provide us with a significant competitive advantage in marketing our products throughout Italy and in all the market segments.

Our sales network consists of various types of points of sale, which reflect different approaches to the market. The shops called *Il Telefonino*, which consist of both direct and franchised outlets (5%), represent the corporate image and is specialized in the sale of high value services. The *Centri TIM-Alice*, which are specialized monobrand shops, offer products to the mass customer segment, targeting volumes and quality of distribution. Telecom Italia is also present in large multibrand shops.

v **NETWORK**

***Domestic Fixed Network***

**General.** Our domestic fixed network consists of 33 gateway areas (each gateway area has two interconnection points which enable information to be exchanged between the fixed and mobile networks) and 628 main local switches (only for fixed OLOs). Each local switch belongs to only one of the 33 gateway areas. The long-distance fixed network (Arianna SDH e Phoenix) includes 2,400 VC4. The fixed network also includes 75 2.5 Gbps point to point lambdas and 189 10 Gbps point to point lambdas. The fixed distribution network includes 106.8 million km of copper pairs.

**Table of Contents****Item 4. Information On The Telecom Italia Group****Business Units**

At December 31, 2007, the domestic fixed network consisted of the following:

Exchange areas	about 10,400
Switching areas	628 Urban Group Stages (SGU)
Gateway areas	33
Copper access network	106.8 million kilometers-pair
Fiber optic access network	440,000 kilometers-line
Fiber optic carrier network	3.34 million kilometers-line
Long Distance VC4 eq (total)	4,200
Long Distance VC4	2,400
Long Distance Lambda	75 2.5 Gbps, 189 10 Gbps
Network for direct digital circuits (PARD)	305,000 access points with speed up to 2 Mbit/sec.
Network for direct analog circuits (PARD)	84,000 access points
Frame Relay Accesses	85,179 gates at 2 Mbit/sec.
POP main data networks	32

**SDH and ATM.** We introduced Synchronous Digital Hierarchy ( **SDH** ) transmission technology into operation in the long distance fixed network in 1996 and such technology into operation for our local fixed network during 1997. These transmission systems are operating on fiber optics from 155 Mbit/sec. up to 10 Gbit/sec. Work on the development of the national network (Long distance) which, by use of the latest generation of SDH technologies and the optical DWDM technology (Dense Wavelength Division Multiplexing) constitutes the basis for the transport network with a high transmission capacity capable of covering the entire Italian territory, continued during 2007. In order to reduce the number of fibers used, DWDM systems have been used to multiply by a factor of 12 up to 40 the available optical fiber band and the current transmission capacity, thus increasing the transport capacity of the connections.

In November 2002, Telecom Italia introduced a new generation of Optical Digital Cross Connect ( **ODXC** ) on the domestic fixed transmission backbone in order to progress with the transition from a national network based on a SDH rings architecture, towards the new generation of meshed ASTN (Automatically Switched Transport Network) optical backbone. In 2007, Telecom Italia did not add any additional ODXC nodes. The evolution of the transport network towards a completely optical network will increase the operating capacity for all types of traffic, from voice to Internet.

The Asynchronous Transfer Mode ( **ATM** ) switching technology, introduced in 1996, allows the transfer of information combining data, video, voice and other services on public and private networks both at a national and international level. Telecom Italia's ATM/Frame Relay networks that work together as a multiservice network, using SDH transmission systems as a physical layer. The ATM Network allows for the provision of ATM native services with access rates ranking from 2Mbit/s up to 155 Mbit/s. It also acts as a backbone for both the Frame Relay Access network (with access rates ranking from 64 kbit/s up to 2 Mbit/s), and for the DSL (Digital Subscriber Line) Network, used for the provisioning of xDSL services (ADSL High-bit-rate Digital Subscriber Line or HDSL) and SDSL. The ATM/Frame Relay networks allow customers to access IP and MPLS services (Multi Protocol Label Switching) with access speeds of between 64 kbit/s to 155 Mbit/s.

**OPB (Optical Packet Backbone).** In 2007, we continued to implement the introduction in the network of Terarouter equipment, scheduled in some of the most important PoPs of the network. At the end of 2007 Terarouter nodes have been introduced in the four OPB PoPs: Centro Stella of Rome and Milan (Inner Core PoP) and OPB PoPs of Naples and Turin (Outer Core PoP).

The OPB network is used to transport:

- Internet traffic of residential, business and Wholesale customers;
- VPN traffic (Virtual Private Network) of business customers;
- voice traffic;
- video traffic related to IPTV services.

**Table of Contents****Item 4. Information On The Telecom Italia Group****Business Units**

**OPM (Optical Packet Metro).** An OPM was installed in 2007 in 30 metropolitan areas to collect flows to and from residential customers through DSLAM IP to supply the IPTV service. The OPB network is also used for backhauling UMTS through the GBE (Gigabit Ethernet) concession, a first generation ROF (Radio Over Fiber).

**Gigabit Ethernet Access.** Work continued on construction of the network to support the marketing of services based on Gigabit Ethernet technology (the Ethernity, Hyperway and Genius services on GBE optical access). 349 new GBE access points were installed, bringing the overall number to approximately 2,400 accesses. In 2007, coverage of services with GBE optical access was extended to the towns of Bolzano, Cagliari, Catanzaro, La Spezia, Livorno, Salerno e Varese. As a result, overall coverage increased from 26 to 33 towns in Italy.

**Network quality and productivity.** Following the completion of the porting of all the OSS systems on OPEN platforms in 2006, we completed in 2007 the integration of the supervision systems of the fixed and mobile networks and of the platforms for service creation. This allowed us to save 15% on activities previously performed by the separate systems.

**BroadBand/ADSL network.** Telecom Italia's BroadBand network can offer hi-tech telecommunications services and multimedia applications. This objective is being reached through the gradual installation of fiber optic cables. In 2007, the commercial services offering access to ADSL for residential customers, business customers and Internet Service Providers were extended to 6,074 towns (compared to 4,650 at the end of 2006). Commercial services for the business sector include using ADSL in urban areas to access the IP and ATM services supplied by data networks. Services for ISP include the supply of ATM accesses with ADSL access to the public, leaving the ISP to handle relations with the customer. At the end of 2007, 7,586 local switching areas were covered by ADSL technology, (compared to 5,630 at the end of 2006). The coverage for the BroadBand business service at the end of 2007 was 6,887 switchings.

**Fiber optic cables.** At December 31, 2007, approximately 3.8 million kilometers of fiber optic cables have been installed for access and transport, of which approximately 1.2 million kilometers are installed in the long-distance network. Fiber optic cables significantly increase network capacity and make it possible to offer hi-tech services based on the simultaneous transmission of various types of signal, such as voice, data and video. To make these services more widely available, Telecom Italia is evaluating the introduction of fiber optics to the access network.

**VoIP (Voice over IP) Services.** The complete digitalization of the network both the backbone and the metropolitan network is proceeding towards the distribution network (with ADSL), thus favoring the introduction of VoIP and other associated services. These services are already available to business customers and residential customers who sign up for ADSL. VoIP is regarded as an additional service, the value of which, for the customer, is expressed in having access to a greater number of lines, numbers and terminals. Furthermore, by exploiting extra functions, such as the presence and communities typical of always-on connection systems, it is possible to have additional revenues. At the same time, the value added perceived by customers contributes to the expansion of BroadBand and, consequently, increases the benefits resulting from complete digitalization.

**IPTV (Internet Protocol TV).** Quadruple play is regarded as having significant value since customers find themselves immersed in an environment that can be exploited on several levels and which is able to supply a vast range of services. IPTV is an important part of this evolution. Tests were conducted in 2004-2005 and, in 2006, the first commercial service was launched, involving 836 exchange areas and 258 towns. In 2007 the commercial service with access to IP TV technology has been expanded, covering 464



towns (1,019 exchange areas). IPTV is seen as one of the pieces in the overall framework which hopes to give each customer the chance to access information in any form, wherever they are, and using fixed or mobile infrastructures according to the situation.

**Flexible Data Networks.** An important part of the network consists of dedicated data lines which are centrally controlled from a single workstation. At the end of December 2007, there were approximately 305,000 PARD CDN (Data Network Access Points with Direct Digital Circuits) and approximately 84,000 PARD CDA (Direct Analog Circuits).

***Domestic Mobile Network***

The domestic mobile network consists of the 2G (second generation) network, which includes GSM equipment, and the 3G (third generation) network, for UMTS equipment offering hi-tech services (also video).

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**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business Units**

The Telecom Italia GSM/EDGE network consists of 14,018 radio base stations (compared to 13,865 at December 31, 2006, an increase of 1.1%) and 737,208 radio channels (an increase of 2.3% compared to 720,720 at the end of 2006). The network also includes 456 Base Station Controllers ( **BSC** ) (a decrease of 4 units compared to December 31, 2006).

Planning and implementation of the UMTS network continued, so that coverage was extended to all the regional capitals, in accordance with the obligations laid down in the 3G license, and many other areas of interest. The Telecom Italia UMTS network consists of 9,787 radio base stations (compared to 8,027 at December 31, 2006, an increase of 21.9%) and 1,188,544 radio channels (an increase of 52.6% compared to 778,976 at the end of 2006).

We continued the implementation of the network plan to distribute the High Speed Downlink Packet Access ( **HSDPA** ) phase 1 (3.6 Mbps in downlink) and at the same time to introduce the HSDPA phase 2 (7.2 Mbps in downlink) and the High Speed Uplink Packet Access ( **HSUPA** ) phase 1 (1.46 Mbps in uplink); these systems aim to increase the overall speed of the data transmission package offered by UMTS.

About 8,910 radio stations of the UMTS access network (the so-called node B), were updated in order to distribute the HSDPA phase 1; about 750 of these radio stations have been updated to distribute HSDPA phase 2 and about 750 for HSUPA.

Also operating on the network are 73 Radio Network Controllers ( **RNC** ) (plus 6 units as compared to the end of 2006).

The process of modernizing the GSM exchanges with older technologies has begun, so that new technologies can be adopted. These systems will have an architecture which is the same as those used on the UMTS network. These exchanges have layered or split technology, (both terms are used), in which the Monolithic Mobile Switching Center ( **MSC** ) is replaced by an exchange with two junctions:

- the MSC server controlling and supervising the MGW (Media GateWay) equipment;
- the MGW for traffic switching and media adjustment.

Furthermore, this innovation will make it possible to implement an integrated GSM/UMTS network, as far as this is possible, which, with time and the necessary measures in terms of size and operations, will eventually create a configuration where the switching exchange is shared by the GSM and UMTS access systems; the aim of which is to improve management of the service leading to a seamless provision of services.

We are also upgrading the packet data network to traffic requirements.

At December 31, 2007, the GSM network includes: 70 MSC exchanges, 10 transit exchanges and 9 gateways.

At December 31, 2007, the GSM/UMTS network includes: 33 MSC servers, 48 MGWs, 48 Home Location Registers ( **HLRs** ), 10 Gateway GPRS Support Nodes ( **GGSNs** ) and 34 Serving GPRS Support Nodes ( **SGSN** ).

### ***International Fixed Network***

Telecom Italia Sparkle manages international wholesale services (Voice, Data and IP) and retail services to multinational customers by means of an international network including:

- a fully integrated proprietary cross border backbone (inalienable right of use for 20 years), whose implementation started in 1997 and operates mainly in Europe and the United States;
- bilateral connections.

The coverage of the Mediterranean and of Central and South America is provided by the interconnection with MedNautilus and LANautilus backbones.

The international network connects over 400 operators all over the world and extends over approximately 434,500 Km on submarine systems which from the Mediterranean spread out along longitudinal traffic lines (towards the United States and the Middle and Far East) and transversal traffic lines (towards Central and Northern Europe).

**Table of Contents****Item 4. Information On The Telecom Italia Group****Business Units**

The cross-border backbone integrates 3 regional networks:

- Europe (**PEB**);
- Latin America (**LAN**);
- Mediterranean basin (**MED**).

In detail:

- **PEB (Pan European Backbone)**. Proprietary fiber optic network extending over the main European countries: Italy, France, the United Kingdom, The Netherlands, Belgium, Germany, Switzerland, Austria, Spain, the Czech Republic, Poland and Slovakia. The overall length of the entire backbone is 55,000 km.

The backbone is a multiservice integrated network (Voice, Data, IP) based on DWDM (Dense Wavelength Division Multiplexing) and SDH (Synchronous Digital Hierarchy) transport techniques and on the Softswitch and IP/MPLS (Internet Protocol/Multi Protocol Label Switching) switching techniques. With respect to switching technologies the network is equipped with softswitch class 4 and IP routers. The DWDM and SDH transmission technologies are based on 10 Gbit/s lambdas with traffic protection mechanisms of the MS SPRING (Multiplex Section Shared Protection Ring), SNCP (Sub Network Connection Protection), MSP (Multi Section Protection) type as well as of the meshed type.

- **LAN (Latin American Nautilus)**. A high-capacity backbone based on fiber optic ring networks, both land-based and submarine, with an overall length of 30,000 km, including the Miami-New York section. The ring, which has automatic optical traffic protection and a capacity of up to 320 Gbit/s, connects the main cities of South America to Central and North America.
- **MED (Mediterranean Nautilus)**. A submarine ring network, with a highly reliable configuration, a total length of 7,000 km and capacity up to 3.8 Tbit/s which connects the main markets of the Mediterranean area: Italy, Greece, Cyprus, Turkey and Israel. Currently, the main landing points are Catania, Athens, Chania-Crete, Haifa and Tel Aviv.

The end-to-end services supplied include telephone, IP and managed bandwidth services in Europe and in the U.S.A., and managed bandwidth and IP services in the Mediterranean and in South America. The platform for services to Multinational Corporate Clients ( **MNC** ) is integrated with the crossborder network.

In 2007 we continued our efforts to develop international Internet traffic through the expansion of the European backbone, of transatlantic links and of the USA network. In particular new PoPs were opened on the Telecom Italia Sparkle North America backbone in Atlanta, Dallas and Los Angeles. The Telecom Italia Sparkle Singapore subsidiary implemented a new PoP IP in Singapore, linked to the Palermo PoP and to Los Angeles through a new transpacific link and a fiber optics backhaul infrastructure connecting the PoP located at the landing points of the SEA-ME-WE3 and SEA-ME-WE4 submarine cables providing IP and Data

protected services.

Additional activities to support the development of the European BroadBand HanseNet and Telecom Italia S.A.S. companies were undertaken, including the expansion of:

- interconnection PoPs in Frankfurt and Paris, respectively;
- the capacity towards the local Internet exchange Points;
- peering with the main operators.

A new IP PoP has also been implemented in Hamburg to expand the HanseNet interconnection infrastructure.

In order to increase the connection capacity towards the Mediterranean basin countries and the Middle and Far East countries we implemented an upgrade of the Trapani Kelibia cable towards Tunisia, of the Mestre Umag cable connecting Italy to Croatia and of the SEA-ME-WE3 cable. We also expanded the connection capacity of the PoP located at the Sicilian landing points of the Pan-European cross-border backbone submarine cables (in particular SEA-ME-WE4, Med Nautilus, SEA-ME-WE3).

Action to complete the services portfolio for mobile operators included the introduction of functions for transport of signaling over IP (SIGTRAN access for Global Signaling), the SMS hub and Virtual Home Environment services, allowing mobile operators, customers of Telecom Italia Sparkle, to provide their customers with international

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business Units**

roaming advanced services available on the domestic network and SMS anti-fraud platform which provides mobile customers with functions for filtering fraudulent texts (spamming, spoofing, etc.), in keeping with the standards of the GSM Association.

In 2007, we also further developed the Next Generation Network platform in view of the full implementation of the IP Multimedia Subsystem ( **IMS** ) architecture, through the introduction on the network of:

- a new softswitch for VoIP (Voice over IP) traffic handling;
- the SBC (Session Border Controller).

The latter platform allows among else a better protection of the Telecom Italia Sparkle network from attacks or frauds, better performances in terms of interaction among the VoIP protocols used by the various interconnected operators and an effective end-to-end quality monitoring.

**4.2.2 EUROPEAN BROADBAND**

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

<b>GERMANY</b>	<b>FRANCE</b>	<b>THE NETHERLANDS</b>
Telecom Italia Deutschland Holding	Liberty Surf Group S.A.S. (1)	BBned N.V.
<ul style="list-style-type: none"> <li>• HanseNet Telekommunikation GmbH</li> </ul>	<ul style="list-style-type: none"> <li>• Intercall S.A.</li> <li>• Telecom Italia S.A.S.</li> </ul>	<ul style="list-style-type: none"> <li>• BBeyond B.V.</li> <li>• InterNLnet B.V.</li> </ul>

(1) The Group is in the process of selling its French BroadBand operations. For accounting purposes Liberty Surf group will be treated as a discontinued operation as of January 1, 2008.

v **KEY FACTORS**

**Germany**

The German market is Europe's largest in terms of the number of BroadBand lines and management believes it continues to have high growth potential. Technological evolution is also producing new development features as a result of the actions taken by the incumbent Deutsche Telekom with regard to the VDSL offering.

The BroadBand market is now concentrated in the hands of four or five principal operators and HanseNet is one of the main BroadBand operators in terms of the number of customers. During 2007, there was continuing consolidation among a few competitors, including our acquisition of AOL Germany.

In this context, HanseNet focused on consolidating its positive results and reinforcing its position on the market; its strategy is based on the following factors:

- increasing the coverage of the network both through proprietary network (891 sites in Unbundling at the end of 2007), and Telefónica and QSC partners (1,616 sites in Unbundling at the end of 2007);
- maximizing synergies with AOL: during the year 2007, the organizational integration of commercial channels (considered positive for Alice multichannel strategy) and newly joined portal Alice-AOL were completed. The up-selling of Alice rate plans began with the existing AOL customer base (BroadBand and NarrowBand), and the technical migration of AOL Customers to IT of Telecom Italia was concluded;
- innovative offerings: HanseNet was the first alternative German operator to offer a complete Quadruple Play proposition, integrating ADSL2+, Voice, IPTV and Mobile offering (namely MVNO - Mobile Virtual Network Operator). In this context, the main achievements in 2007 were the following:

launch of mobile offer, with a particular focus on promotions for traffic On-Net and unique billing;

## **Table of Contents**

### **Item 4. Information On The Telecom Italia Group**

### **Business Units**

improvement of IPTV service offer (more than 100 channels -basic and premium packages- available altogether, VOD with more than 1,200 titles in the catalogue) and coverage was extended to 150 towns (with more than 10 million houses covered);

upgrade and simplification of ADSL offer through unique connection speeds of 16 Mega;

launch of a new nationwide offering based on wholesale Deutsche Telekom in areas not covered by Unbundling;

promotion of a pricing strategy in order to maintain Alice's competitive positioning;

- care on service quality with particular reference to VoIP services;
- consolidation of Alice Brand and the increase in Brand Awareness supported by significant communication campaign; and
- developing Group synergies for the wholesale offering and for the Multi-National Customer.

### ***The Netherlands***

The Dutch market has gone through a period of consolidation within the sphere of the wholesale offering, due to KPN, the incumbent operator, acquiring numerous ISPs; there is also a significant offering of cable BroadBand services.

The incumbent KPN's announcement of a plan to develop the VDSL offering fits into this context. It led to the Dutch regulator (OPTA) reaching agreements with operators on technological change of the offering and how the consequent period of transition should be managed. This negotiation process led to the signing of a Memorandum of Understanding between BBned and KPN in July 2007. Further processes were followed to define the final agreement.

BBned's response has been to rationalize its offering on the market and develop new technological platforms. Efforts are concentrated also on action to reposition the company vis à vis the competition and development of a Consumer and Business retail offering.

In this context, in July 2007, the acquisition of InterNLnet operator was completed. InterNLnet is active in the retail residential segment, both through 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 customers, with the aim of maximizing synergies.



In August 2007, the Retail Alice ADSL Dual Play offering was launched in the Netherlands bringing Dutch customers connections with speeds of up to 20 Mega. At the end of 2007, there were 12,000 Alice customers. The operating priorities were the affirmation of the Alice Brand and Provisioning and Customer Care processes.

### **France**

During 2007, the French market was again highly competitive with a bundled offering with rich content at some of the lowest prices on the European market: about 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 offers for Ultra-BroadBand fiber services 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. This objective will be achieved by:

- increasing the coverage of the network, which, at the end of 2007, covered a total of 687 unbundling sites;
- focusing commercial activities on the LLU offering, partly by a repositioning of prices;
- developing the product range, with particular reference to triple play content. The main achievements in 2007 were the following:

the extension of international destinations included in the basic Voice Bundle package and Premium option for call to further mobile phones and international destinations;

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business Units**

the extension of available IPTV channels (both basic and premium options with more than 180 channels totally available) and the VOD offering (with more than 1,500 titles in catalog);

the launch of Alice Music service in partnership with EMI Music allowing unlimited and legal download of about 320,000 titles available in the catalog;

partnership with TF1 for management of the portal [www.aliceadsl.fr](http://www.aliceadsl.fr) (contents and trading of the advertising);

the Naked ADSL offering in areas not covered by Unbundling;

- care on service quality reinforced by the launching of 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;
- developing Group synergies for the wholesale offering and towards the Corporate Multinational customer.

The Group is actively seeking to sell its French BroadBand operations and its French subsidiary is treated as a discontinued operation as of January 1, 2008.

v **MARKETING AND DISTRIBUTIONS**

In Germany, The Netherlands and France the marketing of BroadBand offers, under the brand name Alice, was achieved through a multi-channel strategy. The mix of distribution allowed the Group to reach different customer segments adding to the general geographically targeted commercial initiatives in order to improve the acquisition process in the areas covered by unbundling.

Principal commercial channels used are:

- Call Centers;
- Internet;
- Retail;
- Commercial partner.

**4.2.3 BRAZIL MOBILE**

The Telecom Italia Group operates in the mobile telecommunications sector in Brazil through Tim Brasil Serviços e Participações S.A. ( **Tim Brasil** ) which offers mobile phone service using GSM and TDMA technology. The Tim Brasil group is composed of the following:

**BRAZIL MOBILE**

Tim Brasil Serviços e Participações S.A.

- Tim Participações S.A.

Tim Celular S.A.

Tim Nordeste S.A.

v **KEY FACTORS**

In 2007, the Brazilian market for mobile lines reported growth of 21.1% reaching a total of 121 million lines (63.5% penetration of the population) at the end of 2007, compared to 99.9 million at the end of 2006 (53.2% penetration). The Tim Brasil group consolidated its position as the second-largest operator with 31.3 million lines, an increase of 23% compared to the end of 2006, increasing its market share of lines to 25.8% compared to 25.4% at the end of 2006. At the end of 2007, the market share gap between the group and the largest operator was narrowed to 1.9 percentage points compared to 3.7 percentage points at the end of 2006. Approximately, 96.9% of the Tim Brasil customer base uses GSM technology.

**Table of Contents****Item 4. Information On The Telecom Italia Group****Business Units**

In 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;
- acquisition, in the first half of 2007, of a license to provide switched fixed services (STFC). This license was necessary for the commercial launch of the convergent offering TIM Casa Flex (in October 2007) which marks the entrance of Tim Brasil into the fixed line services market;
- developing the portfolio (TIM Web) of Advanced Services and data transmission (GPRS and EDGE) services, such as TIM Web for mobile internet access;
- launching and developing the offering Piano 1, a first in the Brazilian market, which offers recharges at low cost promoting mobile telephone services access;
- offering promotions intended to boost on net traffic and the community concept (7 centavos and zero rate plans);
- continuing to improve the level of customer service and reinforcing loyalty and retention policies in the high-consumption segments;
- renewal, in September 2007, of some authorizations to use radio-frequencies on the 800 Mhz, 900 Mhz, and 1800 Mhz for 15 years. For this renewal, Tim Brasil will pay a tax equal to 2% of services revenues achieved during the previous year;
- award, in September 2007, of 14 additional frequencies on the 900/1800 Mhz band. These additional frequencies consolidate the coverage capacity and the quality of the domestic GSM services;
- award, in December 2007, of a 3G license in Brazil (reais 1.3 billion with a medium premium equal to 95% compared to auction price basis).

v **MARKETING AND DISTRIBUTION**

In 2007, the Tim Brasil group's services were marketed through the country's largest distribution network, consisting of about 8,700 points of sale dedicated to retail customers. In terms of composition, 9% of these points of sale are proprietary shops or franchised shops and 27% are owned by exclusive dealers. The remaining 64% are multi-brand points of sale of organized large-scale distribution, a channel which focuses on providing an adequate level of representation throughout the territory covered by the company's mobile services. Furthermore, with regard to the consumer channel, the company relied on more than 254,000 points of sale to provide top-up services of which 41% were virtual channels.

With regard to the business segment, in 2007, the company had more than 150 direct exclusive sales outlets for large companies (Key Account Managers) and a network of more than 586 partner agencies (TIM Business Promoters) dedicated to small and medium-size companies.

#### 4.2.4 MEDIA

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

- the **Television** Business Area produces and broadcasts editorial content through the use of analog and digital broadcasting networks. The Business Area manages satellite channels and pay-per-view services using the Digital Terrestrial Television ( **DTT** ). In particular, in 2007, the Group based its Business Model on the following activities:

*Free to Air*, through the activities of the two analog broadcasting network operators La7 and MTV;

*Multimedia*, having the role of Competence Center of the Telecom Italia Group in the creation of the content offering for the IPTV, DVBH and Rosso Alice platforms and through the development of content and channels for the satellite and interactive platforms (Web and Mobile);

*Digital Terrestrial TV*, through the strengthening of the Soccer Pay Per View business model, with the offering of new content and the leasing of digital bandwidth;

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business Units**

- the **News** Business Area operates through Telecom Media 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 on a 24 hour basis as well as analyses, special reports from its offices in Rome and Milan and from abroad (Brussels, New York and Moscow).

As of December 31, 2007, the Business Unit was organized as follows:

TELEVISION	MEDIA	NEWS
Telecom Italia Media S.p.A.		Telecom Media News S.p.A.

- Telecom Italia Media Broadcasting S.r.l.

- MTV Italia S.r.l.

MTV Pubblicità S.r.l.

v **KEY FACTORS**

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

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

**4.2.5 OLIVETTI**

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

As of December 31, 2007, the Olivetti Business Unit was organized as follows (the main companies are indicated):

Olivetti S.p.A.

**OLIVETTI**

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

**4.2.6 OTHER TELECOM ITALIA GROUP OPERATIONS**

The Other Operations of the Telecom Italia Group include its financial companies and the foreign operations which are not included in other Business Units (Entel Bolivia, Sofora and ETECSA) and other minor companies not associated with the core business of the Telecom Italia Group.

v **ENTEL BOLIVIA GROUP**

Telecom Italia International holds, indirectly, a 50% stake in Entel Bolivia, the Bolivian telephony operator which was acquired in 1995.

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**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business Units**

The Entel Bolivia group operates in the fixed (particularly long-distance national and international telephone segments), mobile, Internet and data transmission sectors in Bolivia.

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

At December 31, 2007, there were 79,229 fixed lines, an increase of 6.5% compared to December 31, 2006. Such improvement is mainly attributable (in excess of 50%) to the Aquí Entel public telephone points.

Internet and Data activities were supported during 2007 by special promotions regarding both rates and special conditions for activating new BroadBand ADSL lines. At December 31, 2007, there were 14,098 BroadBand customers, an increase of approximately 68% compared to December 31, 2006 (approximately 8,400).

At December 31, 2007, there were 1,756,000 mobile customers, an increase of approximately 21% compared to December 31, 2006 (1,443,000).

These results were achieved, in a competitive market, mainly owing to several promotions which essentially allow the user to double the traffic capacity for the same amount recharged. In December 2007, a further commercial initiative was successfully launched, aimed to promote prepaid cards for the GSM service.

\* \* \*

On March 29, 2007, the Bolivian government, in pursuing its policy of nationalizing some privately-owned businesses, issued legislation to set up a ministerial commission to start, conduct and conclude negotiations, within 30 days, with the aim of recovering Entel S.A. ( **Entel** ) into the hands of the Bolivian government (the company was acquired in 1995, with a payment of U.S.\$610 million, by the Telecom Italia Group through the Dutch vehicle company ETI, owned entirely by Telecom Italia International). The above-mentioned measure alleges that Entel and ETI committed a number of serious managerial and tax irregularities. Telecom Italia participated in the meetings with the commission with the sole aim of hearing the government's position with regard to the recovering of Entel 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 abrogating all the laws on the basis of which the previous government had acknowledged that Entel 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 approved at the end of 2005) would be punishable by law; furthermore, annulling a number of previous administrative measures, particularly the one passed in 1995, which had launched the Entel 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 DC, 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 in 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 is expected to be appointed in 2008.

On May 1, 2008, the Bolivian government, through Supreme Decree, decided to nationalize the Entel Bolivia shares held by the Telecom Italia Group. According to the Decree, the price of the nationalized shares will be determined within 60 days deducting all recorded and contingent liabilities of Entel S.A.. The Telecom Italia Group will protect its investment and will claim its rights in the arbitration proceeding.

\* \* \*

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 approximately 42 million. The rulings of the courts of the first instance before the *Superintendencia Tributaria* confirmed the position taken by the Tax Authorities. Entel Bolivia has filed an appeal before the *Corte Suprema de Justicia*. On April 18, 2008, Entel Bolivia was served an order of payment against which an appeal was promptly filed with the competent court. The filing, in accordance with applicable law, suspends the order of payment enforcement.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business Units**

Another tax dispute is pending for the alleged failure to apply indirect taxes on a large part of the sales in 2002. The alleged taxes evaded, together with additional charges and interests, are estimated at approximately 22 million. The appeal is pending before the *Corte Suprema de Justicia*, after three adverse decisions rendered by the *Superintendencia Tributaria*.

For both the disputes, 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 provision for risks.

v **TELECOM ARGENTINA GROUP**

Telecom Italia and Telecom Italia International through Sofora/Nortel Inversora hold a 13.97% stake in the Telecom Argentina group.

Telecom Argentina group operates in the sectors of wireline and mobile telephony, Internet and data transmission in Argentina and also offers mobile telephone services in Paraguay.

At December 31, 2007, there were approximately 4,208,000 fixed lines in service (also including installed public telephones), an increase of 3% compared to December 31, 2006 (4,095,000).

Telecom Argentina's BroadBand business grew significantly during 2007 and reached a total of approximately 768,000 customers, an increase of 71% compared to December 31, 2006 (448,000).

In the mobile business, the customer base of the group reached approximately 12,285,000 (approximately 13% of which is in Paraguay), an increase of 28% compared to December 31, 2006 (9,589,000). The number of postpaid customers increased by 24% compared to December 31, 2006 and represents 31% of the total customer base (in line with the figure at the end of 2006). Customers who use GSM services were over 96% of the total customer base.

v **ETECSA**

Through Telecom Italia International we hold a 27% interest in ETECSA, the monopoly provider of fixed line and mobile telecommunications services, Internet and data transmission in Cuba.

Old Telecom Italia obtained an initial stake of 12.25% in ETECSA in 1995, when, prior to its privatization by the Italian government, Old Telecom Italia acquired, for approximately U.S.\$291 million, a 25% stake in a Mexican telecommunications company which owned 49% of ETECSA. In February 1997, Old Telecom Italia converted its indirect stake in ETECSA into a direct investment and

increased its interest to 29.29%. The acquisition price for such further 17.04% stake in ETECSA was U.S.\$291.6 million. In connection with the merger of the local mobile operators into ETECSA to form an integrated provider of telecommunications services we participated in a series of capital increases proportionate to our share ownership.

These capital increases occurred during 2003 and through 2004; during this period we invested an additional U.S.\$41.3 million in ETECSA through capitalization of dividends paid by ETECSA and, following these capital increases and the mergers, we now own 27%. The other shareholders in the company include the Cuban government which controls 51% of the company and four other Cuban shareholders.

In addition to our shareholding in ETECSA Telecom Italia International is a party to a shareholders agreement pursuant to which it has the right to designate certain senior executive officers and a majority of the board of directors of ETECSA on alternate years.

In addition to these governance arrangements, we entered into agreements to provide certain technical assistance to ETECSA with respect to its fixed line and wireless services.

In return for these services we receive annual fees of 385,000 (for fixed line technical assistance) and 950,000 (for mobile technical assistance) under each agreement respectively and certain other fees for specific services provided equal to 1,585,000. The level of the fees earned over the last two years is set forth in Note Related Party Transactions of the Notes to our 2007 Consolidated Financial Statements included elsewhere herein. The technical agreement with respect to fixed line services, renewed at the beginning of 2007, will expire at the end of 2009 and the technical agreement with respect to wireless services will expire at the end of 2009.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business Units**

As we own only 27% of ETECSA we account for its results under the equity method. For further details see Note Other Non-Current Assets of the Notes to our 2007 Consolidated Financial Statements included elsewhere herein.

The number of fixed lines (also including installed public telephones) was approximately 1,052,800 at December 31, 2007, an increase of 8% compared to December 31, 2006. Of the total lines installed, 50,400 are invoiced in U.S.\$ and the others, connected to the social development of Cuban telecommunications, in pesos.

In 2007, the number of Internet and data customers increased and reached approximately 23,500 accesses as of December 31, 2007 (compared to 20,000 at the end of 2006).

In the mobile business, at December 31, 2007, the customer base had reached 198,200, an increase of 30% compared to December 31, 2006 (152,700 units). The increase is mainly concentrated on the prepaid customers, which represents almost 90% of the total. In 2007, the migration of customers from TDMA towards GSM technology continued and the latter is now used by 91% of the total customer base (compared to 81% at the end of 2006).

We do not believe that our arrangements with, and investments in, Cuba are material to the results of operations or financial condition of the Telecom Italia Group, taken as a whole.

\* \* \*

Since 2002, Banco Nacional de Comercio Exterior ( **Bancomext** ) has accused ETECSA and Telcel (majority shareholder of ETECSA, controlled by the Cuban government) of non-performance of alleged payment and guarantee obligations amounting to U.S.\$300 million established in a series of contracts between ETECSA, Telcel, BanCuba (Central Bank of Cuba), Intesa Sanpaolo and Bancomext.

These accusations were the subject of (i) an action brought by Bancomext in Italy before the Turin court to obtain a precautionary sequestration and (ii) an international arbitration proceeding.

On February 14, 2008 BanCuba, Banco Central de Cuba and Bancomext signed a Memorandum of Understanding in which are fixed the basis for the resolution of the litigation, as well as the agreement about debt restructuring.

In March 2008, Bancomext and BanCuba executed agreements by which they have agreed to resolve their respective claims. Consequently, Bancomext and ETECSA are settling all pending legal proceedings and filing petitions for the closure of such proceedings before all the relevant Courts.

#### 4.2.7 COMPETITION

Our domestic fixed and mobile telecommunications operations, as well as our broadband services businesses are subject to strict regulatory requirements in Italy and our international operations and investments are subject to similarly stringent regulation in host countries. In particular, as a member of the European Union ( **EU** ), Italy has adapted its telecommunications regulatory framework to the legislative and regulatory framework established by the EU for the regulation of the European telecommunications market. The EU Commission approved a new electronic communications framework in March 2002, which has been effective in Italy since September 2003.

##### ***Fixed-line domestic telecommunications services market***

Following the full liberalization of the Italian domestic market for telecommunications services, we have faced increasingly significant competition since 1998 from more and more competitors.

In 2007, competition in the Italian domestic market continued to be characterized by innovative offerings through the introduction of bundled voice/broadband (double play) and bundled voice/broadband/IPTV (triple play) offers.

The market was also characterized by migration from a primarily reseller approach (Carrier Selection/Carrier Pre Selection for voice and Wholesale for ADSL) to an infrastructure-based approach (Shared Access but especially LLU).

## Table of Contents

### Item 4. Information On The Telecom Italia Group

### Business Units

During the year the first entry of fixed-mobile convergence emerged as an additional competitive model (the launch of Mobile Virtual Operator **MVO** by fixed operators and the acquisition of Tele2 by Vodafone).

In 2007, competition in the Italian domestic market was dominated by five operators (other than Telecom Italia) with differentiated business models focusing on different market segments:

- Fastweb (a national player focused on broadband services and value-added triple Play offers), acquired by Swisscom;
- BT Italia (focused on business customers and ICT offers: voice, IT and data solutions);
- Wind-Infostrada (an integrated fixed/mobile/Internet operator focused on retail customers with medium/low-cost double Play offers);
- Tiscali (a narrowband and broadband internet operator, developing medium/low-cost double Play/VoIP offers);
- Tele2 (voice services, dial up Internet and broadband, focused on retail customers with low-cost double Play/VoIP offers), purchased by Vodafone.

Telecom Italia's market share of Italian retail traffic (retail voice only and on-line traffic), on December 31, 2007, stood at 71.1%, against 71.9% on December 31, 2006 and 72.3% on December 31, 2005. Our most significant competitors in this segment are: Tele2 and Wind; BT Italia and Fastweb are focused on specific market segments (business customers for BT Italia and high-spending customers for Fastweb).

For some time now, the Italian fixed voice market has been a target for cannibalization: this is explained, on the one hand, by the development of mobile operators, which can attract voice traffic due to the advantage of mobility and the huge range of value added services and high performance terminals; and on the other by the growing popularity of alternative communication solutions (text messaging, e-mail, chat).

In 2007, the broadband market continued to grow at the same rate as in 2006 and was subject to increased competitive pressure. Broadband has become more than just a facilitator of Internet access; its market penetration is driven by a growing demand for speed and access to new Voice Over IP services (such as VoIP, Content, Social Networking Services, On Line Gaming, LAN Point, IP Centrex).

In the top customer markets and the data transmission market competition remained high and adversely impacted average prices.

We believe that our combination of service, performance, quality, reliability and price is an important factor in maintaining our strong competitive position in this market. Telecom Italia will continue to seek out new business opportunities in high-growth sectors (e.g. ICT and Pay TV), delivered via innovative technologies and platforms.

***Domestic mobile telecommunications services market***

In 2007 the mobile telephony market in Italy experienced its first ever contraction, primarily due to regulatory interventions (the reduction of fixed-mobile termination costs, the reduction of international roaming tariffs and the scrapping of mobile top-up charges under the Bersani Decree). Net of these measures the market grew by 4-5% due mainly to the ongoing increase in the number of lines, the migration of traffic from fixed to mobile and the strong growth in VAS and mobile browsing supported by technological developments (UMTS, HSDPA).

At December 31, 2007, the number of cellular phone lines reached 90.2 million with a penetration rate of the population of around 153%. Telecom Italia confirmed its continued market leadership with a market share of 40.3%, while other operators reported market shares of 32.9% (Vodafone), 17.3% (Wind) and 9.1% (H3G).

In terms of net additional GSM and UMTS lines, in 2007 Telecom Italia had a market share of 40%, representing an increase of 3.9 million lines, compared with 3.5 million for Vodafone, 0.9 million for Wind and 1.1 million for H3G.

In 2007, Mobile Virtual Network Operators ( **MVNOs** ) gained access to the domestic mobile market due to commercial agreements signed with other mobile network operators (e.g. COOP/Telecom Italia, Poste Italiane/Vodafone; Carrefour/Vodafone). The mobile virtual operators have positioned themselves in the low band of pre-paid mobile rates of the traditional operators.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business Units**

Competition for mobile telecommunications services remained strong in 2007 and Telecom Italia responded with:

- innovative offers and offers targeting specific market segments to defend its leadership position;
- a strategy focused on volume and value;
- solutions for leveraging the benefits from fixed and mobile integration, limiting price wars between fixed and mobile telephony;
- a focus on handset leadership (8.8 million handsets sold in 2007) and successful Tim 3G strategy: 3.9 million 3G handsets sold in 2007;
- solid positioning in the small and medium enterprise segment;
- focus on customer care and quality of service.

We believe that the continuous improvement of the quality of our services, the strengthening of our sales network and the development of innovative and convergent services are important factors in maintaining our position in a complex regulatory and competitive market such as Italy s.

***The European broadband market***

*Germany*

Germany is the top broadband market in Europe in terms of size, with 19 million broadband connections, equal to approximately 50% penetration of total fixed lines, and it continues to demonstrate significant prospects for growth (Compound Average Growth Rate CAGR 2007-2010 +10%) .

It is characterized by:

- five main competitors with room for further mergers and acquisitions following the recent consolidation process;



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- an increase in alternative operators LLU coverage and VDSL/Fibre Optic network projects;
- increasing penetration of dual and triple play offers and fixed-mobile convergent offers, partly as a consequence of the commercial campaigns of O2 and Vodafone;
- in the first quarter of 2007 the main operators launched more aggressive policies on pricing, which is still above the European average.

HanseNet's strong performance in 2007 was mainly due to:

- an increase in the ADSL customer base to 2.349 million users of which 1.083 million acquired from AOL (approximately 929,000 broadband customers in 2006);
- the extension of LLU network coverage to 60% of families in Germany at the end of 2007 (the sites covered by the proprietary network total 891, while those covered through its partners QSC and Telefónica amount to 1,616);
- the completion of the operational integration with AOL with the maximization of synergies: an organization that combines the resources and expertise of HanseNet with those of AOL; the migration of AOL customers to HanseNet systems; the integration of commercial channels; and the up-selling of the AOL customer base to offerings made under the Alice brand. In 2007, cost savings due to synergies with AOL exceeded 25 million;
- the launch of a commercial partnership with the Time Warner Group, which created a dedicated portal under the joint Alice-AOL brand;
- innovation of the offering: HanseNet was the first alternative operator in the German market to launch a complete Quadruple Play offer, integrating ADSL2+, Voice, IPTV and mobile offers (as a Mobile Virtual Operator).

Following the acquisition of AOL Germany, HanseNet became the third largest broadband operator in Germany with an ADSL market share of around 13%. The other main ADSL operators are: T-Online with a 46% market share, United Internet with 14%, Arcor with 13% and Freenet with 7%.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business Units**

*The Netherlands*

The Dutch market has undergone an important process of consolidation driven by KPN's acquisition of numerous ISPs; there is also a significant offering of broadband services via cable.

The incumbent KPN's announcement of a plan to develop the VDSL offering fits this context. It led to the Dutch regulator ( **OPTA** ) reaching agreements with operators on technological change of the offering and how the consequent period of transition should be managed. This negotiation process led to the signing of a Memorandum of Understanding between BBned and KPN in July 2007.

It was in this context that in 2007 BBned embarked on a process of competitive repositioning and developed a targeted retail Consumer and Business offering, including through optical fiber services. During the third quarter of 2007 the acquisition of InterNLnet was finalized, an operator active in the residential retail sector, where it provides ADSL and fibre offerings. On August 16, 2007 the ADSL Dual Play at 20 Mega was launched under the Alice brand.

*France*

In 2007, the French market for broadband services expanded to around 15 million lines, equal to approximately 49% penetration of the total number of fixed lines, and it is continuing to grow at a rapid pace. The principle characteristics of this market are:

- intense competition, focused on product innovation (the launch of ADSL2+, the leading market in terms of penetration of VoIP and IPTV services in Europe);
- the stabilization of the average price for the triple play offerings (at around 30 per month for all operators);
- the launch of offerings for Ultra-BroadBand fibre services by part of the Iliad group and development of similar projects by France Telecom and Neuf Cegetel.

In 2007, Telecom Italia France's performance was marked by:

- the consolidation of its market position with an increase in its ADSL customer base, which reached 901,000 BroadBand lines at the end of 2007 (+16% compared with 2006);
- an ADSL market share equal to approximately 6% at the end of 2007. The other main competitors are: France Telecom with 49%, Neuf Cegetel with 22%, and Iliad with 20%;

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- the ongoing development of its product range, and in particular triple play content:

the extension of available IPTV channels (also through its partnership with Canal+) and of the Video on Demand offering;

the renovation of the Alice portal and creation of a partnership with TF1 for the introduction of new content and the management of advertising on the portal;

the enhancement of the voice offering by increasing international destinations included in the Basic Voice Bundle and the launch of new premium options towards additional international destinations and mobile numbers;

- focus on commercial activities on the LLU offering;
- the launch of the Alice pour Vous campaign which contractually formalized our commitment to excellence in the quality of the service offered, with mechanisms for cash reimbursements to customers in the event the commitments made are not met;
- the expansion of the LLU network, which at the end of 2007 extended coverage of the unbundling service to 687 Ready for Service sites.

The Group is actively seeking to sell its French BroadBand operations and its French subsidiary is treated as a discontinued operation as of January 1, 2008.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Business Units**

***The Brazilian market for mobile telecommunications services***

In 2007 the growth of the Brazilian market was driven by mobile telephone and broadband services.

The fixed telephony market (voice and broadband), which continues to account for approximately 57% of the telecommunications business and generates around reais 50 billion in profits, represents an opportunity for competitors of the fixed telephone operators.

The market for mobile telephone services continued to expand and in 2007 the number of mobile lines was triple that of fixed lines (121 million), with 64% penetration of the population. This compared favourably with 99.9 million lines in 2006 and a 53.2% penetration rate.

The Brazilian market for mobile telephony is highly competitive, with the presence of both domestic and international operators; the leading operators are Vivo, with a market share of 28%, Tim Brasil with 26%, Claro with 25% and OI with 13%.

During 2007 the company began to consolidate its market position with:

- its entry into the fixed and broadband markets (the acquisition of a national license in July 2007 and of broadband frequencies in December 2007);
- the launch of new business models for managing low-income customers (low ARPU).

On December 31, 2007 Tim Brasil had 31.3 million lines, with the best post-pay mix: 22% (6.8 million lines) compared with the 19% average of competitors, and during the year the company recorded higher ARPU than the market average, positive net profit and positive cash flow.

**Table of Contents****Item 4. Information On The Telecom Italia Group****Regulation****4.3 REGULATION****The E.U. Regulatory framework**

Italy is a member of the EU and, as such, is required to implement the directives issued by the EU.

The European Commission began opening the telecommunications market to competition with the adoption of directives in the late 1980s and early 1990s which opened to competition telecommunication services, other than fixed public voice telephony services, opening the market for value added services. Subsequent directives liberalized the market for satellite services, alternative infrastructure and mobile services and infrastructure. These liberalization measures culminated with the opening of competition in 1998 of public voice telephony and public network infrastructure.

**4.3.1 TELECOMMUNICATION REGULATORY FRAMEWORK IN ITALY**

The legal basis for the electronic communications sector is as follows:

- Law 36 of February 22, 2001 regarding protection from exposure to electric, magnetic and electromagnetic fields and Prime Ministerial Decree of July 8, 2003, which established Exposure limits, attention values and quality goals to protect the population against electric, magnetic and electromagnetic fields generated at frequencies between 100 kHz and 300 GHz ;
- the Electronic Communications Code (ECC), Legislative Decree 259 of August 1, 2003, which incorporated into national law the EU directives of the 99 Review with regard to electronic communications networks and services (the EU directives on Access , Authorization , Framework and Universal Service );
- the Consolidation Act on Radio-Television (Legislative Decree 177 of July 31, 2005) which contains the principles for convergence between radio-television and other sectors of interpersonal communications;
- Legislative Decree 262 of October 3, 2006, which contains Urgent measures with regard to tax and financial matters and which, with reference to the ECC, partially altered the law on sanctions by introducing further examples of administrative offenses, a generalized increase in the fines for each sanction and the elimination of the institution of the partial cash settlements of fines;
- Decree Law 7 of January 31, 2007, (converted into law, with modifications, by Article 1 of Law 40, dated April 2, 2007) containing Urgent measures for the protection of consumers, promotion of competition, development of economic activities, creation of new companies, exploitation of technical and professional training and the demolition of vehicles which, for the electronic communications sector, abolished top-up charges and prohibited the expiry of phone traffic on

prepaid phone cards.

Furthermore, the ECC confirmed the responsibilities attributed under previous legislation to the Ministry of Communications and AGCom:

- the Ministry is responsible for State functions and services in respect of postal services, telecommunications, multimedia networks, informatics, telematics, radio and television broadcasts and innovative technologies applied to the communications sector;
- AGCom, established by Law 249 of July 31, 1997, is an independent regulatory authority and guarantor. It must report on its operations to Parliament, which established its powers, defined its bylaws and elected its members. AGCom has the dual responsibility of ensuring that there is fair competition among the operators on the market and protecting consumers.

### ***Operators with significant market power***

In the regulatory regime in force since 1998 telecommunications operators operating fixed-line or mobile networks, or offering fixed public voice telephony services, leased lines or international circuits, were subject to special obligations with respect to interconnection and accounting policies if they had Significant Market Power ( **SMP** ). An operator was presumed to have Significant Market Power if its share of the relevant market was greater than 25%, although the AGCom might determine that an operator having a market share greater than 25% did not have Significant Market Power, in view of the operator's ability to influence market conditions and its access to financial resources, or that an operator with a market share lower than 25% had such power.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Regulation**

With the introduction of the new European Framework in August 2003, criteria for the identification of Significant Market Power changed and were brought in line with the concept of dominant operator used in competition law. In addition, 18 separate markets were identified and AGCom was asked to carry out a separate Market Analysis in each such market, in order to identify operators with significant market power. The markets identified were divided into retail markets (markets from 1 to 7: access, national and international phone services and leased lines), wholesale markets (markets from 8 to 14: collection, termination and transit, unbundled access, broadband and wholesale circuits), mobile markets (markets from 15 to 17: collection, termination and international roaming) and the television broadcasting services market (market 18).

On November 13, 2007, the European Commission published its new Recommendation on Relevant Markets, reducing from 18 to 7 the number of markets that, according to the European Commission, should be susceptible of ex-ante regulation.

In 2008, therefore, it is expected that AGCom will review its regulatory framework in accordance with the European Commission's indications.

The major developments in 2007 regarding markets in the electronic communications sector are described below.

• ***Retail markets***

In 2007 the general regulatory framework was confirmed for all the fixed retail markets through the price cap mechanism and price controls.

In particular, the retail fixed regulated markets were as follows:

- markets for access to the public telephone network provided at a fixed location fees and subscriptions of RTG and ISDN lines for residential customers and businesses;
- the local, domestic and fixed-mobile services markets retention component only for residential and non-residential customers;
- markets for publicly available international telephone services, for residential and non-residential customers, provided at a fixed location;
- leased lines market.

With respect to the access markets AGCom made it obligatory for Telecom Italia to provide the Wholesale Line Rental ( **WLR** ) service only in areas where unbundled access services are not requested by OLOs, with a price which is calculated by means of the RPI-X pricing method (equal to the retail subscription charges less 12%). Since the end of 2007, when marketing of the WLR service began, Telecom Italia has been authorized to offer bundled traffic-access rate plans.

In 2007 Telecom Italia launched two price cap initiatives for the retail supply of Direct Circuits (CDA and CDN with speeds of up to 2 Mbit/s).

Last year AGCom also concluded its market analysis of dial-up retail Internet traffic (an additional market not included in the European Recommendation): this market was deemed competitive (Resolution 606/07/CONS). As a consequence AGCom revoked all the obligations related to this market.

- **Wholesale markets**

**Markets 13 and 14 (Dedicated transmission services Terminating and Trunk Circuits, Interconnection Flows and Internal Exchange Connections)**

Terminating circuits are analogue or digital circuits, between a Network Termination Point ( **NTP** ) and a Point of Delivery at a National or Regional Telecom Italia node. The NTP and the node must be both located in the same area and is referred to as a BTR.

Trunk circuits are circuits between two Points of Delivery at a National Telecom Italia node belonging to BTRs in different areas.



**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Regulation**

The 2008 RO for Terminating and Trunk Circuits Interconnection Flows and Internal Exchange Connections was published by Telecom Italia on October 30, 2007. AGCom is currently assessing the offer.

**Market 12 (Bitstream services)**

On May 29, 2007, AGCom published a definitive Ruling on wholesale broadband access services (bitstream services).

The Resolution, in addition to what was communicated to Telecom Italia in February 2006, contained further regulatory measures which significantly altered the Italian regulatory landscape in respect of wholesale offers of bitstream access.

The main changes introduced include:

- the communication of retail offers to AGCom with 30 days prior notice;
- the determination of offer prices that take into account costs and other drivers such as efficiency costs and benchmarks;
- a minus ratio for the naked bitstream equal to 20% to be applied to the consumer access price.

On June 13, 2007, Telecom Italia published its 2007 RO for bitstream services, proposing a technical solution to make its own Multicast solution available to OLOs.

The Offer was approved by AGCom after it also approved the technical and economic conditions, respectively, valid in 2007.

On January 11, 2008, Telecom Italia republished its definitive RO for 2007.

**Market 11 (Wholesale unbundled access services to metallic loops and sub-loops)**

On March 21, 2007 Telecom Italia republished its 2006 RO relating to Market 11 in which, amongst other things, AGCom revised the economic terms relating to the 2006 RO published on March 3, 2006.

On September 5, 2007 Telecom Italia published its revised RO for the years 2006 and 2007 in accordance with the provisions of Resolution 107/07/CIR, communicated to Telecom Italia on August 6, 2007.

On October 31, 2007, Telecom Italia published its 2008 RO. It should be noted that the period of application of the network cap mechanism for the calculation of prices, set out in the same Resolution, ended in 2007.

Regarding access services (unbundled access services, bitstream and WLR), the Technical Panel, which comprises representatives of market operators and of Telecom Italia, is now working to define the technical procedures necessary for the activation of new accounts and the migration of customers between the Operators defined by AGCom in Resolution 274/07/CONS published in the *Gazzetta Ufficiale* (Official Journal) dated June 26, 2007.

Following a public consultation on the regulatory aspects of how the access network is structured, in December 2007 AGCom opened the procedure for the review and eventual adoption of regulatory measures aimed at promoting conditions of effective competition in the access markets to the fixed network.

In this framework, access markets include the following i) the wholesale unbundled access market (including shared access) to networks and sub-networks, for the provision of broadband and voice services (Market 11); ii) the wholesale broadband access market (Market 12); and iii) the retail access markets to the public telephone network provided from a fixed location for residential and non-residential customers (Markets 1 and 2).

#### **Markets 8, 9 and 10 (Collection, Termination and Transit services for calls on the fixed public telephony market)**

On October 30, 2006 Telecom Italia published its 2007 RO regarding Markets 8, 9 and 10.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Regulation**

As mentioned earlier in respect of Market 11, on September 5, 2007, Telecom Italia published its revised 2007 RO, and published the 2008 RO on October 31, 2007.

Telecom Italia lodged an appeal against Resolution 107/07/CIR, highlighting in particular the seriousness of the fact that AGCom had maintained the rate of 0.81 cents per call for the billing service (equal to less than 1/3 of its cost), envisaging additional expense for Telecom Italia for the management of credit related to Non-Geographical Numbers of OLOs.

In respect of the price of termination on the networks of other fixed OLOs, AGCom set a maximum price equal to 1.54 euro cents/min, valid until June 30, 2007 and a price equal to 1.32 euro cents/min, valid from July 1, 2007 to June 30, 2008, with an annual reduction that will bring the price to 0.55 euro cents/min by 2011.

At the same time, several notified operators requested AGCom to authorize a termination price over the maximum level, whenever the requested termination price was justified by costs.

AGCom ruled on a request for a derogation from fixed termination costs for OLOs that made such a request. Up to June 30, 2007 Fastweb was given a rate of 2.60 eurocents, while BT Italia and Tiscali were given rates of 2.28 eurocents and 2.24 eurocents, respectively.

AGCom also ruled that beginning on July 1, 2007 the accounting model for efficient alternative operators should be applied, which envisages a reduction in termination rates for all operators with a view to achieving symmetry with the termination rate of Telecom Italia by the year 2010.

The measures relative to the accounting model and reduction of the tariffs were notified in January to the European Commission and were submitted to public consultation.

In particular, AGCom established: a) the achievement by the year 2010 of symmetry between all the termination tariffs of fixed network operators, therefore including Telecom Italia, at a rate of 0.57 euro cents per minute; b) a gradual drop from 2007 to 2010 of the termination tariffs of alternative operators, based on procedures that take account of infrastructure levels; and c) that operators who have not requested a derogation from the general regime (Wind) also be allowed to apply different and higher tariffs with respect to those originally fixed in Resolution 417/06.

A public consultation on this matter, initiated in Resolution 26/08/Cons, is currently underway.

- ***Mobile markets***

AGCom did not introduce any additional obligations in the mobile market for international roaming services; moreover, it defined the maximum termination prices on the networks of the mobile operators TIM, Vodafone and Wind with a target price in 2008 of 0.089 euro/minute for TIM and Vodafone and of 0.095 euro/minute for Wind.

As regards H3G, in confirming the operator's obligations at the end of 2007, AGCom imposed for the first time the maximum termination price for H3G (originally 18.76 euro cents/minute), in the amount of 16.26 euro cents/minute beginning on March 1, 2008 and ordered the same operator, again for the first time, to prepare a system of regulatory accounting in line with the accounting obligations of the other mobile operators.

The revision of the obligations as set out above will be based on the outcome of a proceeding commenced by AGCom, which concerns the termination of all four notified mobile operators in Market 16.

AGCom also launched a market analysis, which is continuing, of access and call collection in public mobile telephone networks (Market 15).

In September 2006, AGCom identified on a provisional basis and as an emergency measure, the following mobile network operators as having significant market power in the same market: Telecom Italia, Vodafone, Wind and H3G.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Regulation**

The Resolution was not, however, confirmed by the AGCom within the specified time limit (February 28, 2007) by the Market 15 bis analysis (concerning the origination of mobile calls towards all non-geographical numbers); AGCom withdrew the draft resolution after the European Commission expressed a series of strong misgivings regarding the proposal.

The Market 15 bis analysis can now be considered part of the Market 15 analysis.

**International roaming**

Regulation (EC) 717/2007 on international roaming approved by the European Parliament and the Council on June 7, 2007, introduced the Euro-tariff , a maximum charge for calls made and received abroad, establishing in particular:

- an average wholesale price cap for outgoing calls;
- a price cap for maximum retail prices for outgoing and incoming calls ( **Euro-tariff** ).

Mobile telephone operators made the Euro-tariff available to all their customers on July 30, 2007.

For customers whose rate plan did not already include roaming and who immediately requested it, the Euro-tariff was applied beginning on August 30, 2007.

For customers who did not request its application and whose rate plan did not already include roaming, the Euro-tariff was applied beginning on September 30, 2007.

All customers whose rate plan included roaming were able to request immediate application of the Euro-tariff.

With specific reference to the application of EU law:

- the European Commission deemed that the measures taken by Telecom Italia complied with the new regulation on prices and declared as much;

- Telecom Italia was deemed to have also complied with the obligation to notify customers of the relevant information.

The Regulation is valid for three years, during which time the Commission together with the national regulatory authorities will ensure it is properly enforced.

The Commission will review the Regulation after 18 months to establish whether it is necessary to prolong its effects or intervene again in respect of the tariffs for text messaging and the transmission of data in the roaming market.

#### ***Fixed-mobile integration services***

On August 2, 2007, AGCom adopted a regulatory framework for all fixed-mobile integrated services. In particular, AGCom established that:

- 1) it is currently impossible to identify a new market for integrated services, although there is a need to monitor competitive dynamics and clarify, through market analysis, if these services can effectively represent a new market, distinct from the existing ones;
- 2) at present time this solution enables unnecessary procedures to be avoided and guarantees the possibility of assessing retail issues underpinning the rules of interconnection and the interoperability of Vodafone casa and Unico services in the context of market analyses now underway (Markets 15 and 16).

#### ***Pre-paid residual credit for mobile customers***

In August 2007, AGCom ordered all mobile operators (including virtual ones) to comply, within 45 days of being notified, with the obligation to restore and/or transfer all residual credit to customers with pre-paid SIM cards who wished to terminate their contract or requested number portability.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Regulation**

Telecom Italia filed an objection to this Resolution with the Lazio Regional Administrative Court, despite having opened a procedure for restoring credit to customers in the event of termination of contract or a request of portability of mobile numbers. In Judgment 1775/08 the Court established the incongruity of the deadline for implementing the obligations of operators, with special reference to the transfer of residual credit, and declared null the relevant part of the Resolution.

***Specific measures reserved to special customer categories***

In October 2007, AGCom issued a series of measures offering favorable economic conditions to specific customer categories for the provision of accessible telephone services to the public.

AGCom confirmed the exemption from the fixed-line rental subscription for deaf residential subscribers and residential subscribers whose family unit comprises a deaf person.

The cost of financing these subsidies falls within the set of Universal Service obligations.

AGCom also introduced other concessions, which do not fall within the Universal Service provisions:

- 1) mobile operators should make available to deaf users an offer comprising the sending of at least 50 free text messages per day and in which *the price of each service available to these users does not exceed the best price for the same service applied by the operator to all its users, including for special promotions* ;
- 2) operators that provide access to the Internet from a fixed location should grant at least 90 hours of free Internet navigation per month to blind users and to users whose family unit comprises a blind person.

***Measures on the transparency of telephone bills, selective call blocking and user safeguards***

In 2007, AGCom introduced new rules for the protection of users, in particular:

- two new free services for blocking outgoing calls to several groups of risky numbers (a permanent disconnection service and a self-administered disconnection service using a PIN);
- a second ad hoc bill, provided on request, for debits relating to calls towards numbers offering premium rate services;

- information on the economic conditions linked to services customers sign up for and on specific administrative aspects governed by contractual conditions (procedures for the suspension of a line in the event of delayed payment, the management of claims, settlement etc.);
- a free service, available on request, which alerts customers if they exceed a pre-determined expenditure threshold.

The Resolution, which took effect in December 2007, was challenged by Telecom Italia before the Lazio Regional Administrative Court, which, in a staying order dated December 13, 2007, ordered AGCom to set new deadlines for the implementation of the measures. To date AGCom has yet to set the new deadlines. Discussion of the merits of the appeal is pending.

***Measures protecting consumers in respect of the provision of electronic communications services through remote contracts***

AGCom has adopted rules on the introduction of Verbal Ordering (the oral decision of the customer to enter into a service contract): in order to comply with the obligations to provide information and ensure informed consent, a complete recording of the relevant conversation is envisaged.

***Universal Service***

The Universal Service is a minimum set of services of a certain quality, which must be made available to all customers, regardless of their geographical location and, taking account of specific national conditions, offered at a reasonable price. To date Telecom Italia is the only operator charged with the obligation of providing the Universal Service throughout Italy. The AGCom permits only Telecom Italia to utilize all available means to fulfill its obligation efficiently with regard to cost.



**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Regulation**

The net cost of providing the Universal Service is calculated as the difference between the Company's net cost when it is subject to the obligations of providing the Universal Service and the net cost of the same operation if the obligation did not exist. It is the AGCom's responsibility to verify the net cost.

A fund set up by the Ministry of Communications is used to finance the net cost. Companies in the sector contribute to it, including Telecom Italia.

If, at any time, the AGCom determines that the net cost of the Universal Service constitutes an unfair burden for Telecom Italia, it sets off a mechanism to share the costs, which involves payments to the fund by companies in the telecommunications sector.

With reference to the funding of the net cost for the year 2003, AGCom issued Resolution 28/07/CIR through which it approved the applicability of a mechanism for sharing the net cost. In particular, the net cost to be financed was set at 41 million, with total compensation to be paid to the Telecom Italia fixed network of approximately 29 million, of which about 12 million to be borne by the ex-Tim, and the rest by Vodafone, Wind and Telecom Italia Sparkle.

The above-mentioned procedure will be concluded when AGCom issues a separate order for the revision of the method used to calculate the net cost and following public consultation with regard to the quantification of the cost of the universal service sustained by Telecom Italia in 2003.

In its Resolution on public consultation and in Resolution 28/07/CIR, AGCom expressed its intention to apply retroactively a new method of calculation, and to introduce it to check the net cost for 2004 (and then for the subsequent years), quantified by Telecom Italia based on the method of calculation in force at the time of presentation (March 31, 2005). Telecom Italia has lodged an appeal with the Lazio Regional Administrative Court, to prevent it having to comply with the part of the Resolution regarding AGCom's intention to apply the non-specified new methodology retroactively.

With respect to the other financial years, AGCom has launched an inquiry into the financing of the net costs for the universal service provided in the years 2004 and 2005, as presented by Telecom Italia on March 31, 2005 and March 30, 2006, respectively.

To date, AGCom has not yet informed Telecom Italia of the start of the review for those years.

Finally, in compliance with the time limits laid down in the Electronic Communications Code, on March 29, 2007, Telecom Italia sent AGCom its evaluation of the net cost of providing the universal service for the year 2006.

Regarding the administration of the financing fund, in December 2007, the Treasury Ministry approved the payment to Telecom Italia of part (approximately 11 million) of the sums paid by the operators in the form of contributions to the net cost for the years 1999-2002; any further payment has not been finalized.

In Resolution 142/07/CSP, AGCom included in the quality criteria of Universal Service response times by customer assistance services for users of Telecom Italia's fixed network. The Resolution, to be applied immediately and fixing the minimum quality standards for the year 2007, was communicated to Telecom Italia on August 9, 2007. The Company lodged an appeal with the Lazio Regional Administrative Court, which it notified on November 5, 2007. To date the Court has not discussed the appeal.

***Accounting separation and fixed network cost accounting***

Operators having SMP are required to have an accounting system showing their costs in a transparent manner. Upon request, such operators must provide the AGCom with a description of their cost accounting system to verify compliance with the provisions of the electronic telecommunications regulatory framework. Moreover, operators of fixed public networks and mobile networks and providers of fixed public voice telephony services, mobile telecommunications services and leased line services with significant market power must keep a separate accounting system distinguishing between the activities related to the building and operation of public telecommunications network, the activities related to the provision of telecommunication services, the interconnection offering and the universal service provision.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Regulation**

In 2006 AGCom appointed Mazars & Guerard to check Telecom Italia's accounting separation for the years 2002, 2003 and 2004, establishing that the audit should begin with 2004, and then be extended first to 2003 and then to 2002.

In August 2007, AGCom published a report in which it was concluded that overall the 2004 Regulatory Accounts were drawn up in accordance with the criteria set out in Resolution 152/02/CONS and the applicable sector rules.

Accordingly, the last certified Regulatory Accounts of Telecom Italia are those of 2004.

The rules on Regulatory Accounting have been updated according to Recommendation 2005/698/EC on Cost accounting and Accounting Separation, under the regulatory framework for electronic communications in order to comply with the new sector regulation, organized by relevant markets.

In the last quarter of 2007, Telecom Italia formalized the fixed network Regulatory Accounts documentation for 2005.

***Accounting separation and mobile network cost accounting***

In compliance with the applicable obligations, the results of the Regulatory Accounts audit conducted on the historical costs for 2005 were notified, aimed at providing evidence of the costs underlying mobile termination services.

Together with the four mobile operators, AGCom established a technical working panel to define the methodological guidelines for the implementation of a Long Run Incremental Costs model.

In the context of the newly launched procedure market for the termination of voice calls on individual mobile networks (Market 16 among those identified by European Commission Recommendation 200/311/EC) economic and quantitative data were provided for the setting of new Network Cap values.

The activities by the auditing firm Mazars & Guerard, appointed by AGCom (see Resolution 217/04/CONS, later amended due to material errors by Resolution 324/04/CONS), to check the Regulatory Accounts at historical costs for the years up to 2004 and at current costs for the financial year 2002, was concluded in compliance with the national regulatory framework.

***AGCom fee for 2007***

In Resolution 696/06/CONS AGCom established how operators should pay their fee for 2007 and the amounts to be paid.

More specifically, for the year 2007, the fee fixed by Article 1.66 of Law 266 of December 23, 2005, equal to 1.5 per thousand owed to AGCom by companies operating in the communications sector is calculated based on the revenues recorded in the last financial statements approved prior to the adoption of Resolution 696/06/CONS.

### ***Legislation on competition***

Telecom Italia is obliged to observe Italian competition law.

Law 287 of October 10, 1990 ( Provisions for protecting competition and the market ) created Italy s *Autorità Garante della Concorrenza e del Mercato*, or Antitrust Authority, which is an independent body.

The Antitrust Authority is responsible for:

- applying Law 287 of 1990 and supervising the following matters: a) restrictive agreements; b) abuses of a dominant position; and c) concentrations of enterprises;
- applying, whenever the necessary conditions exist, the corresponding Community law (Articles 81 and 82 of the EC Treaty);

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Regulation**

- applying the standards of Legislative Decree 206 of 2005 with regard to misleading advertising and comparative advertising;
- monitoring conflicts of interest in the case of people holding government posts.

It is important to note that the Bersani package , as it is commonly called, attributed additional powers to the Antitrust Authority.

Article 14 of Decree Law 223/06, entitled Supplementary powers for the Antitrust Authority , converted into law by Law 248/06, established that the Authority may impose the adoption of precautionary measures and declare obligatory the commitments made and presented by businesses, in order to eliminate any anti-competitive practices, simultaneously ending the proceedings with the finding of a non-violation.

**4.3.2 TELECOMMUNICATION REGULATORY FRAMEWORK IN BRAZIL**

The activities of the Telecom Italia Group in Brazil are subject to the General Law on Telecommunications (*Ley General de Telecomunicações* LGT) of 1997 and the regulatory framework for the supply of telecommunications services promulgated by the Brazilian regulatory authority, *Agência Nacional de Telecomunicações* ( **ANATEL** ).

Authorizations for supplying telecommunications services are granted either in the public sphere (through a concession or permit) or in the private sphere (through an authorization).

At the present time, only a few fixed-network operators operate in the public sphere. All the other telecommunications services operate in the private sphere, including operators of mobile networks.

Telco s acquisition of its stake in Telecom Italia required the approval of ANATEL due to Telefónica being the largest shareholder in Telco and TIM Brazil s principal competitor in Brazil. For a description of the arrangements which have been put into place, please see Item 7. Major Shareholders And Related-Party Transactions. Item 7.1.1 The Shareholders Agreements .

***Authorizations***

- **Mobile and long-distance telephone services**

When the Telebras system was privatized, concessions for the analog mobile telephone system were granted according to the SMC (*Serviço Móvel Celular* Brazilian Law 9295 of July 19, 1996), which involved the granting of concessions, accompanied by a list of obligations, for geographical areas.

Later, ANATEL introduced the standards which allowed SMC concessions to be converted into authorizations, as laid down in the new Personal Communications Services ( **PCS** ).

The companies of the Telecom Italia Group operating in Brazil acquired SMC concessions between 1997 and 1998 (later converted into PCS authorizations in 2002) and PCS authorizations in 2001 as a result of bids. The authorizations for mobile telephony give the companies of the Telecom Italia Group (which operate under the brand name Tim Brasil) coverage of the entire Brazilian territory and include the possibility of offering long-distance calls.

- **Local fixed telephone services**

In May 2007, Tim Celular, a company of the Telecom Italia Group, obtained the licenses to operate local fixed telephone networks throughout Brazil; this will also enable the Tim Brasil group to operate in the fixed telephone services market.

In October 2007, Tim Brasil launched a new convergent service based on a mobile telephone also equipped with a landline number; this number will be active only in the area of coverage where customers reside. Through targeted commercial offers, Tim Brasil can accordingly compete with fixed network operators in the local telephony market.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Regulation**

***Rules on interconnection***

Telecommunication operators must publish a public offering of interconnection economic conditions and are subject to the General Interconnection Regulatory Framework promulgated by ANATEL in 2005.

The amounts charged for interconnection are freely negotiated among the operators concerned. However, to prevent damage to competition, ANATEL may fix the amounts if the operators do not succeed in reaching an agreement.

The maximum charged for fixed network interconnection by operators with significant market power (SMP) is regulated by a retail minus mechanism (40% of the retail price of the basic rate, taking into account the hour the call is made); non-SMP operators can apply rates up to 20% higher than the regulated tariffs. Local interconnection services between fixed network operators apply the partial bill & keep rule (55/45). It is expected that cost-oriented termination rates based on LRIC will be introduced in the future.

Interconnection agreements must be approved by ANATEL before they can be applied.

***Significant Market Power (SMP) and instruments for cost orientation***

In 2005 ANATEL published a specific regulation regarding operators with significant market power and issued the regulation on Accounting Separation and Cost Accounting, introducing the obligation to present the Accounting Separation and Allocation Document to: i) the Concessionaries and ii) the groups holding significant market power, in the provision of interconnection services for fixed and or/mobile network services and for wholesale leased circuits (EILD).

The groups with significant market power and the deadlines for presenting the Document are defined in specific resolutions issued by ANATEL; in particular, all mobile operators are considered to have SMP in the interconnection service in their own area.

Cost-oriented mobile termination tariffs are likely to be introduced from 2010 onwards.

***The main regulatory developments in 2007***

- **Number portability**

In March 2007 ANATEL approved the new regulation on the portability of fixed, mobile and non-geographical numbers, and established an implementation plan for the companies involved.

Portability, for which customers may be charged, will be marketed in the largest towns from December 2008. It will then be extended to the whole of Brazil by March 2009.

- **Cost-orientation instruments**

Between July and September 2007 a public consultation was held on the methodology used to calculate the Weighted Average Cost of Capital (WACC) for the regulatory purposes of telecommunications businesses. The findings are expected to be announced in the first half of 2008.

Mobile network operators, including TIM Brasil, are obliged to present the Accounting Separation and Allocation Document for the first time in 2008.

- **Frequencies**

As a result of the assignments of frequencies in 2007, there are now at least four mobile operators active in each area of Brazil.

- **Assignment of frequencies for second generation services**

In September 2007 the bid for the assignment of new frequency lots in the 900 MHz, 1800 MHz and 1900 MHz bands were held. Tim Brasil was awarded several frequency lots in various areas, which will enable it to expand its range of services nationwide.



**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Regulation**

• **Assignment of frequencies for third generation services**

In December 2007, the tender was held for the assignment of frequencies for 3G services in the 2 GHz band. Tim Brasil was awarded a frequency lot in every state of Brazil except for a portion of the state of Minas Gerais.

The licenses are valid for 15 years and may be renewed for another 15 years. An important feature of the tender rules is the link between the assignment of licenses in key areas (São Paulo and its metropolitan environs) and the obligation to provide the service in less commercially attractive areas (the Amazon regions of the North and Northeast).

Within two years of the authorizations, 3G coverage must be provided to the capitals and cities with over 500,000 inhabitants. Coverage must be extended to all towns with over 200,000 inhabitants within four years. Within five years, 50% of towns with a population of between 30,000 and 100,000 inhabitants and 100% of those with a population outside of this band will have coverage. Within eight years the 3G services will be extended to 60% of the towns with less than 30,000 inhabitants (approximately 2,740 towns).

For the provision of the service to minor towns, operators may develop solutions based on network-sharing mechanisms.

Finally, within two years of authorization, 2G coverage must be provided in towns with less than 30,000 inhabitants that are not yet covered by the mobile service (approximately 1,800).

**4.3.3 TELECOMMUNICATION REGULATORY FRAMEWORKS IN FRANCE, GERMANY AND THE NETHERLANDS**

Telecom Italia operates in the European retail market, where it markets broadband products under the Alice brand: in France, in Germany and since August 2007 in The Netherlands.

The regulatory framework in these three countries is the result of the national transposition of the European Framework as set out in the European Directives described above.

The respective regulatory frameworks are therefore comparable to the Italian one, with responsibility being shared between the relevant Ministry and an independent Authority (Arcep in France, BNetzA in Germany, Opta in the Netherlands). Here too, individual operators with significant market power (and attendant obligations) have been identified as a result of an analysis of the significant markets in those countries. In the retail markets, the three companies mentioned above were not notified as having significant market power in their respective countries.

**4.3.4 TELEVISION REGULATORY FRAMEWORK IN ITALY**

*Regulatory reforms in the broadcasting industry and the EU infringement procedure in respect of the Gasparri Law*

Since the recent Italian Parliament failed to adopt pending legislation on Broadcasting intended to address an EU infringement action in the television Broadcasting area, Italy remains in violation of the European regulatory framework according to such EU infringement procedure.

Therefore the options for the recently elected new Administration will be either:

- to amend the Consolidated Law on Broadcasting allowing all corporations to bid in order to set up a digital network; or
- to radically change the current reform policy for the Broadcasting industry.

Moreover, the recent decision of the Italian Council of State which reflects the ruling of the European Court of Justice in the Europa 7 case, could also have important consequences for the Italian broadcasting industry. In that case, the European Court of Justice ruled that the refusal by the Italian government to release bandwidth to Europa 7 in order to start its operations according to the government license issued in 1999, constituted a breach of Community Law. However, at this late stage the assignment of bandwidth to Europa 7 will have distorting effects on the market, insofar as the new broadcaster would be provided access to a capital asset (bandwidth) that other competitors would have to acquire through a bidding process.

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**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Regulation**

*Bandwidth*

AGCom Resolution 53/08/CONS sets forth the Bandwidth assignment plan for digital television broadcasting in the Region of Sardinia, in anticipation of the switch-off , in light of the conclusions of the technical round-table, set up pursuant to Resolution 603/07/CONS, that brought together all the parties involved in network digitalization in Sardinia.

The aforesaid plan defines the criteria for the transition of Digital Terrestrial in Italy s first all-digital region, and in particular: (i) confirms that operators will be allowed to use single-frequency networks for digital broadcasting, (ii) identifies the criteria underlying the international negotiations underway with neighboring countries and (iii) establishes the rules for converting already existing networks and related broadcasting rights.

Under the AGCom plan, Telecom Italian Media is assigned 4 networks, including at least 2 covering 80% of the national territory and all provincial capitals. The plan leads to greater coverage of the four networks operated by Telecom Italia Media and asset stabilization.

Telecom Italia Media s goals are:

- quick conclusion of the single frequency planning to avoid negative effects of the Geneva agreements since only Rai and Mediaset are using frequencies protected from international interferences (coordinated frequencies);
- release of bandwidth to new operators, for consideration;
- the assignment of four digital Multiplex ( MUX ) to Telecom Italia Media, with coverage at least equal to that of the networks currently in operation;
- not worsening of beneficial relationships with other network operators, especially RAI and Mediaset.

The Ministry and AGCom have undertaken to assign the bandwidth temporarily, pending the conclusion of international talks so as to allow for switch-off in Sardinia by the end of October 2008.

*Television advertising*

AGCom has amended the rules on television advertising (at present suspended, pending a legal challenge by Mediaset), in a final effort to avoid an infringement procedure being opened by the EU Commission focusing on the incomplete transposition of the TV

Without Frontiers Directive into Italian legislation.

The shortcomings raised by the Commissions include: (i) failure to assimilate self-promotion and advertising, and non-compliance with thresholds; (ii) minimum duration of teleshopping windows 15 minutes and inclusion of teleshopping spots 3 minutes as part of advertising time; (iii) ineffectiveness of the Italian enforcement system. The new rules resolve the first two issues.

The Italian government filed its reply by the required deadline (February 11, 2008), pointing to the promulgation of the aforesaid resolutions which substantially address and resolve community concerns.

The issue most relevant to Telecom Italia Media involves the enforcement framework which currently imposes fines calculated without any regard to the benefits reaped through the underlying regulatory misconduct. AGCom bears a lot of the responsibility for the current situation, since under the statutory framework, the regulator was bound to ensure that sanctions are determined in light of the size of the offending corporation, a factor that has been totally ignored so far.

#### *Market 18*

On November 23, 2007 AGCom passed Resolution No. 544/07/CONS Market of radio and television broadcasting services for the broadcasting of content to end users (market No. 18 on the list of markets identified in the recommendation on significant markets, contained in European Commission Directive No. 2003/311/CE): market identification and analysis, assessment of the presence of operators with significant market power . The Resolution identifies RAI and Mediaset as dominant operators in a position of joint dominance on the analog broadcasting market.

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**Table of Contents****Item 4. Information On The Telecom Italia Group****Regulation**

The remedies under consideration include co-location of transmitters on analogue sites. It is in Telecom Italia Media's interest to extend these remedies to digital where single bandwidth networks may be used by extending the same bandwidth over several broadcasting plant. The results of the consultation are to be announced in 2008.

*Disposal of 40% of digital MUX broadcasting capacity*

Following the publication of the rules governing the tender procedure for selecting parties to be assigned 40% of the broadcasting capacity of Digital Terrestrial networks subject to disposal, by resolution 645/07/CONS, AGCom established the rules for the submission of bids and the terms and conditions applicable to national and local broadcasters lacking coverage and suppliers of independent content, intending to participate in the tender.

RAI, Mediaset and Telecom Italia Media are the parties bound to dispose of 40% of their broadcasting capacity. Whilst raising no objection to the obligation to dispose of 40% of its broadcasting capacity, Telecom Italia Media, however, challenges its subjection to the same terms and conditions applicable to RAI and Mediaset, resulting in the deprivation of its right to freely negotiate the disposal of the said percentage. Telecom Italia Media has brought legal action on this issue.

The bids are currently awaiting AGCom approval. The time periods contemplated for the tender procedure shall be deemed to run from the date of publication of the said lists, following AGCom approval. The tender is not expected to be completed before the end of June 2008.

Amongst other things, the rules allow for Telecom Italia Media Group's analogue channels to be hosted in the regions with Digital, on the MUX of RAI and Mediaset, at arm's length terms, to make up for any shortfalls in analog coverage (coverage of less than 80% of Italian territory and all the provincial capitals).

This possibility represents an opportunity for the Telecom Italia Media Group to ensure that La7 and MTV enjoy the same coverage as RAI and Mediaset channels.

*European content*

The 2008 Budget Law (Legislative Decree No. 1817) contains a revision of the rules in favor of independent Italian procedures, as part of regulations aimed at promoting European content. In particular, whilst the percentages of broadcast-time and investment that each national broadcaster must devote to European content, are confirmed, the rules introduce subquotas and investment commitments in favor of Italian films produced in the past five years. Pursuant to the Thousand Extensions ( Milleproroghe ) Decree the Group's broadcasters may avail of the option to apply for an exemption from these obligations, open to all broadcasters that generated no profits or that acquired a market share of less than 1%, in terms of revenues from advertising sales, teleshopping, sponsorships, agreements and contracts with public and private entities, public subsidies and pay-TV offerings, or that operate theme-specific channels, taking due account of actual market availability of the content in question.

*Governmental subsidies*

The government has not yet announced its decision regarding the formula for determining the penalties to be imposed on the companies Mediaset, Telecom Italia Media and Fastweb which indirectly benefited from subsidies for the purchase of decoders in years 2004 and 2005.

**Table of Contents**

Item 4. Information On The Telecom Italia Group

Glossary Of Selected Telecommunications Terms

**4.4 GLOSSARY OF SELECTED TELECOMMUNICATIONS TERMS**

The following explanations are not intended as technical definitions, but to assist the general reader to understand certain terms as used in this Annual Report.

**2G (second-generation Mobile System):** Second-generation protocols using digital encoding and including GSM, D-AMPS (TDMA) and CDMA. 2G networks are in current use all over Europe and other parts of the world. These protocols support high bit rate voice and limited data communications. 2G networks technology offer auxiliary services such as data, fax and SMS. Most 2G protocols offer different levels of encryption.

**3G (third-generation Mobile System):** Third-generation wireless service, designed to provide high data speeds, always-on data access, and greater voice capacity.

**3G networks technology:** Permits the transfer of both voice data services (telephony, messaging) and non-voice data (such as downloading Internet information, exchanging email, and instant messaging). The high data speeds, measured in Mbps, are significantly higher than 2G and 3G networks technology enable full motion video, high-speed internet access and video-conferencing. 3G technology standards include UMTS, based on WCDMA technology (quite often the two terms are used interchangeably) and CDMA2000.

**Access charge:** Amount charged per minute by national operators for the use of their network by operators of other networks. Also known as an interconnection charge .

**ADSL (Asymmetric Digital Subscriber Line):** A modem technology which converts existing twisted-pair telephone lines into access paths for multimedia and high-speed data communications. ADSL can transmit up to 6 Mbps to a subscriber, and up to as 832 Kbps or more in both directions. Such rates expand existing access capacity by a factor of 50 or more without new cabling.

**Analog:** A transmission which is not digital, e.g., the representation of voice, video or other not in digital form.

**Analog network:** A network using analog technology with circuit switching, capable of connecting one user with all the others, but with limited transmission capacity.

**ASTN (Automatically Switched Transport Network):** Emerging architectural standard for switched intelligent optical network for the management of the automatic signaling and routing of connection, auto-discovery and meshed optical network protection.

**ATM (Asynchronous Transfer Mode):** A BroadBand switching technology that permits the use of one network for different kinds of information (e.g., voice, data and video).

**Backbone:** A primary shared communication path that serves multiple networks and may facilitate communications between different protocols.

**Backhauling:** Infrastructure network connecting sites that host the equipment for user access (xDSL or other systems, also Wireless / Mobile). It can be realized in various ways depending on the band, topology and distance.

**BroadBand and BroadBand services:** Services characterized by a transmission speed of 2 Mbit/s or more. According to international standards, these services are divided into two categories: (i) Interactive services, including videotelephone/videoconferencing (both point-to-point and multipoint); videomonitoring; interconnection of local networks; file transfer; CAD; high-speed fax; e-mail for moving images or mixed documents; BroadBand videotext; Video on demand; retrieval of sound programs or fixed and moving images; and (ii) Broadcast services, such as sound programs, television programs (including high-definition TV and pay TV) and selective document acquisition.

**Broadcast:** Simultaneous transmission of information to all nodes and terminal equipment of a network.

**BSC (Base Station Controller):** Interface with the MSC switching exchange. Has the task of supervising and controlling radio resources, both during the phase when a call is being set up and during the maintenance phase.



**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Glossary Of Selected Telecommunications Terms**

**BSS (Business Support System):** The system used by network operators to manage business operations such as billing, sales management, customer-service management and customer databases. A type of Operations Support System (OSS).

**BTS (Base Transceiver Station):** Radio base station which sends the GSM radio signal via the antenna to cover an area (cell) and coordinates one or more radio transceivers (TRX).

**BWA (BroadBand Wireless Access):** Technology aimed at providing wireless access to data networks, with high data rates and providing data transmission up to a theoretical limit of 52 Mbit/s downstream and 12 Mbit/s upstream over a single twisted pair of wires. VDSL is capable of supporting high bandwidth applications such as HDTV. From the point of view of connectivity, BroadBand wireless access is equivalent to BroadBand wired access, such as ADSL or cable modems. One particular BroadBand wireless access technology is being standardized by IEEE 802.16 also known as WiMAX.

**Carrier:** Traditionally, the carrier is the company that makes available the physical lines.

**CATV (Cable television):** Cable or fiber-based distribution of TV programs.

**CDMA (Code Division Multiple Access):** A digital wireless technology used in radio communication for transmission between a mobile phone and a radio base station. CDMA was developed by Qualcomm, and commercially introduced in 1995. It enables the simultaneous transmission and reception of several messages, each of which has a coded identity to distinguish it from the other messages.

**Cell:** Geographical portion of the territory illuminated by a BTS: 900MHz / 1800MHz.

**Cellular:** A technique used in mobile radio technology to use the same spectrum of frequencies in one network multiple times. Low power radio transmitters are used to cover a cell (i.e., a limited area) so that the frequencies in use can be reused without interference for other parts of the network.

**Channel:** The portion of a communications system that connects a source to one or more destinations. Also called circuit, line, link or path.

**Client server:** Software programme that is used to contact and obtain data from a Server software programme on another computer. Each Client programme is designed to work with one or more specific kinds of Server programmes, and each Server requires a specific kind of Client. This configuration model is opposed to a Peer-to-Peer configuration, where the contact is performed on the same level.

**Closed User Group:** A group of telecommunications users that share a longstanding economic interest. This definition has arisen in a regulatory context; it permits the partial liberalization of some telecommunications services.

**Coaxial cable:** A type of electrical cable in which a central conductor covered by an insulator is then surrounded with a cylindrical conducting sheath whose axis coincides with that of the central conductor, hence the term "coaxial".

**Corporate Network:** A network, which can be a virtual private network, provided by a corporation for its own use and possibly for that of other corporations. The network's features are tailor-made to address the specific needs of the client. It is separate from the network provided by the national telecommunications carrier, but it may be connected to the latter for the use of selected facilities.

**CPS (Carrier Pre-selection):** Permits a customer to pre-select another operator as an alternative to Telecom Italia without dialing an identifying code.

**CVP (Permanent Virtual Channel):** Transparent high-capacity flow of data between the customer premises and the network of the incoming Operator that Telecom Italia is obliged to provide to the licensed operators in all cases where the same Telecom Italia, through its commercial divisions, subsidiaries, parents, or related subsidiaries, intends to provide services to customers using technology xDSL access systems.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Glossary Of Selected Telecommunications Terms**

**D-AMPS (Digital-Advanced Mobile Phone Service):** It is a digital version of AMPS (Advanced Mobile Phone Service), the original analog standard for cellular telephone service in the United States.

**Data Network Access Point:** Unit of measurement used in the data network business.

**DCS 1800 (Digital Communication System):** A derivative of the GSM cellular mobile telephone standard. 1800 refers to the frequency used of 1800 MHz. DCS 1800 is the European PCN standard.

**Digital:** A mode of representing a physical variable such as speech using digits 0 and 1 only. The digits are transmitted in binary form as a series of pulses. Digital networks are rapidly replacing the older analog ones. They allow for higher capacity and higher flexibility through the use of computer-related technology for the transmission and manipulation of telephone calls. Digital systems offer lower noise interference and can incorporate encryption as a protection from external interference.

**Digital Terrestrial TV:** Digital Terrestrial Television Broadcasting is a new type of broadcasting technology that provides a more effective way of broadcasting television services using a digital system instead of the existing analogue system.

**District traffic:** Long distance telephone calls within the same area code.

**DNC (Direct Numerical Circuit/Control):** Dedicated digital line allowing point-to-point, or point-to-multipoint connections through digital technology. It can be used for example for a web server connection to the Internet.

**DSL Network (Digital Subscriber Line Network):** A network built on existing telephone lines with DSL technology devices which use sophisticated modulation schemes to pack data onto copper wires for connections from a telephone switching station to a home or office.

**DSLAM IP (Digital Subscriber Line Access Multiplexer):** Multiple access line (Telephone/Internal lines) allowing a high-speed connection to an internet backbone line using multiplexing techniques. In the DSLAM IP communication channel is based on IP protocol (Internet protocol).

**DVB-H (Digital Video Broadcasting-Handheld):** DVB H technology combines digital video with the Internet Protocol (IP): contents are subdivided into packets using the same basic technology employed by the Internet. The use of IP technology allows the transmission of TV and radio programmes, web pages, music and video games to smartphones/PDA s.

**DWDM (Dense Wavelength Division Multiplexing):** This is a technology for multiplying and transmitting different wavelengths along a single optical fibre contemporaneously.

**EDGE (Enhanced Data for GSM Evolution):** This is a powerful technology that increases the data transmission rate of the GPRS standard from rates of 30-40 kbit/s to more than 100 kbit/s and even up to 200 kbit/s with optimal radio conditions.

**ETSI (European Telecommunications Standards Institute):** A not-for-profit enterprise whose mission is to produce the telecommunications standards that will be used throughout Europe. Some of the standards developed by the ETSI may be adopted by the European Commission as the technical base for directives or regulations. The ETSI's main task is to remove any possible variation from a global standard and to focus on a defined European-specific set of requirements. The ETSI also ensures that there is interoperability between standards, such as Integrated Services Digital Network (ISDN), Global Systems for Mobile Communications (GSM) and Universal Mobile Telecommunications System (UMTS).

**Exchange:** See Switch.

**Flat rate:** The rate applied by providers to users surfing the web. It is usually a fixed monthly rate for a subscription to a specific Internet Service Provider, aside from the number of connection hours to the Net.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Glossary Of Selected Telecommunications Terms**

**Frame Relay:** A data transmission service using fast protocols based on direct use of transmission lines.

**Gateway:** A connection between the LANs and WANs of one or more suppliers. Can also mean the access nodes to international networks of various kinds.

**GGSN (Gateway GPRS Support Node):** Junction connecting an external packet network or GPRS system of a different mobile network .

**GPRS (General Packet Radio Service):** This is the data service for GSM and is the European standard digital cellular service.

**GPS (Global Positioning System):** A constellation of satellites, orbiting the Earth twice a day, that is able to pinpoint precisely the location of a certain object on Earth.

**GRX (GPRS Roaming eXchange for Mobile Operators):** The GRX service allows Mobile Operators to interconnect GPRS networks around the world and offer global GPRS roaming coverage.

**GSM (Global System for Mobile Communications):** A standard for mobile cellular telephony used in Europe, Asia, South Africa and Australia, based on digital transmission and cellular network architecture with roaming.

**GSM TIM Card:** A prepaid, rechargeable card which permits the TIM mobile customer to make outgoing calls up to the limit of the card and receive an unlimited number of calls.

**HDSL (High-bit-rate Digital Subscriber Line):** Technology for business customers which allows the provision of local loop circuits at higher speeds and lower cost than through conventional means.

**HSDPA (High-Speed Downlink Packet Access/UMTS Hi Speed Universal Mobile Telecommunications System):** UMTS evolution allows BroadBand connections up to 3.6 Mbps.

**HLR (Home Location Register):** Database where are recorded the customer data.

**ICT (Information and communication(s) technology):** Broad area concerned with information technology, telecommunications networking and services and other aspects of managing and processing information, especially in large organizations.

**IEEE (Institute of Electrical and Electronics Engineers):** An organization of engineers, scientists and students involved in electrical, electronics and related fields. IEEE also functions as a publishing house and standards body.

**IMSS/MSEM (Italtel Multi Service Solution/Multi Service Element Manager):** It is a proprietary platform for the management of the whole network. Refer to a software switch that is compatible with many protocol type for IP communication and network interworking as SIP, H323, MGCP and H248. The supplier is ITALTEL.

**IN (Intelligent Network):** Network architecture that centralized processing of calls and billing information for calls.

**Interactive:** Allowing the user to change some aspect of the program.

**Internet:** The world's best-known data network. Initially used by the U.S. Department of Defense, the Internet now provides an interface for networks based on different technologies (LANs, WANs, data networks, etc.), but which use the TCP/IP protocol platform.

**Internet Protocol TV or IPTV:** The service provides the distribution of television channels over Internet connections using the IP protocol. More than just duplicating a distribution means, IPTV enables interactive services so that the viewer can interact with the show as it is broadcast.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Glossary Of Selected Telecommunications Terms**

**IP (Internet Protocol):** A standard describing the software that keeps track of the Internet's addresses for different nodes, routes outgoing messages and recognizes incoming messages.

**IP/MPLS (Internet Protocol/Multi Protocol Labeling Switching):** A packet switching protocol to optimize network behaviors of mapping Layer3 (IP) end-to-end data flow to Layer2 traffic between adjacent network nodes.

**ISDN (Integrated Services Digital Network):** A system in which several services (e.g., speech and data) may be simultaneously transmitted end to end in digital form.

**ISPs (Internet Service Provider):** A vendor who provides access to the Internet and World Wide Web.

**ITU (International Telecommunication Union):** The worldwide policy, spectrum regulation and standardization body in telecommunication operating under the auspices of the United Nations.

**LAN (Local Area Network):** A private network that covers a local geographic area and provides public telecommunications services as well as interconnection between personal computers.

**Local Loop:** Copper wire-couple, through which the telephone connection reaches users; it is the foundation of traditional telephone lines and it is often called "last mile".

**MAS (Metro Access System):** A network element based on CWDM (Course Wavelength Division Multiplexing) technology.

**MGCP (Media Gateway Control Protocol):** An Internet Engineering Task Force (IETF) signaling protocol proposal allowing a bridge between classic telephone networks and Internet (i.e., IP-based) infrastructures.

**MEMS (Micro-Electro-Mechanical Systems):** MEMS are miniaturized devices ranging in size from a few micrometers to a few millimeters, which execute one or more monitoring, processing or actuation functions by deploying a combination of electronic, mechanical, optical, chemical or biological components integrated on a usually silicon hybrid circuit.

**MGW (Media GateWay):** Junction for the connections which carry user traffic.

**MMS (Mobile Multimedia Services):** Represent an evolution of the SMS and the EMS service using various mono-medial elements (text, design, photos, video-clips and audio), which are synchronized and combined allowing them to be packed together and sent to GSM-GPRS platforms.

**Modem:** Modulator/Demodulator. A device that modulates digital data to allow their transmission on analog channels, generally consisting of telephone lines.

**MPLS (Multi Protocol Label Switching):** A packet switching protocol to optimize network behaviors of mapping Layer3 end-to-end data flow to Layer2 traffic between adjacent network nodes.

**MS SPRING:** A form of traffic protection mechanism for the equipment.

**MSC (Mobile Switching Center):** Executes functions such as controlling calls, switching traffic, taxation, controlling network interfaces and acts as an interface with other networks.

**MSP:** The name of a general purpose programmable switch made by Redcom Laboratories.

**Multimedia:** A service involving two or more communications media (e.g., voice, video, text, etc.) and hybrid products created through their interaction.

**Network:** An interconnected collection of elements. In a telephone network, these consist of switches connected to each other and to customer equipment. The transmission equipment may be based on fiber optic or metallic cable or point to point radio connections.



**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Glossary Of Selected Telecommunications Terms**

**NGAN (New Generation Access Network):** New generation network access that can be realized with different technological solutions, typically fiber optic and VDSL pairs.

**NGNs (Non-Geographic Numbers):** The non-geographic numbers are unique as they are by definition not associated with any particular geographic location (*e.g.* premium rate services, toll free, directory assistance services).

**NNI Agreements (Network Node Interface Agreements):** Contractual agreements for the interface between two public network pieces of equipment ( NNI ).

**Node:** Topological network junction, commonly a switching center or station.

**Node B (counterpart of BTS in GSM):** This is the Radio Base Station in UMTS technology which, via an antenna, sends the UMTS radio signal which creates the coverage of the cell (typically 3 for Node B). It also performs functions which are strictly associated with managing the radio connection.

**OLOs (Other Licensed Operators):** Companies other than the incumbent operator which operate telecommunications systems in a national market.

**ONP (Open Network Provision):** Principles and conditions laid down by the EU for access to and usage of public telecommunications networks and services. A network architecture that permits telecommunications services to be offered on facilities of public operators and for equipment to be connected to such networks.

**Optical fiber:** Thin glass, silica or plastic wires, building the interstructure base for data transmission. An optical fiber cable contains several individual fibers, and each of them is capable of driving a signal (light impulse) at limited bandwidth. Optical fibers are usually employed for long-distance communication: they can transfer heavy data loads, and the signal reaches the recipient, protected from possible disturbances along the way. The only inconvenient are the high costs involved in the construction of an optical fiber network.

**OSS (Operations Support System):** Methods and procedures (whether mechanized or not) which directly support the daily operation of the telecommunications infrastructure.

**Outsourcing:** Hiring outsiders to perform various telecommunications services, which may include planning, construction, or hosting of a network or specific equipment belonging to a company, and, ultimately, the management of entire telecommunications systems. Value-added applications may also be provided in various sectors.

**PABX (Private Automatic Branch Exchange):** Telephone switchboard for private use, but linked to the national telephone network.

**Pard CDN:** Points of access to a data network realized by direct digital circuits.

**Pard CDA:** Points of access to a data network realized by direct analog circuits.

**Packet-Switched Services:** Data services based on parceling or breaking the data stream into packets and switching the individual packets. Information transmitted (whether voice or data) is segmented into cells of a standardized length, which are then transmitted independently of one another, allowing maximization of available capacity and usage of single transmission path for multiple communications. The cells are then reassembled upon reaching their destination.

**Pay-Per-View or PPV:** A system by which the viewer pays to see a single program (such as a sporting event, film or concert) at the moment at which it is transmitted or broadcast.

**Pay TV:** Paid-for TV channels. To receive Pay TV or Pay-Per-View programs, a decoder must be connected to the television set, and a conditional access system.

**PCS:** Personal communications services.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Glossary Of Selected Telecommunications Terms**

**PDA (Personal Digital Assistant):** A handheld computer with a memory size up to several megabytes and a touch-sensitive screen, often using a stylus to input data. The PDA is mainly used for calendar, address book and memoranda functions, but can incorporate advanced office or multimedia functions such as voice calls, messaging, video, mp3 player, etc.

**Penetration:** The measurement of the take-up of services. As of any date, the penetration is calculated by dividing the number of subscribers by the population to which the service is available and multiplying the quotient by 100.

**Platform:** The total input, including hardware, software, operating equipment and procedures, for producing (production platform) or managing (management platform) a particular service (service platform).

**POP (Point Of Presence):** Internet provider locations for network connection, often through dial-up phone lines. When a Pop is within a specific local area, users can connect to the Internet by dialing a local phone number.

**POTS (Plain Old Telephone Service):** Refers to the basic telephony service (homes use) supplying standard, single-line telephones, fixed-line services and access to public voice telephony network. In contrast, telephone services based on digital communications lines, such as ISDN, are not POTS. The main distinctions between POTS and non-POTS services are speed and bandwidth. POTS is generally restricted to about 52 Kbps.

**PSTN (Public Switched Telephone Network):** The public telephone network delivering the basic telephone service and, in certain circumstances, more advanced services.

**RNC (Radio Network Controller counterpart of BSC in GSM):** Supervises and controls radio resources, both during the phase of setting up the call, and during the maintenance phase (for example, handover between different cells). Furthermore, it handles connectivity from and towards: Node B, MSC\*, and other RNC.

**Roaming:** A function that enables wireless subscribers to use the service on networks of operators other than the one with which they signed their initial contract.

**RoF (Radio Over Fiber):** A technology to feed antennas with digital/analogue signals over optical fiber.

**RTG:** Is the network of the world's public circuit-switched telephone networks in much the same way that the Internet is the network of the world's public IP-based packet-switched networks.

**Satellite services:** Satellites are used, among other things, for links with countries that cannot be reached by cable or as an alternative to cable and to form closed user networks.

**SDH Standard (Synchronous Digital Hierarchy):** The European standard for high-speed digital transmission.

**SDSL (Symmetrical Digital Subscriber Line):** Also known as HDSL.

**Service Provider:** The party that provides end users and content providers with a range of services, including a proprietary, exclusive or third-party service center.

**SGT (Transit exchange interconnection level for telephone traffic):** Transit Exchange for telephone traffic carriage, routing and transmission.

**SGU (Local exchange interconnection level for telephone traffic):** Local Exchange for telephone traffic carriage, routing and transmission.

**SME:** The small-and medium-size enterprise market which consists of businesses having between 3 and 50 employees.

**SMS (Short Message Service):** Short text messages that can be received and sent through GSM-network connected cellular phones. The maximum text length is 160 alpha-numerical characters.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Glossary Of Selected Telecommunications Terms**

**SNCP:** A form of traffic protection mechanism for the equipment.

**SOHO:** The small office/home office market which consists of businesses that use telephone lines to connect to the Internet, as opposed to dedicated lines, and is made up of small businesses, generally with one or two employees, and businesses conducted out of the home.

**SPP (Service Provider Portability):** Allows an end user to retain the same directory number after changing from one service provider to another.

**Switch:** These are used to set up and route telephone calls either to the number called or to the next switch among the path. They may also record information for billing and control purposes.

**Switched Transit Traffic:** Calls placed between two other countries that are routed through the Italian fixed network.

**Synchronous:** Type of data transmission in which there is permanent synchronization between the transmitter and the receiver.

**TACS (Total Access Communication System):** An analog cellular network using the 900 MHz band based on a European standard also used in the UK, Ireland, Austria and Spain. Features include handover and available add-on services include answering, call notification, call transfer, differentiation of business and private calls, authorization code for outgoing international calls and itemized billing.

**TDMA (Time Division Multiple Access):** A technology for digital transmission of radio signals between, for example, a mobile phone and a radio base station. TDMA breaks signals into sequential pieces of defined length, places each piece into an information conduit at specific intervals and then reconstructs the pieces at the end of the conduit.

**TRX:** Radio transceivers located in BTS.

**UMA (Unlicensed Mobile Access):** Technology that provides access to mobile services over unlicensed spectrum technologies, such as Bluetooth and IEEE 802.11 b/g. By deploying UMA technology, service providers can enable subscribers to roam and handover between cellular networks and public and private unlicensed wireless networks using dual-mode mobile handsets.

**UMTS (Universal Mobile Telecommunication System):** Third-generation mobile communication standard. Data travel at 2Mb-per-second.

**UMTS Cell:** Geographical portion of the territory illuminated by a Node B.

**UMTS Channels:** These enable all the customers of the cell to access both the CS (Circuit Switched) services and the PS (Packet Switched) services of UMTS technology.

**Unbundling:** A process which allows telephone carriers (other than Telecom Italia) to lease the last part of the telephone loop, that is to say, the copper wire-cable, connecting Telecom Italia central station to the user's home, disconnecting the user from Telecom terminals and connecting him/her to the telephone carrier's terminals.

**Universal service:** The obligation to supply basic service to all users throughout the national territory at reasonable prices.

**VAN (Value-Added Network):** A type of public network that leases basic transmission facilities from a common carrier, adds features that enhance the service and provides the improved communications capability to end users. Automatic alternate routing network management and error correction are examples of the value added.

**Table of Contents**

**Item 4. Information On The Telecom Italia Group**

**Glossary Of Selected Telecommunications Terms**

**VAS (Value Added Services):** Value Added Services provide a higher level of functionality than the basic transmission services offered by a telecommunications network for the transfer of information among its terminals, which include wired or wireless switched-circuit analog voice communications; direct unrestricted digital point-to-point service at 9,600 bit/s; packet switching (virtual call); direct BroadBand analog transmission of TV signals, and supplementary services, such as closed user groups; call waiting; collect calls; call forwarding, and identification of number called. Value Added Services performed by the network, the terminals or the specialized centers include message handling services (MHS) (which can be used, among other things, for commercial documents in predetermined formats); electronic directories listing users, network addressees and terminals; e-mail; fax; teletex; videotext and videotelephone. Value Added Services could include also value added voice telephony services such as Freephone or Premium Rate Services.

**VDSL (Very-high-data-rate Digital Subscriber Line):** One of four DSL technologies (very high bit-rate DSL) providing data transmission up to a theoretical limit of 52 Mbit/s downstream and 12 Mbit/s upstream over a single twisted pair of wires. VDSL is capable of supporting high bandwidth applications such as HDTV. The higher limit of data rate of VDSL is limited by the distance from the exchange.

**Videotext:** A service pursuant to an ITU standard, permitting remote access to a database by telephone.

**VOD (Video On Demand):** TV-programme supply on user's request, with payment of a fee for each purchased programme (a movie, a soccer match, etc). Broadcast in a special method for cable and satellite TV.

**VoIP (Voice over IP):** Transmission of voice communications over Internet Protocol (IP) data networks, such as IP-based LANs, intranets or the Internet. Many carriers offer integrated services such as voice and data over a single pipe.

**VPN (Virtual Private Network):** A network designed for a business or government agency, using the infrastructures of a carrier and providing customized services, and which operates in such a manner as to appear dedicated to the user thereof.

**WAN (Wide Area Network):** A private network that covers a wide geographic area using public telecommunications services.

**WAP (Wireless Application Protocol):** A technology which allows access to the Internet using mobile sets, even without the use of a computer.

**Wi-Fi:** A service for wireless Internet connection and high speed access.

**WLL (Wireless Local Loop):** The means of configuring a local loop without the use of wiring.

**Wi Max (Worldwide Interoperability for Microwave Access):** The Wi - MAX is a technology that allows wireless access to broadband telecommunications networks. It is defined by the Wi - MAX Forum, a global consortium formed by major companies in the field of fixed and mobile telecommunications which has the purpose to develop, test and promote the interoperability of systems based on IEEE 802.16-2004 standards for fixed access and IEEE.802.16e-2005 for fixed and mobile access.

**XSDL ((generic) Digital Subscriber Line):** A generic term for DSL equipment, services and technologies which provide extremely high bandwidth over the twisted-pair lines that run from a phone company s central office to a home or office.



**Table of Contents****Item 4. Information On The Telecom Italia Group****Description Of Property, Plant And Equipment****4.5 DESCRIPTION OF PROPERTY, PLANT AND EQUIPMENT****General**

As of December 31, 2007 and 2006, property, plant and equipment owned and leased are detailed as follows:

	As of December 31, 2007				As of December 31, 2006			
	Owned	Leased	Total property, plant and equipment	% of total property, plant and equipment	Owned	Leased	Total property, plant and equipment	% of total property, plant and equipment
	(millions of Euro, except percentage)							
Land	131		131	0.8	134		134	0.8
Civil and industrial buildings	551	1,361	1,912	11.3	598	1,417	2,015	11.7
Plant and equipment	12,957		12,957	76.5	12,955	1	12,956	75.3
Manufacturing and distribution equipment	48		48	0.3	59		59	0.3
Aircrafts and ships	41	6	47	0.3	40	10	50	0.3
Other	965	30	995	5.9	1,016	47	1,063	6.2
Construction in progress and advance payments	791	53	844	4.9	888	50	938	5.4
<b>Total</b>	<b>15,484</b>	<b>1,450</b>	<b>16,934</b>	<b>100.0</b>	<b>15,690</b>	<b>1,525</b>	<b>17,215</b>	<b>100.0</b>

As of December 31, 2007 and 2006, we did not have liens, mortgages and pledges on property owned.

The principal categories of our equipment are exchanges and transmission equipment, cable networks, base stations for cellular networks and equipment for radio communications, most of which are located throughout Italy.

**Real Estate (Land, Civil and Industrial Buildings)**

As of December 31, 2007 land amounted to 131 million (compared to 134 million as of December 31, 2006) and civil and industrial buildings amounted to 551 million (compared to 598 million as of December 31, 2006).

Civil and industrial buildings under finance leases amounted to 1,361 million as of December 31, 2007 ( 1,417 million as of December 31, 2006).

As of December 31, 2007, the Telecom Italia Group owned approximately 4,670 buildings located throughout Italy. Specialized buildings for telecommunications services account for the majority of properties both in number and book value. Such buildings house mainly exchange equipment and transmission equipment, and are used as part of our continuing telecommunications operations. General purpose properties consist chiefly of offices, depots and computer centers.

### **Network Infrastructure (Plant and Equipment)**

The Telecom Italia Group network infrastructure includes the domestic and international fixed network, the domestic mobile network and the Brazilian mobile network.

For details about the network infrastructure of Telecom Italia please see Item 4. Information on the Telecom Italia Group 4.2 Business Units 4.2.1 Domestic .

### ***Brazilian Mobile Network***

Telecom Italia s wireless network in Brazil principally includes transport and computer equipment, as well as exchange and transmission equipment consisting primarily of 82 switches and 9,522 radio base stations in our GSM network and 2,361 radio base stations in our TDMA network as of December 31, 2007. The network is connected primarily by a fiber-optic transmission system leased mainly from Telemar, Embratel, Brasil Telecom and Telefónica.

**Table of Contents**

**Item 4A. Unresolved Staff Comments**

**Item 4A. UNRESOLVED STAFF COMMENTS**

None.

78

**Table of Contents**

**Item 5. Operating And Financial Review And Prospects**

**General Factors Affecting The Telecom Italia Group s Business**

**Item 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS**

*The following discussion should be read in conjunction with the Consolidated Financial Statements included elsewhere in this Annual Report. Such financial statements have been prepared in accordance with IFRS as issued by the IASB.*

**5.1 GENERAL FACTORS AFFECTING THE TELECOM ITALIA GROUP S BUSINESS**

**5.1.1 THE ITALIAN MARKET FOR TELECOMMUNICATIONS SERVICES**

Please see Item 4. Information on the Telecom Italia Group 4.2 Business Units 4.2.7 Competition .

**5.1.2 EFFECTS OF THE BERSANI DECREE ON DOMESTIC SERVICE RATES**

With effect from March 5, 2007 and in compliance with the Bersani Decree, Telecom Italia has eliminated recharging fees for all rate plans.

In addition, traffic purchased by Telecom Italia customers with pre-paid cards no longer expires and can be transferred free to another Telecom Italia number in that customer s name or to another number belonging to another Telecom Italia customer.

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

- **offering tailor-made and flexible recharge cards with new amounts:** with effect from April 2, 2007, in addition to the traditional amounts, Telecom Italia introduced Choose your recharge (Ricariche su misura), which allow customers to recharge their phone for the amount they choose, using the amount left over or available coins;
- **eliminating the connection charge in new rate plans:** for the new TIM Club and Tutto Compreso rate plans there is no connection charge and, in the version for subscribers, there is a bonus which also reimburses the government license tax;
- **promising not to raise rates:** either for old or new rate plans;

- **providing constant comparisons on the effective costs of traffic:** information has been made available on the TIM website which enables customers to make correct comparisons between rate plans based on information supplied by the AGCom.

For further details about the impact on the 2007 results of operations please see 5.4.6 Results Of Operations Of Business Units For The Year Ended December 31, 2007 Compared With The Year Ended December 31, 2006 .

### 5.1.3 COMPETITION

We face domestic competition in all of our businesses. For details please see Item 4. Information on the Telecom Italia Group 4.1 Business 4.1.7 Updated Strategy and Item 4. Information on the Telecom Italia Group 4.2 Business Units 4.2.7 Competition .

Competition continues to have an adverse effect on our revenues as it resulted in lower tariffs for many of our products and services as well as the introduction of flat-rate pricing plans which have been used to enhance retention efforts but at the same time reducing revenues for such customers.

**Table of Contents**

**Item 5. Operating And Financial Review And Prospects**

**Significant Trends Impacting Our Core Businesses**

**5.2 SIGNIFICANT TRENDS IMPACTING OUR CORE BUSINESSES**

Increased competition as well as legislative and regulatory developments continue to have a significant impact on the development of our business.

The following key trends have, and will continue to have, an impact in our main business areas:

- convergence of services, such as fixed and mobile voice offers, fixed and mobile broadband access, integrated access to messaging and content;
- achievement of synergies from fixed/mobile integration; and
- impact of regulatory developments, both at the EU level and national level, where the most significant impact on revenues is expected to be linked to changes in roaming and termination charges.

In addition, other key trends should continue to have a significant impact, including:

*Domestic Business Unit*

- Continuing defense of core traffic and access businesses with possible stabilization of traffic market share on Fixed Telecommunications.
- Development of new value added services (Voice VAS and Web Services) content and handsets contributing to a stabilization in revenues.
- Growth of Italian BroadBand market with significant increase of the Domestic BroadBand access portfolio.
- Growth of Pay TV market and penetration of IPTV services.
- Growth of the ICT Market, and in particular of the IT managed services to business customers, both infrastructure based (development and management of activities related to IT systems, platforms and applications) and people based (technical support, consulting and training activities more related to business processes than to specific IT systems).

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- Increased BroadBand penetration and bandwidth availability are expected to foster the adoption of internet-enabled IT applications by business customers and relevant effort towards ICT portfolio enrichment and partnership development should help to increase Telecom Italia s market share on the ICT market.
- Open Access network should increase transparency and access to the fixed network by OLOs.

### *European BroadBand Business Unit*

- Continued broadband market growth.
- Evolution of technology and regulation pertaining to next generation networks and fiber investments closer to the customer premises.
- Competition and fixed-mobile integration.
- Consolidation of the players in the market.

### *Brazil Mobile*

- Increased level of competition with mobile players achieving national coverage and consolidation among fixed/mobile players.
- Maturing of the market with reduced growth rates in the number of customers, start of saturation on some top-tier segments, opportunities to develop lower segments.
- Fixed-Mobile integration both at players and offers level.

**Table of Contents**

**Item 5. Operating And Financial Review And Prospects**

**Critical Accounting Policies And Estimates**

**5.3 CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

Our discussion and analysis of our financial condition and results of operations is based upon our Consolidated Financial Statements, which have been prepared in accordance with IFRS as issued by the IASB. Our reported financial condition and results of operations as reported under IFRS as issued by the IASB are based on the application of accounting methods which involve the use of assumptions and estimates that underlay the preparation of our financial statements. We base our estimates on historical experience and on various other assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily available. Actual results may differ from these estimates under different assumptions or conditions.

Since our selection and application of accounting policies involve judgments and other assumptions affecting the application of those policies, reported results are sensitive to changes in conditions or assumptions of management and these are factors to be considered when reading our Consolidated Financial Statements. We believe the critical accounting policies described below involve the most significant assumptions and estimates used in the preparation of our Consolidated Financial Statements under IFRS as issued by the IASB.

**Revenue recognition**

Revenues are recognized to the extent that it is probable that the economic benefits will flow to the Group and their amount can be measured reliably. Revenues are stated net of discounts, allowances, and returns.

- *Revenues from services rendered*

Revenues from services rendered are recognized in the income statement according to the stage of completion of the service and only when the outcome of the service rendered can be estimated reliably.

Traffic revenues from interconnection and roaming are reported gross of the amounts due to other TLC operators. Amounts billed to customers for providing information or other content are recognized as revenues when the service is provided either at the gross amount billed to the customer or based on the commission received from the content provider, depending on the nature of the service rendered.

Revenues from the activation of telephone services (as well as the related costs not in excess of the amount of revenues) are deferred over the expected duration of the relationship with the customer (generally 8 years for retail customers and 3 years for wholesale customers).



Revenues from prepaid traffic are recorded on the basis of the minutes used at the contract price per minute. Deferred revenues for unused minutes are recorded in Trade and miscellaneous payables and other current liabilities in the balance sheet.

- *Revenues from sales and bundled offerings*

Revenues from sales (telephone equipment and other) are recognized when the significant risks and rewards of ownership are transferred to the buyer.

When an arrangement contains multiple elements (goods and/or services), revenues are allocated to each element based on its relative fair value, in accordance with the provisions of the Emerging Issues Task Force Issue No. 00-21 *Accounting for Revenue Arrangements with Multiple Deliverables* ( **EITF 00-21** ), as allowed by IAS 8 (*Accounting Policies, Changes in Accounting Estimates and Errors*), paragraph 12. For offerings that cannot be separated in identifiable components, revenues are recognized in full over the life of the contract.

For offerings which include the delivery of mobile handsets and service contracts, we recognize revenues related to the sale of the handset when it is delivered to the customer whereas traffic revenues are recorded on the basis of the minutes used; the related subscriber acquisition costs, including handset subsidies and sales commissions, are expensed as incurred. The revenues allocated to the handset sale are limited to the contract amount that is not contingent upon the rendering of telecommunication services, i.e. the residual of the amount paid by the customer exceeding the services value. The determination of fair values in the telecommunications business is complex, because some of the components are price-sensitive and, thus, volatile in a competitive marketplace.

## **Table of Contents**

### **Item 5. Operating And Financial Review And Prospects**

### **Critical Accounting Policies And Estimates**

A small portion of our bundled offerings in the mobile business are contracts with a minimum contractual period of 12 or 24 months which include an enforced termination penalty. For these contracts, the subscriber acquisition costs are capitalized under Intangible assets with a finite useful life if the conditions for capitalization as described in the related accounting policy are met.

- *Revenues on construction contracts*

Revenues on construction contracts are recognized using the stage of completion method.

Revenue recognition is subject to estimation in respect of the expected duration of customer relationships, the estimate of relative fair values and estimates of discounts, returns and allowances. Revisions to such estimates may significantly affect our future operating results.

### **Provision for bad debts**

Management maintains a provision for bad debts to account for estimated losses resulting from the inability of our customers to make required payments. Management bases its estimates on the ageing of our accounts receivable balances and our historical write-off experience with similar receivables, customer credit-worthiness and changes in our customer payment history when evaluating the adequacy of provision for bad debts. If the financial condition of our customers were to deteriorate, our actual write-offs might be higher than we estimate.

### **Accounting for tangible and intangible non-current assets**

Accounting for tangible and intangible non-current assets involves the use of estimates for determining fair value at the acquisition date in the case of assets acquired in a business combination and the expected useful lives of assets with a finite useful life. The determination of the fair values of assets, as well as the useful lives of the assets is based on management's judgment. Changes in the economic conditions of the markets in which we operate, technology and competitive forces could significantly affect the estimated useful lives of these assets and may lead to a difference in the timing and amount of depreciation and amortization expense.

### **Acquisition accounting, goodwill and purchase price allocation**

We have entered into certain acquisitions and in the future may make further acquisitions. The calculation of the purchase price, and the subsequent allocation of that purchase price to the fair value of the assets acquired and liabilities and contingent liabilities assumed, is critical due to the long-term impact on the income statement.

Under IFRS, we are required to perform a purchase price allocation and, consequently, as part of that allocation, all consideration, including the fair value of exchanged shares, shall be valued. When equity instruments are issued as part of the consideration, under IFRS we measure them at their fair value as of the date of exchange.

The purchase price is then allocated to the fair value of the assets acquired and liabilities and contingent liabilities assumed.

The purchase price allocation requires that all assets, liabilities and contingent liabilities be valued and that significant estimates be made. A change in any of these estimates or judgments could change the amount to be allocated to a particular intangible or tangible asset. The resulting change in the purchase price allocation to non-goodwill assets or liabilities has a direct impact on the final amount of the purchase price that cannot be allocated to a particular asset (i.e., goodwill).

If actual results differ from these estimates, or we adjust the estimated useful economic lives in future periods, operating results could be significantly affected by these estimates and judgments which involve:

- the definition of the purchase price;
- the identification of the assets acquired and liabilities assumed in the acquisition;
- the valuation of these assets and liabilities in the purchase price allocation; and
- the assessment of whether selected assets have a finite or indefinite useful life.

These could have a significant impact on both the level of total goodwill and ultimately on the income statement.

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**Table of Contents**

Item 5. Operating And Financial Review And Prospects

Critical Accounting Policies And Estimates

**Accounting for transactions on interests in group companies**

We have entered into certain transactions on interests in Group companies, and in the future we may make further similar transactions.

In relation to transactions regarding interest in companies already controlled, under IFRS, in the absence of a Standard or a specific Interpretation on the matter and referring to IAS 8 (*Accounting policies, changes in accounting estimates and errors*), we have applied the following accounting treatments, identifying two types of transactions:

- *acquisition/sale of interests in companies already controlled:* in the case of acquisitions, the Group pays the minority interests in cash or by new shares and, at the same time, eliminates the relative share of the minority interest and records Goodwill equal to the excess of the acquisition cost over the carrying amount of the corresponding portion of assets acquired and liabilities assumed. In the case of sales, the difference between the proceeds from the disposal of shares and the corresponding carrying amount in the consolidated financial statements is recognized in the income statement (*Parent entity extension method*);
- *intragroup transfers of interests in controlled companies which result in a change in the percentage of ownership:* the interests transferred remain recorded at historical cost and the gain or loss on the transfer is eliminated in full. The minority interest which does not directly take part in the transaction is adjusted to reflect the change in the respective share of equity with a corresponding opposite effect on the equity attributable to the equity holders of the Parent without recognition of any goodwill and however without generating any impact on profit or equity.

The treatment of purchase price allocation is also affected by the considerations expressed in the last three paragraphs of *Acquisition Accounting, Goodwill and Purchase Price Allocation* above.

**Impairment of assets**

The determination of impairments of intangible and tangible assets involves the use of estimates that include, but are not limited to, the cause, timing and amount of the impairment.

- ***Intangible and tangible assets with a finite useful life.*** During the year, the Group assesses whether there are any indications of impairment of intangible and tangible assets with a finite useful life. Both internal and external sources of information are used for this purpose. Internal sources include obsolescence or physical damage, and significant changes in the use of the asset and the economic performance of the asset compared to estimated performance. External sources include the market value of the asset, changes in technology, markets or laws, increases in market interest rates and the cost of capital used to evaluate investments, and an excess of the carrying amount of the net assets of the Group over market capitalization. If indicators of an impairment exists, the carrying amount of the assets is reduced to the recoverable amount.

- **Goodwill.** Goodwill is tested for impairment at least annually to assess its recoverable amount. The test is conducted in conjunction with the planning process of the Group, near the end of every year. Goodwill acquired and allocated during the year is tested for impairment before the end of the year in which the acquisition and allocation took place. To test for impairment, goodwill is allocated, at the date of acquisition, to each of the cash-generating units or groups of cash-generating units that is expected to benefit from the acquisition. Allocation is made to the lowest level at which goodwill is monitored for management purposes and that lowest level is not larger than the business segment determined in accordance with IAS 14 (*Segment Reporting*).

If the carrying amount of the cash-generating unit (or group of cash-generating units) exceeds the recoverable amount, an impairment loss is recognized in the income statement. The impairment loss is first recognized as a deduction of the carrying amount of goodwill allocated to the cash-generating unit (or group of cash-generating units) and then only applied to the other assets of the cash-generating unit in proportion to their carrying amount, up to the recoverable amount of the assets with a finite useful life. The recoverable amount of a cash-generating unit, or group of cash-generating units, to which goodwill is allocated, is the higher of fair value less costs to sell and its value in use.

## **Table of Contents**

### **Item 5. Operating And Financial Review And Prospects**

### **Critical Accounting Policies And Estimates**

In calculating the value in use, the estimated future cash flows are discounted to present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For the purpose of calculating impairment, the carrying amount of the cash-generating unit is established based on the same criteria used to determine the recoverable amount of the cash-generating unit, excluding surplus assets (that is, financial assets, deferred tax assets and net non-current assets held for sale) and includes the goodwill attributable to minority interest.

After conducting the goodwill impairment test for the cash-generating unit (or groups of cash-generating units), a second level of impairment testing is carried out which includes the corporate assets which do not generate positive cash flows and which cannot be allocated by a reasonable and consistent criterion to the single units. At this second level, the total recoverable amount of all cash-generating units (or groups of cash-generating units), is compared to the carrying amount of all cash-generating units (or groups of cash-generating units), including also those cash-generating units to which no goodwill was allocated and the corporate assets.

When the conditions that gave rise to an impairment loss no longer exist, the original amount of goodwill is not reinstated, as set forth in IAS 36 (*Impairment of assets*).

The identification of impairment indicators, the estimation of future cash flows and the determination of fair values of assets, groups of assets (or cash-generating units) require management to make significant judgments concerning the identification and validation of impairment indicators, expected cash flows, applicable discount rates, useful lives and residual values. These estimates can have a material impact on fair value and the amount of any write-downs.

### **Financial assets**

Financial assets include, in particular, investments some of which are publicly traded and have highly volatile share prices. Generally, an impairment charge is recorded when an investment's carrying amount exceeds the present value of its estimated future cash flows. The calculation of the present value of estimated future cash flows and the determination of whether an impairment is other than temporary involve judgments and relies heavily on assessments by management regarding the future development and prospects of the investee company. In determining value, quoted market prices are used, if available, or other valuation methodologies. To determine whether an impairment is other than temporary, we consider the ability and intent to hold the investment for a reasonable period of time to ascertain whether a forecasted recovery of fair value exceeds the carrying amount, including an assessment of factors such as the length of time and magnitude of the excess of carrying value over market value, the forecasted results of the investee company, the regional economic environment and state of the industry. Future adverse changes in market conditions, particularly a downturn in the telecommunications industry, or poor operating results could result in losses or an inability to recover the carrying amount of the investment, which could result in impairment charges.

### **Derivative financial instruments**

Telecom Italia enters into several different types of derivative contracts in order to adjust and manage the various cash flows associated with foreign currency and interest rate exposures. The changes in the fair value of instruments which do not qualify for hedge accounting, fair value hedges and ineffective portion of cash flow hedges are recognized in the income statement in the period of change. The gain or loss on the effective portion of qualifying cash flow hedges is reported in Net income (loss) recognized directly in equity. The assessment of the fair value of a derivative contract requires the use of quoted market prices, banker price quotations, price quotations for similar instruments traded in different markets and, where applicable, pricing models. Pricing models and their underlying assumptions impact the amount and timing of unrealized gains and losses recognized. The Group relies on these pricing models when external fair values are unavailable. The estimates regarding future prices require estimating several factors, including interest rates, currency values and cash flows. Prices realized in the future could differ from these estimates, therefore producing different financial results.

## **Table of Contents**

**Item 5. Operating And Financial Review And Prospects**

**Critical Accounting Policies And Estimates**

### **Employee severance indemnities**

Employee severance indemnities are a form of post employment benefit, mandatory for Italian companies. They have the nature of deferred compensation and are based, among other things, on the employee's years of service and the remuneration earned by the employee during the service period.

Under IAS 19, the employee severance indemnity is classified as a defined benefit plan, except when employees, starting from the year 2007, choose to devote their accruing indemnity portions to supplementary pension funds or to the Treasury Fund managed by the State Social Security Institute (INPS); in such case employee severance indemnity is classified as a defined contribution plan.

The obligation for the employee severance indemnity classified as a defined benefit plan is determined in accordance with actuarial methods. In the event that changes in assumptions are required, the future amounts of the post employment benefit costs may be materially affected.

### **Provisions and contingent liabilities**

The Group exercises considerable judgment in determining its exposure to and recognizing provisions for pending litigations or other outstanding claims subject to negotiated settlement, mediation, arbitration or government regulation as well as other contingent liabilities.

Judgment is necessary in assessing the likelihood that a pending claim will succeed or a liability will arise and to quantify the possible range of the final settlement. Provisions are recorded for liabilities when losses are considered probable and can be reasonably estimated. Because of the inherent uncertainties in making such judgments, actual losses may be different from the originally estimated provision. Significant estimates are involved in the determination of provisions related to taxes, environmental liabilities, our workforce reduction initiative and litigation risks. These estimates are subject to change as new information becomes available, primarily with the support of internal specialists or outside consultants, such as actuaries or legal counsel. Adjustments to loss provisions may significantly affect future operating results.

### **Income tax expense**

The Group calculates income tax expense in each of the tax jurisdictions in which it operates. This process involves a jurisdiction-by-jurisdiction calculation of the current tax charge and an assessment of temporary differences resulting from the different treatment of certain items for consolidated financial statements and tax reporting purposes. Temporary differences result in the recognition of deferred tax assets or liabilities in the consolidated financial statements. Deferred tax assets are recognized to the extent that their realization is probable. The realization of deferred tax assets depends, among other things, on the company's ability to generate sufficient taxable income in future years and the reversal of temporary liabilities, taking into account any



restrictions on the carryforward of tax losses. Various factors are used to assess the probability of the future realization of deferred tax assets, including future reversals of existing taxable temporary differences, past operating results, operational plans, loss-carryforward periods, and tax planning strategies. If actual results differ from these estimates or, if these estimates must be adjusted in future periods, the financial position, results of operations and cash flows may be affected. In the event of a change in the assessment of future utilization of deferred tax assets, the recognized deferred tax assets must be increased or decreased, as the case may be, and the consequent effects recognized in the income statement.

**Table of Contents**

**Item 5. Operating And Financial Review And Prospects**

**Results Of Operations For The Three Years Ended December 31, 2007**

**5.4 RESULTS OF OPERATIONS FOR THE THREE YEARS ENDED DECEMBER 31, 2007**

**5.4.1 REORGANIZATION OF BUSINESS**

On January 22, 2007, in response to 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 contents).

Accordingly, starting in 2007, the disclosure by business segment was changed and the accounting segments are now as follows:

- Domestic;
- European BroadBand;
- Brazil Mobile;
- Media;
- Olivetti;
- Other Operations.

The segments include:

- 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.

For a complete description of these businesses, see Item 4. Information on the Telecom Italia Group 4.2 Business Units . For purposes of the following discussion selected financial data of each Business Unit has been provided for 2007, 2006 and 2005 consistent with the structure of each Business Unit at December 31, 2007.

#### 5.4.2 NON-GAAP FINANCIAL MEASURES

In this Annual Report on Form 20-F, in addition to figures presented in accordance with IFRS as issued by IASB, we disclose figures derived from IFRS that are non-GAAP financial measures ( **Non-GAAP Measures** ). Such financial data is considered Non-GAAP financial measures as defined in Item 10 of Regulation S-K under the 1934 Act.

As described in more detail below, such financial data is presented as additional information for Telecom Italia s investors and should not be considered as substitutes for or confused with economic and financial IFRS measures.

In this Annual Report the only Non-GAAP Measure utilized relates to Net Financial Debt.

**Net Financial Debt** is a Non-GAAP financial measure as defined in Item 10 of Regulation S-K under the 1934 Act, but is widely used in Italy by financial institutions to assess liquidity and the adequacy of a company s financial structure. We believe that Net Financial Debt provides an accurate indicator of our ability to meet our financial obligations (represented by gross debt) by our available liquidity, represented by the other items shown in the reconciliation table. Net Financial Debt allows us to show investors the trend in our net financial condition over the periods presented. The limitation on the use of Net Financial Debt is that it effectively assumes that gross debt can be reduced by our cash and other liquid assets. In fact, it is unlikely that we would use all of our liquid

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

assets to reduce our gross debt all at once, as such assets must also be available to pay employees, suppliers, and taxes, and to meet other operating needs and capital expenditure requirements. Net Financial Debt and its ratio to equity (including Minority Interest), or leverage, are used to evaluate our financial structure in terms of sufficiency and cost of capital, level of debt, debt rating and funding cost, and whether our financial structure is adequate to achieve our business plan and our financial targets (which include our debt ratio, or Net Financial Debt divided by net invested capital, the latter meaning net assets excluding Net Financial Debt). Our management believes that our financial structure is sufficient to achieve our business plan and financial targets. Our management monitors the Net Financial Debt and leverage or similar measures as reported by other telecommunications operators in Italy and outside Italy, and by other major listed companies in Italy, in order to assess our liquidity and financial structure relative to such companies. We also monitor the trends in our Net Financial Debt and leverage in order to optimize the use of internally generated funds versus funds from third parties. Net Financial Debt is reported in our Italian Annual Report to shareholders and is used in presentations to investors and analysts. Net Financial Debt is calculated as follows:

	As of December 31,	
	2007	2006
	(millions of Euro)	
<b>GROSS FINANCIAL DEBT</b>		
<b>Non-current financial liabilities (Long-term debt)</b>		
Financial payables	35,241	38,842
Finance lease liabilities	1,809	1,847
Other financial liabilities	1	114
	<b>37,051</b>	<b>40,803</b>
<b>Current financial liabilities (Short-term debt), excluding financial liabilities directly associated with Discontinued operations/Non-current assets held for sale</b>		
Financial payables	6,315	5,374
Finance lease liabilities	262	269
Other financial liabilities	8	10
	<b>6,585</b>	<b>5,653</b>
<b>Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale</b>		
	<b>43,636</b>	<b>46,456</b>
<b>TOTAL GROSS FINANCIAL DEBT (A)</b>		
<b>FINANCIAL ASSETS</b>		
<b>Non-current financial assets</b>		
Securities other than investments	9	12
Financial receivables and other non-current financial assets	686	679
	<b>695</b>	<b>691</b>
<b>Current financial assets, excluding financial assets classified under Discontinued operations/Non-current assets held for sale</b>		
Securities	390	812
Financial receivables and other current financial assets	377	433
Cash and cash equivalents	6,473	7,219

	<u>7,240</u>	<u>8,464</u>
<b>Financial assets classified under Discontinued operations/Non-current assets held for sale</b>		
<b>TOTAL FINANCIAL ASSETS (B)</b>	<u>7,935</u>	<u>9,155</u>
<b>NET FINANCIAL DEBT (A-B)</b>	<u>35,701</u>	<u>37,301</u>

**Table of Contents**

**Item 5. Operating And Financial Review And Prospects**

**Results Of Operations For The Three Years Ended December 31, 2007**

**5.4.3 OVERVIEW OF 2007 RESULTS OF OPERATIONS**

In 2007, regarding our domestic market we achieved the following:

- the **Domestic Fixed Telecommunications Services business** continued with its strategy to encourage its customers to migrate towards innovative BroadBand solutions which provide access to a new generation of IP services and applications. This strategy resulted in a BroadBand Retail plus Wholesale portfolio of 7.6 million accesses, of which approximately 6.4 million were Retail BroadBand (of which 64% on flat and semi-flat offer) and a VoIP portfolio amounting to 1.3 million accesses (about 20% of BroadBand Retail). In the Consumer market, development of the IPTV service is growing and the offering of web content and services is developing.

In the traditional Telephone business, the main strategy has been to increase the penetration of flat-rate voice packages to achieve higher retention rates (at December 31, 2007, there were 6.4 million flat-rate voice packages, more than one-third of the number of accesses); moreover, action with the aim of recapturing customers that switched to competitors continued (more than 1 million returns as of December 31, 2007).

In the Data Transmission sector, there was a rationalization of the available offerings with migration from Traditional Data Transmission to Innovative Data Transmission and BroadBand and offerings of integrated solutions with services;

- the **Domestic Mobile Telecommunications Services business** focused on strategies to maintain its market share through the use of both traditional services (voice) and innovative services (VAS and Mobile Internet). It maintained its market share due to an effective policy regarding the acquisition of customers with a greater take-up of Flat or Bundled packages (both voice and VAS) and a 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 2007, with respect to our international markets we achieved the following:

- **Germany.** The German market is Europe's largest in terms of the number of BroadBand lines and management believes continues to have high growth potential. Technological evolution is also producing new development features as a result of the actions taken by the incumbent Deutsche Telekom with regard to the VDSL offering.

The BroadBand market is now concentrated in the hands of four or five principal operators and HanseNet is one of the main BroadBand operators in terms of the number of customers. During 2007, several operators were sold as there was significant consolidation in the market.

In this context, HanseNet focused on consolidating its positive results and reinforcing its position on the market; its strategy is based on the following factors:

increasing the coverage of its network both through proprietary network (891 sites in Unbundling at the end of 2007), and Telefónica and QSC partners (1,616 sites in Unbundling at the end of 2007);

maximizing synergies with AOL: during the year 2007, the organizational integration of commercial channels (considered positive for Alice multichannel strategy) and newly joined portal Alice-AOL were completed. The up-selling of Alice rate plans began with the existing AOL customer base (BroadBand and NarrowBand), and the technical migration of AOL Customers to the IT of Telecom Italia was concluded;

innovative offerings: HanseNet was the first alternative German operator to offer a complete Quadruple Play proposition, integrating ADSL2+, Voice, IPTV and Mobile offering (namely MVNO Mobile Virtual Network Operator). In this context, the main achievements in 2007 were the following:

- launch of mobile offer, with a particular focus on promotions for traffic On-Net and unique billing;

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

- improvement of IPTV service offer (more than 100 channels -basic and premium packages- available altogether, VOD with more than 1,200 titles in the catalogue) and coverage was extended to 150 towns (with more than 10 million houses covered);
- upgrade and simplification of ADSL offer through unique connection speeds of 16 Mega;
- launch of a new nationwide offering based on wholesale Deutsche Telekom in areas not covered by Unbundling;
- promotion of a pricing strategy in order to maintain Alice s competitive positioning;

care on service quality with particular reference to VoIP services;

consolidation of Alice Brand and the increase in Brand Awareness supported by significant communication campaign; and

developing Group synergies for the wholesale offering and for the Multi-National Customer.

- **Brazil.** We continued to consolidate our role in Brazil during 2007. As of December 31, 2007 we had approximately 31.3 million total lines managed by our Brazilian subsidiaries and Tim Brasil consolidated its position as the second operator in the Brazilian mobile market with a 25.8% market share, reducing the gap from first operator to less than 1.9 percentage points, from 3.7 percentage points in 2006.

The following table sets forth the income statement for the years ended December 31, 2007, 2006 and 2005.

	<b>Year ended December 31,</b>		
	<b>2007</b>	<b>2006</b>	<b>2005</b>
	(millions of Euro)		
Revenues	31,290	31,275	29,919
Other income	413	606	678
<b>Total operating revenues and other income</b>	<b>31,703</b>	<b>31,881</b>	<b>30,597</b>
Acquisition of goods and services	(14,545)	(14,191)	(12,937)
Employee benefits expenses	(3,884)	(3,801)	(4,142)
Other operating expenses	(2,245)	(1,543)	(1,468)
Changes in inventories	11	8	(4)
Internally generated assets	577	496	471
Depreciation and amortization	(5,811)	(5,487)	(5,232)
Gains (losses) on disposals of non-current assets	5	95	242



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Impairment reversals (losses) on non-current assets	(47)	(21)	(28)
<b>Operating profit</b>	<b>5,764</b>	<b>7,437</b>	<b>7,499</b>
Share of profits (losses) of associates and joint ventures accounted for using the equity method	86	51	23
Finance income	3,345	3,041	3,144
Finance expenses	(5,094)	(5,014)	(5,131)
<b>Profit before tax from continuing operations</b>	<b>4,101</b>	<b>5,515</b>	<b>5,535</b>
Income tax expense	(1,682)	(2,519)	(2,395)
<b>Profit from continuing operations</b>	<b>2,419</b>	<b>2,996</b>	<b>3,140</b>
Profit (loss) from Discontinued operations/Non-current assets held for sale	36	7	550
<b>Profit for the year</b>	<b>2,455</b>	<b>3,003</b>	<b>3,690</b>
<i>Of which:</i>			
• Profit attributable to equity holders of the Parent	2,448	3,014	3,216
• Profit (loss) attributable to Minority Interest	7	(11)	474

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007****5.4.4 BUSINESS UNIT FINANCIAL DATA**

The table below sets forth revenues, operating profit (loss), capital expenditures and number of employees by Business Unit, for the periods indicated. The data relating to 2006 and 2005 have been reclassified and presented consistent with the 2007 presentation.

		<u>Domestic</u>	<u>European Broad Band</u>	<u>Brazil Mobile</u>	<u>Media</u>	<u>Olivetti</u>	<u>Other Operations</u>	<u>Adjustments and eliminations</u>	<u>Consolidated Total</u>
		(millions of Euro, except number of employees)							
Revenues(1)	2007	24,220	1,545	4,990	263	408	251	(387)	31,290
	2006	25,785	915	3,964	207	440	234	(270)	31,275
	2005	25,820	565	2,900	180	452	280	(278)	29,919
Operating profit (loss)	2007	5,751	(69)	150	(117)	(66)	63	52	5,764
	2006	7,676	(125)	21	(137)	(50)	37	15	7,437
	2005	7,895	(117)	(190)	(130)	(38)	17	62	7,499
Capital expenditures	2007	4,064	508	865	69	8	16	(10)	5,520
	2006	3,894	467	699	85	10	21	(62)	5,114
	2005	3,941	304	842	65	19	21	(19)	5,173
Number of employees at year-end(2)	2007	64,362	4,551	10,030	1,016	1,279	2,191		83,429
	2006	66,835	3,066	9,531	919	1,428	1,430		83,209
	2005	69,362	2,494	9,043	886	1,750	1,949		85,484

(1) Revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) The number of employees at year-end excludes employees relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale, and includes personnel with temp work contracts.

**5.4.5 YEAR ENDED DECEMBER 31, 2007 COMPARED WITH YEAR ENDED DECEMBER 31, 2006**

In 2007, **consolidated profit attributable to equity holders of the Parent** was 2,448 million (profit for the year including Minority Interest was 2,455 million), compared to consolidated profit attributable to equity holders of the Parent of 3,014 million (profit for the year including Minority Interest was 3,003 million) in 2006.

The decrease of 566 million in 2007 was due to the following factors:

- operating profit decreased by 1,673 million;
- share of profits of associates and joint ventures accounted for using the equity method increased by 35 million;
- lower finance expenses, net of finance income, of 224 million;
- lower income tax expense of 837 million;
- higher profit from Discontinued operations/Non-current assets held for sale of 29 million;
- higher profit attributable to Minority Interest (an increase of 18 million).

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**Table of Contents**

**Item 5. Operating And Financial Review And Prospects**

**Results Of Operations For The Three Years Ended December 31, 2007**

The following table summarizes the main factors which affected the change in consolidated profit attributable to equity holders of the Parent in 2007:

v **REVENUES**

Our **consolidated revenues** in 2007 were 31,290 million, an increase of 15 million compared to 31,275 million in 2006.

In 2007, in particular, revenues for the **Domestic Business Unit** were adversely affected by the following regulatory changes:

- reduction in the termination rates which occurred in the second half of 2006;
- application of the Bersani Decree starting from March 2007;
- rate adjustments for international roaming traffic within the EU, in accordance with European Commission rulings;
- starting on January 1, 2007, with respect to calls by customers to NGNs of OLOs, Telecom Italia only provided billing services, no longer assuming the risk of insolvency on the relative receivables. Therefore, starting from that date, the revenues and related interconnection costs did not take into account the traffic generated by such calls, which in 2006 had been recognized as revenues with the recognition of the same amount of costs.

Overall, compared to 2006, as a result of these regulatory changes, revenues declined 1,143 million.

In addition to the impact of the above:

- in fixed telecommunications, the increase in Internet revenues as a result of the continuing and strong growth of BroadBand and national Wholesale services did not compensate for the reduction in Retail Telephone revenues. Such decrease, especially on fixed-mobile and domestic traffic, was due to the stronger migration of market volumes from fixed to mobile traffic as well as the reduction in termination rates and high penetration of flat offers. Data Business revenues were also down due to stronger competition on the Corporate client market and the revision of contract prices with the Public Administration. A decline was also recorded in international Wholesale services due to the reduction in transit revenues generated by the termination of some contracts;

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

- in mobile telecommunications, there was a positive trend in value-added service revenues, particularly interactive services and mobile BroadBand, countered by the effects of the application of the new termination rates, the Bersani Decree and the adjustment of international roaming traffic rates.

The **European BroadBand Business Unit** contributed to higher revenues in 2007 due to the positive growth of the customer portfolio in Germany and France.

The growth of the **Brazil Mobile Business Unit** was driven by the expansion of the customer base and the positive contribution of value-added services. In July 2006, regulatory changes occurred (abolition of the *Bill and Keep* rule) which also positively impacted on 2007 revenues.

The **Media Business Unit** had an increase in revenues, reflecting higher advertising compared to 2006 and an increase in revenues from Digital Terrestrial TV.

The **Olivetti Business Unit** revenues decreased due to a reduction in the sales of traditional ink-jet products and accessories and the Gaming area.

Revenues from telecommunications services are shown gross of the portion due to third-party operators of 5,274 million compared with 5,721 million in 2006. Such decrease ( 447 million) takes into account, among other things, the negative impact of the aforementioned change relating to Non-Geographical Numbers and the end of certain international wholesale contracts, partly offset by the change in the termination rates of calls on the network of other operators.

Foreign revenues (based on customer geographical location) amounted to 9,164 million in 2007 ( 7,969 million in 2006); 53.0% of the total came from Brazil (49.3% in 2006).

The table below sets forth, for the periods indicated, gross revenues and consolidated revenues by Business Unit and the percentage of their contributions to our consolidated revenues:

Year ended December 31,					
2007			2006		
Gross Revenues(1)	Consolidated Revenues(2)	% of Consolidated Revenues	Gross Revenues(1)	Consolidated Revenues(2)	% of Consolidated Revenues

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	(millions of Euro, except percentages)					
Domestic	24,220	23,992	76.7%	25,785	25,635	82.0%
European BroadBand	1,545	1,515	4.8%	915	896	2.9%
Brazil Mobile	4,990	4,982	15.9%	3,964	3,959	12.7%
Media	263	240	0.8%	207	197	0.6%
Olivetti	408	352	1.1%	440	385	1.2%
Other Operations(3)	251	209	0.7%	234	203	0.6%
<b>Total revenues</b>	<b>31,677</b>	<b>31,290</b>	<b>100.0%</b>	<b>31,545</b>	<b>31,275</b>	<b>100.0%</b>

(1) Gross revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) Data include revenues recorded by each business area on a consolidated basis after elimination of intercompany sales.

(3) The Other Operations of the Telecom Italia Group consist of the financial companies and the foreign operations which are not included in other Business Units (Entel Bolivia) and other minor companies not associated with the core business of the Telecom Italia Group.

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

The table below sets forth, for the periods indicated, revenues by geographical area and the percentage of total consolidated revenues:

Geographical area	Year ended December 31,			
	2007		2006	
	(millions of Euro, except percentages)			
<b>Italy</b>	<b>22,126</b>	<b>70.7%</b>	<b>23,306</b>	<b>74.5%</b>
Other European countries	3,083	9.9%	2,946	9.4%
Latin America	5,223	16.7%	4,220	13.5%
Other countries	858	2.7%	803	2.6%
<b>Total outside Italy</b>	<b>9,164</b>	<b>29.3%</b>	<b>7,969</b>	<b>25.5%</b>
<b>Total consolidated revenues</b>	<b>31,290</b>	<b>100.0%</b>	<b>31,275</b>	<b>100.0%</b>

v **OTHER INCOME**

**Other income** amounted to 413 million in 2007, a decrease of 193 million compared to 606 million in 2006.

The percentage of other income to revenues was 1.3% in 2007 compared to 1.9% in 2006.

Details are as follows:

	Year ended December 31,	
	2007	2006
	(millions of Euro)	
Compensations for late payment of regulated telephone services	90	91
Release of provisions and other liabilities	74	179
Recovery of employee benefits expenses and services rendered	54	60
Grants related to assets and grants related to income	34	42
Damage compensations and penalties	50	52
Sundry income	111	182
<b>Total</b>	<b>413</b>	<b>606</b>

The decrease in other income of 193 million in 2007 is mainly attributable to a reduction of 105 million in the release of provisions and other liabilities and 71 million in sundry income.

v **OPERATING EXPENSES**

The table below sets forth, for the periods indicated, total consolidated **operating expenses** by major components and expressed as a percentage of total consolidated revenues.

	Year ended December 31,			
	2007		2006	
	(millions of Euro, except percentages)			
Acquisition of goods and services	14,545	46.5%	14,191	45.4%
Employee benefits expenses	3,884	12.4%	3,801	12.1%
Other operating expenses	2,245	7.2%	1,543	4.9%
Changes in inventories	(11)	(0.1%)	(8)	
Internally generated assets	(577)	(1.8%)	(496)	(1.6%)
Depreciation and amortization	5,811	18.6%	5,487	17.5%
(Gains) losses on disposals of non-current assets	(5)		(95)	(0.3%)
Impairment reversals (losses) on non-current assets	47	0.1%	21	0.1%
<b>Total operating expenses</b>	<b>25,939</b>	<b>82.9%</b>	<b>24,444</b>	<b>78.1%</b>



**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

Our operating expenses increased by 1,495 million in 2007 compared to 2006; such increase is detailed as follows:

- **Acquisition of goods and services** increased by 354 million, or 2.5%, from 14,191 million in 2006 to 14,545 million in 2007.

Acquisition of goods and services included:

	Year ended December 31,		
	2007	2006	
	(millions of Euro)		
<b>Acquisition of goods and merchandise for resale</b>	<b>(A)</b>	<b>2,638</b>	<b>2,578</b>
<b>Costs of services:</b>			
Revenues due to other TLC operators		5,274	5,721
Interconnection costs		451	125
Commissions, sales commissions and other selling expenses		1,618	1,511
Advertising and promotion expenses		630	584
Professional consulting and services		485	480
Utilities		422	421
Maintenance		354	350
Outsourcing costs for other services		365	267
Mailing and delivery expenses for telephone bills, directories and other materials to customers		120	106
Other service expenses		1,022	1,005
	<b>(B)</b>	<b>10,741</b>	<b>10,570</b>
<b>Lease and rental costs:</b>			
Property lease rents		602	560
TLC circuit lease rents and rents for use of satellite systems		288	271
Other lease and rental costs		276	212
	<b>(C)</b>	<b>1,166</b>	<b>1,043</b>
<b>Total acquisition of goods and services</b>	<b>(A+B+C)</b>	<b>14,545</b>	<b>14,191</b>

The principal reasons for the increase in Acquisition of goods and services were the following:

- acquisitions of goods and merchandise for resale increased by 60 million, from 2,578 million in 2006 to 2,638 million in 2007. This increase was mainly attributable to the increase in costs for the purchase of products

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and content. The percentage of acquisition of goods and merchandise for resale to revenues was 8.4% (8.2% in 2006);

- costs of services increased by 171 million, or 1.6% in 2007 from 10,570 million in 2006 to 10,741 million in 2007, mainly due to the expansion of BroadBand and higher interconnection costs. The percentage of cost of services to revenues was 34.3% (33.8% in 2006);
- lease and rental costs increase by 123 million, from 1,043 million in 2006 to 1,166 million in 2007. The percentage of lease and rental costs to revenues was 3.7% (3.3% in 2006).
- **Employee benefits expenses** increased by 83 million, or 2.2%, from 3,801 million in 2006 to 3,884 million in 2007. Such increase relates to employees in Italy ( 2 million) and outside Italy ( 81 million, due in part to the inclusion of the AOL internet business in Germany).

The increase relating to employees in Italy is impacted by higher new minimum contract terms ( 80 million for the increase starting from October 2006 for the two-year economic period 2005/2006, as established by the December 3, 2005 Agreement for the telecommunications collective national labor agreement, and the increase starting from October 2007 for the two-year economic period 2007/2008, as established by the July 31, 2007 Agreement for the telecommunications collective national labor agreement), higher expenses for termination benefit incentives ( 80 million) and the inclusion in the scope of consolidation of the company Shared Service Center. These increases were offset by decreases

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

relating to the profit bonus accrued in the second half of 2006 and no longer due following agreements reached with the unions in June 2007 supporting the alignment of the profit bonus of the Parent, Telecom Italia, and other Group companies with the payment criteria established for ex-Tim Italia (- 79 million). Other factors which contributed to the decrease are the positive effects on the actuarial calculation regarding the provision for employee severance indemnities owing to the application of the new law dealing with supplementary pension benefits (- 59 million) and a reduction in the average number of the salaried work force (2,262 people) of the Italian companies.

Employee benefits expenses are detailed as follows:

	Year ended December 31,	
	2007	2006
	(millions of Euro)	
<b>Employee benefits expenses at payroll:</b>		
Wages and salaries	2,693	2,625
Social security expenses	951	796
Employee severance indemnities	68	146
Other employee benefits expenses	76	71
	<b>(A)</b>	<b>3,788</b>
<b>Temp work costs</b>	<b>(B)</b>	<b>57</b>
<b>Miscellaneous expenses for personnel and for other labor-related services rendered:</b>		
Remuneration of personnel other than employees	16	18
Charges for termination benefit incentive plans	161	76
Other	(138)	14
	<b>(C)</b>	<b>39</b>
<b>Total employee benefits expenses</b>	<b>(A+B+C)</b>	<b>3,884</b>
		<b>3,801</b>

The Group's average equivalent number of employees in 2007 was 79,628 units (excluding employees related to Discontinued operations/Non-current assets held for sale and including personnel with temp work contracts) compared to 79,993 units in 2006. The breakdown by category is as follows:

	Year ended December 31,	
	2007	2006

	(Units)	
Executives	1,315	1,384
Middle management	5,234	5,065
White collars	70,519	70,748
Blue collars	341	417
	<hr/>	<hr/>
<b>Total employees at payroll</b>	<b>77,409</b>	<b>77,614</b>
<b>Personnel with temp work contracts</b>	<b>2,219</b>	<b>2,379</b>
	<hr/>	<hr/>
<b>Total employees</b>	<b>79,628</b>	<b>79,993</b>
	<hr/>	<hr/>

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

- **Other operating expenses** increased by 702 million (or 45.5%), from 1,543 million in 2006 to 2,245 million in 2007. Such operating expenses consist of the following:

	Year ended December 31,	
	2007	2006
	(millions of Euro)	
Impairments for bad debts and charges for non-financial credit management	960	564
Provision charges	323	107
TLC operating fees	283	236
Taxes on revenues of South American companies	266	222
Duties and indirect taxes	158	159
Penalties, compensations and administrative fines	60	49
Association fees, donations, scholarships and trainingships	27	25
Other expenses	168	181
<b>Total other operating expenses</b>	<b>2,245</b>	<b>1,543</b>

The increase in Other operating expenses in 2007 compared to 2006 is mainly due to the Domestic Business Unit and, to a lesser degree, to the Brazil Mobile Business Unit.

The following were the most important factors:

higher impairments for bad debts relating to the management of overdue receivables from mobile telephone customers with post-paid type contracts and uncollectible receivables due from fixed telephone customers where the contracts had been terminated, as well as higher expenses connected with the management of receivables regarding settlements with other operators;

higher provision charges recorded in respect of the negative development on disputes of a regulatory nature with other fixed and mobile telephone operators occurring during the last few months of the year as well as a fine levied on Telecom Italia by the Antitrust Authority in August 2007 for alleged unfair trade practices.

- **Internally generated assets** are costs relating to equipment, installations and services capitalized by Group companies. These capitalized costs increased by 81 million (or 16.3%), from 496 million in 2006 to 577 million in 2007, and are relating to:

Year ended December 31,	
2007	2006

	(millions of Euro)	
Intangible assets with a finite useful life	365	318
Property, plant and equipment owned	212	178
	<u>          </u>	<u>          </u>
<b>Total internally generated assets</b>	<b>577</b>	<b>496</b>
	<b><u>          </u></b>	<b><u>          </u></b>

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

- **Depreciation and amortization** increased by 324 million (or 5.9%), from 5,487 million in 2006 to 5,811 million in 2007. The percentage of depreciation and amortization to revenue was 18.6% in 2007 (17.5% in 2006).

Depreciation and amortization are detailed as follows:

	Year ended December 31,	
	2007	2006
(millions of Euro)		
<b>Amortization of Intangible assets with a finite useful life:</b>		
Industrial patents and intellectual property rights	1,760	1,760
Concessions, licenses, trademarks and similar rights	323	310
Other intangible assets	298	110
	<b>(A) 2,381</b>	<b>2,180</b>
<b>Depreciation of tangible assets owned:</b>		
Property	44	48
Plant and equipment	2,795	2,644
Manufacturing and distribution equipments	31	33
Aircrafts and ships	7	7
Other assets	423	446
	<b>(B) 3,300</b>	<b>3,178</b>
<b>Depreciation of tangible assets held under finance lease:</b>		
Property	100	99
Plant and equipment	1	1
Aircrafts and ships	4	4
Other assets	25	25
	<b>(C) 130</b>	<b>129</b>
<b>Total depreciation and amortization</b>	<b>(A+B+C) 5,811</b>	<b>5,487</b>

**Amortization of intangible assets with a finite useful life** increased by 201 million in 2007 mainly in connection with higher amortization charges of 176 million on capitalized Subscriber Acquisition Costs ( **SAC** ) related to contracts with a minimum contractual period of 12 or 24 months which include an enforced termination penalty, as well as the effect of changes in exchange rates.

**Depreciation of tangible assets (owned and held under finance lease)** increased by 122 million. The increase was mainly due to the higher capital expenditures for the development of infrastructure for the Domestic mobile business as well as the European BroadBand Business Unit.

- **(Gains) losses on disposals of non-current assets** changed by 90 million from a net gain of 95 million in 2006 to a net gain of 5 million in 2007. Such item includes the release of a portion of the gain deferred at the time of the sale of properties to Tiglio II ( 10 million), partly offset by net losses ( 5 million). In 2006, this item included 135 million of gains, net of incidental expenses, relating to the sale of properties to the closed-end real estate investment funds Raissa and Spazio Industriale, 27 million for the gain on the sale of the entire investment in Ruf Gestion, 33 million for the loss on the sale of the entire investment in Telecom Italia Learning Services, 9 million for the loss on the sale of the Radio-maritime business and 25 million of other net losses.
- **Impairment losses on non-current assets** increased by 26 million, from 21 million in 2006 to 47 million in 2007, and include 23 million of writedowns on intangible assets and 24 million of writedowns on tangible assets referring to certain software projects and unutilized equipment mainly concentrated in the Domestic and Olivetti Business Units.

v **OPERATING PROFIT**

**Operating profit** decreased by 1,673 million, or 22.5%, from 7,437 million in 2006 to 5,764 million in 2007. As a percentage of revenues, operating profit was 18.4% in 2007 (23.8% in 2006).



**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**v **SHARE OF PROFITS (LOSSES) OF ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD**

The **Share of profits (losses) of associates and joint ventures accounted for using the equity method** recorded profits of 86 million (profits of 51 million in 2006), an increase of 35 million compared with 2006.

This item covers the following investments:

	Year ended December 31,	
	2007	2006
	(millions of Euro)	
ETECSA.	49	47
Sofora Telecomunicaciones S.A.	25	3
Solpart Participações S.A.		1
Tiglio I and Tiglio II	11	(2)
Other investments	1	2
<b>Total share of profits (losses) of associates and joint ventures accounted for using the equity method</b>	<b>86</b>	<b>51</b>

For further details about the above mentioned investments accounted for using the equity method please see Item 4. Information on the Telecom Italia Group 4.2 Business Units 4.2.7 Other Telecom Italia Group Activities , and Note Other Non-current assets of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v **FINANCE INCOME AND EXPENSES, NET**

**Total finance income and expenses** showed a net expense balance of 1,749 million (a net expense balance of 1,973 million in 2006), representing a decrease of 224 million compared to 2006.

The percentage of net finance expenses to revenues was 5.6% compared with 6.3% in 2005.

Net finance income and expenses are detailed as follows:

Year ended December 31,

	2007	2006
	(millions of Euro)	
Financial management balance(*)	(2,216)	(2,332)
Investment management	467	238
Avea I.H.A.S. provisions released to income		121
<b>Total finance income and expenses, net</b>	<b>(1,749)</b>	<b>(1,973)</b>

(\*) Refers mainly to net interest expenses and other borrowing costs, foreign exchange gains and losses and income and expenses from hedging and non-hedging derivatives.

The financial management balance was influenced by the following factors:

- the valuation at fair value of the call options on 50% of the share capital of Sofora Telecomunicaciones, resulting in a positive adjustment of 70 million in 2007 ( 30 million in 2006);
- the positive net effect ( 55 million) of the winding-up of cash flow hedge derivatives following the early repayment of 1,500 million of the Term Loan for a total amount of 3,000 million due 2010.

Investment management in 2007 includes, in particular, the gains, net of incidental expenses, on the sale of the entire stake held in Oger Telecom ( 86 million), Capitalia ( 38 million), Mediobanca ( 109 million), Solpart Participações ( 201 million) and Brasil Telecom Participações ( 27million).

Investment management in 2006 included the gains on the sale of all the shares held in Neuf Télécom ( 148 million) and the sale of Avea I.H.A.S. ( 72 million).

**Table of Contents**

**Item 5. Operating And Financial Review And Prospects**

**Results Of Operations For The Three Years Ended December 31, 2007**

In 2006, net finance income and expenses was positively impacted by the release to income of the remaining provisions set up for the guarantees provided to banks in connection with our investment in Turkey and cancelled in the month of September 2006 ( 121 million).

For further details about finance income and finance expenses, please see Note Finance income and Note Finance expenses , respectively, of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v **PROFIT BEFORE TAX FROM CONTINUING OPERATIONS**

**Profit before tax from continuing operations** decreased by 1,414 million (from 5,515 million in 2006 to 4,101 million in 2007).

As a percentage of revenues, profit before tax from continuing operations was 13.1% in 2007 (17.6% in 2006).

v **INCOME TAX EXPENSE**

**Income tax expense** for the year decreased by 837 million, or 33.2%, from 2,519 million in 2006 to 1,682 million in 2007. This decrease was not only due to a decrease in the taxable income but also to the tax benefit represented by the recovery of withholding taxes on interest earned prior to January 1, 2004 in favor of the subsidiaries residing in the European Union following the issue of Decree Law 10 dated February 15, 2007, converted with Law 46/2007, for a gross amount of 143 million; such gross benefit was reduced by the relevant tax effect of 47 million, which reduced the net positive impact to 96 million.

For further details about income taxes, please see Note Income tax expense of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

The percentage of income tax expense to revenues was 5.4% in 2007 compared to 8.1% in 2006.

v **PROFIT FROM CONTINUING OPERATIONS**

**Profit from continuing operations** decreased by 577 million, or 19.3%, from 2,996 million in 2006 to 2,419 million in 2007.

As a percentage of revenues, profit from continuing operations was 7.7% in 2007 (9.6% in 2006).

v **PROFIT (LOSS) FROM DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE**

**Profit from Discontinued operations/Non-current assets held for sale** increased by 29 million, from 7 million in 2006 to 36 million in 2007.

In 2007 such item included 40 million for the release to income of the provision previously recorded in connection with the sale of Tim Hellas carried out in 2005 as well as provision charges and expenses in connection with transactions for sales which occurred in 2006 and in prior years.

In 2006, such item included the result and the gain on the sale of Digitel Venezuela and accruals made to provision charges referring to sales transactions carried out in prior years.

v **PROFIT FOR THE YEAR**

**Profit for the year** in 2007 decreased by 548 million, or 18.2%, from 3,003 million in 2006 to 2,455 million in 2007.

As a percentage of revenues, profit for the year was 7.8% in 2007 (9.6% in 2006).

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

In particular:

- profit attributable to equity holders of the Parent in 2007 was 2,448 million compared with 3,014 million in 2006, a decrease of 566 million;
- profit (loss) attributable to Minority Interest in 2007 was a profit of 7 million compared to a loss of 11 million in 2006.

**5.4.6 RESULTS OF OPERATIONS OF BUSINESS UNITS FOR THE YEAR ENDED DECEMBER 31, 2007 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2006.**

v **DOMESTIC**

The following table sets forth, for the periods indicated, certain financial and other data for the Domestic Business Unit. The data relating to 2006 have been reclassified and presented consistent with the 2007 presentation.

	Year ended December 31,	
	2007	2006
	(millions of Euro, except	
	percentage and employees)	
Gross revenues	24,220	25,785
Operating profit	5,751	7,676
% of gross revenues	23.7	29.8
Number of employees at year-end	64,362	66,835

**Gross revenues** decreased by 1,565 million, or 6.1%, from 25,785 million in 2006 to 24,220 million in 2007.

In 2007, in particular, gross revenues were affected by the following regulatory changes:

- the reduction in the termination rates which occurred in the second half of 2006 ( 209 million);

- the effects of the application of the Bersani Decree beginning from March 2007 (estimated at 404 million net of approximately 226 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);
- the rate adjustments for international roaming traffic within the EU, in accordance with the decisions of the European Commission (estimated at 88 million); and
- starting from January 1, 2007, and following a change in Regulations and agreement on new contracts with OLOs relating to calls by customers to NGNs of such OLOs, Telecom Italia no longer recognized the revenues and related interconnection costs associated with the traffic generated by such calls, which in 2006 resulted in the recognition of revenues and costs of 442 million.

In total, compared to the prior year, these changes (including the NGNs effect) amount to 1,143 million.

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

	Year ended December 31,	
	2007	2006
	(millions of Euro)	
Gross revenues	24,220	25,785
<i>of which:</i>		
<i>Fixed Telecommunications</i>	15,727	16,988
<i>Mobile Telecommunications</i>	9,922	10,210
<i>Eliminations and central functions contribution</i>	(1,429)	(1,413)

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**Table of Contents**

**Item 5. Operating And Financial Review And Prospects**

**Results Of Operations For The Three Years Ended December 31, 2007**

An analysis of the main components of the Business Unit's revenues is as follows:

- **Revenues from Fixed Telecommunications** decreased by 1,261 million, or 7.4%, from 16,988 million in 2006 to 15,727 million in 2007.

The performance of the major business areas was as follows:

*Retail Telephone*

Retail Telephone services consist mainly of services offered using tradition technology (PSTN and ISDN) as well as innovative technology (VoIP). Retail telephone services include: access to the network, traffic (in terms of minutes of retail traffic and tariff packages), equipment rental and assurance and value added services for voice. Retail Telephone revenues consist mainly of traffic revenues, fee revenues and sales revenues. In particular, traffic revenues are directly related to traffic volumes, tariffs and fees for tariff packages; fees are attributable to access fees, fees for additional services and for equipment rental and assurance; sales revenues are related to sales of equipment (telephones).

Revenues from Retail Telephone services were 8,358 million in 2007, a decrease of 950 million (10.2%) compared to 2006.

Excluding the effect of the above-mentioned changes relating to NGNs, the reduction was 7.5% and was mainly due to traffic (a decrease of 329 million, or 8.5%) and access (a decrease of 178 million, or 4.3%). With respect to traffic, the decrease was due to lower volumes and prices, especially on fixed-mobile traffic and national traffic. The first was affected by the migration of volumes from fixed to mobile traffic and the cut in fixed-mobile termination rates while the second was hurt by the decline in the prices associated with a higher penetration of flat rate plans principally with retail customers and the lower volumes were also produced by a smaller customer base. The smaller customer base also led to a strong contraction in traditional access revenues compared to 2006.

*Internet*

Revenues from Retail Internet consist primarily of revenues from ADSL (mass market broadband access) for access fees and traffic, and revenues from Internet dial-up traffic revenues.

Revenues generated by the Internet area, were 1,468 million in 2007 as decreased of 43 million (2.8%) compared to 2006.

Excluding the effect deriving from the above-mentioned changes relating to NGNs, the change is an increase in revenues of 128 million (9.6%) compared to 2006. The increase was due to the continuing strong growth of BroadBand and Content revenues which recorded increases of 11.1% and 44.4%, respectively, compared to 2006 (+ 154 million in total).

The overall portfolio of BroadBand accesses on the domestic market reached 7.6 million customers, of which 6.4 million were Retail. The strategy encouraging the migration of customers to innovative BroadBand access solutions continues; these solutions allow the use of new-generation IP services and applications: in particular, Flat and Semiflat rate plans reached 64% of the entire Alice Consumer customer portfolio and the VoIP customer portfolio grew to 1.3 million accesses representing about 20% of total Retail BroadBand accesses. Expansion is also moving forward in IPTV services on the Consumer market and in the development of web content and services.

#### *Data Business*

Data Business consist primarily of data transmission and network services for business customers and leased lines (trunk lines offering a customer-subscriber a permanent connection for telecommunication services between two geographically separate points). This kind of connection can be used to handle high volume voice, data or video transmission.

Revenues from the Data Business area, equal to 1,673 million in 2007, declined by 70 million (4.0%) compared to 2006; the reduction was recorded almost 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 traditional Data Transmission services, ICT services, however, continued to register dynamic growth, increasing 43 million (7.2%) compared to 2006, and BroadBand Data recorded an increase of 28 million compared to 2006, or 5.8%.



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**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007***Wholesale*

Wholesale consists of domestic and international services to other domestic and international operators. Services offered to other domestic operators (wireline and wireless operators as well as Internet service providers) consist mainly of interconnection to Telecom Italia's network, in terms of access and traffic (carried traffic and transits); broadband access (ADSL and XDSL access), and leased lines. Services offered to international operators consist mainly of traffic (carried traffic and transits) and data access.

Revenues from Wholesale services amounted to 3,786 million in 2007 and showed an overall decrease of 203 million (5.1%) compared to 2006.

Revenues from national wholesale services amounted to 2,374 million, an increase of 243 million (or 11.4%) compared to 2006. This was mainly attributable to regulated services (an increase of 127 million for the growth of unbundled lines) and wholesale data (an increase of 84 million due to the increase in the customer base of other operators). International wholesale services recorded revenues of 1,412 million in 2007, a decrease of 446 million, or 24.0%, compared to 2006 due to the decline in revenues from transit traffic previously generated by certain contracts which were terminated by Telecom Italia starting from the second quarter of 2007.

- **Revenues from Mobile Telecommunications**, equal to 9,922 million in 2007, decreased by 2.8% (a decrease of 2.7% in revenues from services).

The lower revenues reflect a downward adjustment of 56 million as a result of the award set by the arbitration board in the case with H3G regarding termination rates on traffic originated and received between the two operators. The arbitration board, sided with H3G on the invalidity of the contractual agreements signed by the parties, which, for the period September 1, 2005 to December 31, 2007, had called for the payment of termination rates on the Telecom Italia network that were higher than the maximum prices set by the AGCom in its resolutions 285/05/CONS and 03/06/CONS, and confirmed the mandatory retroactive effectiveness of such resolutions.

Revenues were also 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 European Union in accordance with rulings by the European Commission.

Revenues from Value-Added Services ( **VAS** ) continued to grow, totalling 1,928 million in 2007 in the retail segment. This represented an increase of 16.8% compared to 2006 and was attributable to continuing innovations in the offering concept and portfolio and greater penetration of interactive and mobile BroadBand services (revenues from national browsing +60%). The percentage of VAS to total service revenues is now 21% (18% in 2006) with a peak of 23% in the last quarter. Telephone revenues (excluding the impact of the arbitration award in the case with H3G) were 6,811 million and show (despite the significant growth in traffic volumes, an increase of 8.6% compared to the prior year, an increase of 15.9% in the last quarter) a decrease both in outgoing traffic (a decrease of 5.5%) and incoming traffic (a decrease of 9.9%) that was entirely attributable to the aforementioned negative impact of the regulatory changes.

Revenues from the sale of handsets totaled 773 million in 2007, a decrease of 38 million (4.7%) compared to 2006 due mainly to continually decreasing average prices.

At December 31, 2007, the number of Telecom Italia mobile lines was 36.3 million (of which 6.1 million were UMTS, accounting for 16.8% of total lines), with a growth of 3.9 million compared to December 2006, and a steady market share at 40.3%.

The contribution of the Domestic Business Unit to our consolidated revenues amounted to 23,992 million in 2007 and 25,635 million in 2006.

**Operating profit** decreased by 1,925 million in 2007, or 25.1%, from 7,676 million in 2006 to 5,751 million in 2007, with the percentage of Operating profit to revenues at 23.7% (29.8% in 2006).

Operating profit was adversely impacted by the above-mentioned regulatory changes by 487 million, of which:

- 404 million was due to the elimination of recharging fees, net of the positive impact elimination of recharging fees had on customers which increased volumes by 226 million;

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**Table of Contents**

**Item 5. Operating And Financial Review And Prospects**

**Results Of Operations For The Three Years Ended December 31, 2007**

- 54 million was due to the change in fixed-mobile termination rates; and
- 29 million was due to the rate adjustment for international roaming traffic within the EU in accordance with the decisions of the European Commission.

In addition, the Business Unit recorded:

- higher provision expenses for bad debts to cover risk arising both from the increase in overdue mobile telephone receivables relating to post-paid contracts and the increase in receivables from fixed telephone customers where the contracts had been terminated (uncollectible receivables);
- higher losses due to settlements, mainly settlement agreements, reached with other operators;
- higher provision expenses as a consequence of unfavorable developments occurring at the end of the year relating to disputes of a regulatory nature with other operators as well as the fine levied on Telecom Italia by the Antitrust Authority in August 2007 for alleged unfair trade practices.

With respect to changes in costs:

- acquisition of goods and services decreased by 534 million in 2007, or 5.0%, from 10,749 million in 2006 to 10,215 in 2007. The decline is mainly due to the reduction in the portion to be paid to other operators following the previously mentioned contractual changes relating to NGNs and lower international Wholesale transit traffic. This effect was partially offset by the increase in the amount generated by changes in the termination rates of voice calls on the fixed and mobile networks of other operators. Added to that are the increases in the costs for the acquisition of equipment for resale, selling and advertising expenses, lease installments (property, circuits, use of satellite systems, etc.) as well as costs relating to the lease of radio base stations for mobile telephony and costs for the utilization of television rights;
- employee benefits expenses were 3,282 million in 2007, an amount basically in line with 2006 (an increase of 6 million). The positive effects (a decrease of 79 million) from the profit bonus accrued in the second half of 2006 and no longer due following agreements reached with the unions in June 2007 supporting the alignment of the profit bonus of the Parent, Telecom Italia, with the criteria established for ex-Tim Italia, and the actuarial calculation for employee benefits regarding the provision for employee severance indemnities owing to the application of the new law dealing with supplementary pension benefits (a decrease of 51 million) were offset by higher costs for employee termination incentives (an increase of 82 million) and higher costs connected with the increase in the new minimum contract terms, from October 2006 for the two-year economic period 2005-2006 and from October 2007 for the two-year economic period 2007-2008;
- other operating expenses were 1,338 million in 2007 (an increase of 516 million compared to 2006). The change is principally attributable to higher impairment losses and expenses connected with credit management (an increase of 287 million), higher provision expenses due to unfavorable developments occurring at the end of the year regarding disputes of a regulatory nature with other operators and the fine levied on Telecom Italia by the Antitrust Authority in August 2007 for alleged unfair trade practices (an increase of 201 million).

Operating profit was also adversely affected by the reduction in net gains on disposals of non-current assets by 96 million (2006 had benefited from gains on transactions for the sale of properties) and higher write-downs for 17 million mainly in reference to software projects and unutilized equipment and telephonic material in the process of being replaced by more technologically advanced equipment. Depreciation and amortization increased compared to 2006 by 93 million mainly due to depreciation taken on mobile telephony installations and amortization recorded on capitalized Subscriber Acquisition Costs relating to some specific sales plans for mobile telephony introduced in 2006, offset in part by the reduction in amortization charges on software.

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**v **EUROPEAN BROADBAND**

The following table sets forth, for the periods indicated, certain financial and other data for the European BroadBand Business Unit.

	Year ended December 31,	
	2007	2006
	(millions of Euro, except percentages and employees)	
Gross revenues	1,545	915
Operating loss	(69)	(125)
% of gross revenues	(4.5)	(13.7)
Number of employees at year-end	4,551	3,066

**Gross revenues** were 1,545 million in 2007 compared to 915 million in 2006, an increase of 630 million, or 68.9%. Such increase was due to growth 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 December 31, 2007 reached 3.4 million accesses (1.1 million of which related to the acquisition of AOL Germany). Similarly, at the end of 2007, the Narrowband customer portfolio reached 0.8 million accesses compared to 0.2 million at December 31, 2006.

Revenues from business conducted in Germany, 1,074 million in 2007, increased by 103.4% compared to 2006 (or 546 million). The BroadBand customer portfolio in Germany at December 31, 2007 reached more than 2.3 million accesses and grew by about 1.4 million compared to December 31, 2006; the growth would be 0.3 million if the accesses attributable to new acquisitions are excluded.

With regard to France, in 2007, revenues were 394 million, up 27.1% compared to 2006 (an increase of 84 million). Compared to 2006, the BroadBand customer portfolio increased by 16.3% or 126,000 new customers.

The Netherlands contributed 77 million to total revenues, in line with 2006 performance. The loss of Wholesale ADSL customers (a decrease of 54,000 customers) was offset by an increase in the number of customers in the Retail, Voice and Fiber (Wholesale and Retail) area (an increase of 56,000 customers).

The contribution of the European BroadBand Business Unit to our consolidated revenues amounted to 1,515 million in 2007 and 896 million in 2006.

**Operating loss** decreased by 56 million (a loss of 69 million in 2007 compared to a loss of 125 million in 2006). This improvement was achieved despite a considerable increase in costs.

The increase in costs was attributable to the following:

- acquisition of goods and services amounted to 1,146 million in 2007, with an increase of 54.7%, or 405 million compared to 2006, on a par with the growth in the business;
- employee benefits expenses amounted to 191 million in 2007 and increased by 67 million, or 54.0%, compared to 2006, partly due to the increase in the number of employees as a result of the acquisition of AOL Germany;
- the increase in depreciation and amortization is equal to 115 million. Such charges were due to both significant capital expenditures 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 a penalty in the event of early cancellation, are capitalized and amortized.

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**v **BRAZIL MOBILE**

The following table sets forth, for the periods indicated, certain financial and other data for Brazil Mobile Business Unit.

	<u>Year ended December 31,</u>	
	<u>2007</u>	<u>2006</u>
	(millions of Euro, except percentage and employees)	
Gross revenues	4,990	3,964
Operating profit	150	21
% of gross revenues	3.0	0.5
Number of employees at year-end	10,030	9,531

**Gross revenues** were 4,990 million in 2007 compared to 3,964 million in 2006, an increase of 1,026 million, or 25.9%. The increase was due to growth in both voice services and value-added services sustained by the continuing expansion of the customer base (31.3 million mobile lines at December 31, 2007 compared with 25.4 million mobile lines at December 31, 2006) and the success of commercial offerings.

In July 2006, Anatel (the Brazilian regulatory agency) eliminated the Bill and Keep regulation under which Mobile Operators, until that date, did not receive or pay interconnection charges on the minutes of local mobile-mobile traffic when the balance between the incoming and outgoing minutes exchanged with an operator fell within a 45%-55% range. This change had a positive impact on revenues in 2007 and 2006 of 675 million and 262 million respectively.

The contribution of the Brazil Mobile Business Unit to our consolidated revenues amounted to 4,982 million in 2007 and 3,959 million in 2006.

**Operating profit** in 2007 was 150 million compared to 21 million in 2006, an improvement of 129 million. The improvement in 2007 was due to the above mentioned increase in gross revenues, although such increase was offset in large part by higher costs. The increased costs were attributable to the following:

- acquisition of goods and services were 2,810 million in 2007, an increase of 27.2% compared to 2006 ( 2,210 million), mainly due to the increase in interconnection charges and the elimination of Bill and Keep regulation. Such purchases as a percentage of gross revenues were 56.4% (55.8% in 2006);

- employee benefits expenses were 223 million in 2007 and increased by 7.2% compared to 2006 ( 208 million) due to the increase in the workforce numbers. Employee benefits expenses as a percentage of gross revenues were 4.5% in 2007 (5.3% in 2006);
- other operating expenses were 821 million in 2007 and increased by 27.8% compared to 2006 ( 642 million). They include sundry expenses principally made up of indirect taxes and duties, TLC operating fees, bad debts, write-downs and losses ( 268 million in 2007 compared to 164 million in 2006) and other items ( 18 million in 2007 compared to 11 million in 2006);
- depreciation and amortization were 1,048 million in 2007 and increased by 12.7% compared to 2006 ( 930 million) as a consequence of higher investments in network infrastructure, information systems and subscriber acquisition costs. The latter costs (referring to subsidies for the purchase of handsets when there are contracts binding the customer to the company for a period of at least 12 months, with a penalty applied in the event of the early cancellation of the contract) are capitalized and amortized over the minimum period of the underlined contract; in 2007, such costs resulted in higher amortization of 136 million ( 58 million in 2006).



**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**v **MEDIA**

The following table sets forth, for the periods indicated, certain financial and other data for the Media Business Unit.

	Year ended December 31,	
	2007	2006
	(millions of Euro, except percentage and employees)	
Gross revenues	263	207
Operating loss	(117)	(137)
% of gross revenues	(44.5)	(66.2)
Number of employees at year-end	1,016	919

**Gross revenues** increased by 56 million, or 27.1% , from 207 million in 2006 to 263 million in 2007. The increase in gross revenues was due to the increase in the gross domestic advertising business (+11.6%), which outpaced the flat sale of the Italian advertising market's television sector which increased only 1.2% in 2007 (source Nielsen), confirming the consensus of the editorial content of the broadcasting of the two channels and the considerable increase in the revenues of the Digital Terrestrial TV platform as a result of broadcasting Premier League soccer games.

In particular:

- revenues from analog Free to Air amounted to 160 million in 2007, an increase of 10.9% compared to the prior year. The revenues of La7 and MTV from analog broadcasting grew, respectively, by 15.8% and 7.8% and advertising on La7 increased by 15.8%;
- revenues from the Multimedia sector amounted to 32 million in 2007, an increase of 33.5% compared to the prior year and benefited from the considerable advertising contribution, especially on internet platforms;
- revenues from Digital Terrestrial TV ( **DTT** ) operations amounted to 63 million in 2007, an increase of 99.0% compared to 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 Premier League soccer games on the DTT and DVB-H platforms;
- revenues from the News sector amounted to 10 million in 2007, an increase of 8.6% compared to 2006.

The contribution of the Media Business Unit to our consolidated revenues amounted to 240 million in 2007 and 197 million in 2006.

**Operating loss** decreased by 20 million, or 14.6%, from a loss of 137 million in 2006 to a loss of 117 million in 2007. In particular, operating profitability during 2007 improved in:

- Digital Terrestrial TV operations ( 27 million), reflecting the above-mentioned increase in revenues (+ 31million), as well as a 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).
- Multimedia sector ( 3 million), which benefited from the considerable advertising contribution.

Free to Air broadcasting operating profitability reflects the actions, carried out in the previous year, to focus resources on a higher audience/advertising return programs.

The improvement in operating loss, was also offset by higher depreciation and amortization ( 7 million) in 2007 for digital network infrastructures whose return is postponed as a consequence of the delay of the switch off.

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**v **OLIVETTI**

The following table sets forth, for the periods indicated, certain financial and other data for the Olivetti Business Unit.

	Year ended December 31,	
	2007	2006
	(millions of Euro, except percentage and employees)	
Gross revenues	408	440
Operating loss	(66)	(50)
% of gross revenues	(16.2)	(11.4)
Number of employees at year-end	1,279	1,428

**Gross revenues** decreased by 32 million, or 7.3%, from 440 million in 2006 to 408 million in 2007.

With respect to business lines, the decrease in revenues in 2007 can be ascribed mainly to lower sales of ink-jet products and accessories, particularly in the last months of 2007, as well as gaming products, partially offset by revenues of new Carsoli factory activities and by starting of new hire agreements. Printers used for banking applications, although reporting lower sales because of the weakness of the U.S. dollar against the euro, grew during the period in terms of sales volumes by 13% compared to 2006.

The contribution of the Olivetti Business Unit to our consolidated revenues was 352 million in 2007 and 385 million in 2006.

**Operating loss** increased by 16 million, or 32.0%, from 50 million in 2006 to 66 million in 2007. Such increase is mainly due to the restructuring and rationalizing process that involved expenses for 32 million, of which 7 million related to the personnel reduction, 7 million related to write-downs of inventories, 10 million for provision expenses and other charges and 6 million for the impairment loss on industrial assets.

**5.4.7 YEAR ENDED DECEMBER 31, 2006 COMPARED WITH YEAR ENDED DECEMBER 31, 2005**

In 2006, **consolidated profit attributable to equity holders of the Parent** was 3,014 million (profit including Minority Interest was 3,003 million), compared to consolidated profit attributable to equity holders of the Parent of 3,216 million (profit including Minority Interest was 3,690 million) in 2005.

The decrease of 202 million in 2006 was principally due to the following factors:

- operating profit decreased by 62 million;
- share of profits of associates and joint ventures accounted for using the equity method increased by 28 million;
- lower finance expenses, net of finance income of 14 million: the improvement in the financial management balance ( 173 million) was partly offset by a lower result from investment management and the release in the year 2005 of provisions relating to Avea I.H.A.S.;
- higher income tax expense of 124 million, due to the increase of the tax base and the income tax expense recorded by the Parent Company;
- lower Profit from Discontinued operations/Non-current assets held for sale of 543 million. In 2005, this item included profit from Discontinued operations/Non-current assets held for sale totalling 506 million;
- lower profit attributable to Minority Interest (a decrease of 485 million), mainly in connection with the TIM merger transaction (tender offer and merger). During 2005, the total control of the domestic mobile business was reached as a result of the tender offer in January and the merger in June.

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

The following table summarizes the main factors which affected the change in consolidated profit attributable to equity holders of the Parent in 2006:

v **REVENUES**

Our **consolidated revenues** in 2006 were 31,275 million, an increase of 1,356 million, or 4.5% compared to 29,919 million in 2005.

The growth in revenues reflected the following developments in the Business Units:

- a decrease in revenues of the **Domestic Business Unit**. In particular:
  - in fixed telecommunications the increase in revenues due to constant growth of the wholesale services was more than offset by a decline in the traditional telephony market which was impacted by the reduction in fixed-mobile termination rates and the migration of voice traffic from the fixed to the mobile network;
  - in mobile telecommunications the increase in revenues, particularly due to the expansion of value-added services, as well as the positive trend of revenues from outgoing voice traffic and the growth of revenues from handset sales, was partly offset by the negative impact of the new fixed-mobile and mobile-mobile termination rates that came into effect;
- an increase in the revenues of the **European BroadBand Business Unit** due to the positive growth of the customer portfolio in Germany and France;
- a significant contribution by the **Brazil Business Unit**, driven by the expansion of its customer base, growth in VAS and a positive foreign exchange rate effect. In July 2006, regulatory changes were introduced (abolition of the *Bill and Keep* rule) which generated a positive impact on revenues and a corresponding increase in interconnection costs;
- an increase in the revenues of the **Media Business Unit** which showed a positive trend compared to the year 2005 due to national advertising which grew at a faster pace than the market and the contribution made by digital terrestrial Pay-per-View revenues;
- a reduction in the revenues of the **Olivetti Business Unit** due to the decline in traditional Ink-jet and Gaming sales, which was partly compensated by the growth in specialized printers, new ink jet products and professionals office products.

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

Revenues from telecommunications services are shown gross of the portion due to third-party operators of 5,721 million compared with 4,829 million in 2005. Such increase ( 892 million or 18.5%) takes into account the positive impact of the regulatory changes (abolition of the *Bill and Keep* rule) that were applied to the Brazilian market from July 2006.

Foreign revenues (based on customer geographical location) amounted to 7,969 million in 2006 ( 6,165 million in 2005); 49.3% of the total came from Brazil (46.6% in 2005).

The table below sets forth, for the periods indicated, gross revenues and consolidated revenues by Business Unit and the percentage of their contributions to our consolidated revenues:

	Year ended December 31,					
	2006			2005		
	Gross Revenues(1)	Consolidated Revenues(2)	% of Consolidated Revenues	Gross Revenues(1)	Consolidated Revenues(2)	% of Consolidated Revenues
	(millions of Euro, except percentages)					
Domestic	25,785	25,635	82.0%	25,820	25,698	85.9%
European BroadBand	915	896	2.9%	565	550	1.8%
Brazil Mobile	3,964	3,959	12.7%	2,900	2,895	9.7%
Media	207	197	0.6%	180	176	0.6%
Olivetti	440	385	1.2%	452	400	1.3%
Other Operations(3)	234	203	0.6%	280	200	0.7%
<b>Total revenues</b>	<b>31,545</b>	<b>31,275</b>	<b>100.0%</b>	<b>30,197</b>	<b>29,919</b>	<b>100.0%</b>

(1) Gross revenues are total revenues of the various business units of the Telecom Italia Group before elimination of intercompany sales (but after elimination of sales between companies within the same major business area).

(2) Data include revenues recorded by each business area on a consolidated basis after elimination of intercompany sales.

(3) The Other Operations of the Telecom Italia Group consist of the financial companies and the foreign operations which are not included in other Business Units (Entel Bolivia) and other minor companies not associated with the core business of the Telecom Italia Group.

The table below sets forth, for the periods indicated, revenues by geographical area and the percentage of total consolidated revenues:

Year ended December 31,

Geographical area	2006		2005	
	(millions of Euro, except percentages)			
<b>Italy</b>	<b>23,306</b>	<b>74.5%</b>	<b>23,754</b>	<b>79.4%</b>
Other European countries	2,946	9.4%	2,265	7.6%
Latin America	4,220	13.5%	3,147	10.5%
Other countries	803	2.6%	753	2.5%
<b>Total outside Italy</b>	<b>7,969</b>	<b>25.5%</b>	<b>6,165</b>	<b>20.6%</b>
<b>Total consolidated revenues</b>	<b>31,275</b>	<b>100.0%</b>	<b>29,919</b>	<b>100.0%</b>

v **OTHER INCOME**

**Other income** amounted to 606 million, a decrease of 72 million compared to 678 million in 2005.

The percentage of other income to revenues was 1.9% in 2006 compared to 2.3% in 2005.

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

Details are as follows:

	Year ended December 31,	
	2006	2005
	(millions of Euro)	
Compensations for late payment of regulated telephone services	91	105
Release of provisions and other liabilities	179	228
Recovery of employee benefits expenses and services rendered	60	56
Grants related to assets and grants related to income	42	47
Damage compensations and penalties	52	35
Sundry income	182	207
<b>Total</b>	<b>606</b>	<b>678</b>

The decrease of 72 million in 2006 is mainly attributable to a reduction of 49 million in the release of provisions and other liabilities (which in 2005 included 37 million of the release of provisions relating to the Antitrust fine of 152 million imposed in 2004 for the alleged abuse of a dominant position in the market which, after appeals by the parties, was reduced to 115 million).

**v OPERATING EXPENSES**

The table below sets forth, for the periods indicated, total consolidated **operating expenses** by major components and expressed as a percentage of total consolidated revenues.

	Year ended December 31,			
	2006		2005	
	(millions of Euro, except percentages)			
Acquisition of goods and services	14,191	45.4%	12,937	43.2%
Employee benefits expenses	3,801	12.1%	4,142	13.9%
Other operating expenses	1,543	4.9%	1,468	4.9%
Changes in inventories	(8)		4	
Internally generated assets	(496)	(1.6%)	(471)	(1.6%)
Depreciation and amortization	5,487	17.5%	5,232	17.5%
(Gains) losses on disposals of non-current assets	(95)	(0.3%)	(242)	(0.8%)
Impairment reversals (losses) on non-current assets	21	0.1%	28	0.1%
<b>Total operating expenses</b>	<b>24,444</b>	<b>78.1%</b>	<b>23,098</b>	<b>77.2%</b>



Our operating expenses increased by 1,346 million in 2006 compared to 2005; such increase is detailed as follows:

- **Acquisition of goods and services** increased by 1,254 million, or 9.7%, from 12,937 million in 2005 to 14,191 million in 2006. This increase is mainly due to the expansion of BroadBand, higher interconnection costs as a result of the growth of traffic managed, as well as the increase in costs for the purchase of products and content.

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

Acquisition of goods and services included:

	Year ended December 31,		
	2006	2005	
	(millions of Euro)		
<b>Acquisitions of goods and merchandise for resale</b>	<b>(A)</b>	<b>2,578</b>	<b>2,506</b>
<b>Costs of services:</b>			
Revenues due to other TLC operators		5,721	4,829
Interconnection costs		125	71
Commissions, sales commissions and other selling expenses		1,511	1,263
Advertising and promotion expenses		584	593
Professional consulting and services		480	530
Utilities		421	308
Maintenance		350	339
Outsourcing costs for other services		267	256
Mailing and delivery expenses for telephone bills, directories and other materials to customers		106	90
Other service expenses		1,005	1,048
	<b>(B)</b>	<b>10,570</b>	<b>9,327</b>
<b>Lease and rental costs:</b>			
Property lease rents		560	641
TLC circuit lease rents and rents for use of satellite systems		271	274
Other lease and rental costs		212	189
	<b>(C)</b>	<b>1,043</b>	<b>1,104</b>
<b>Total acquisition of goods and services</b>	<b>(A+B+C)</b>	<b>14,191</b>	<b>12,937</b>

The principal reasons for the increase in Acquisition of goods and services were the following:

- acquisitions of goods and merchandise for resale increased by 72 million, from 2,506 million in 2005 to 2,578 million in 2006. This increase was mainly attributable to the increase in costs for the purchase of products and content. The percentage of acquisitions of goods and merchandise for resale to revenues was 8.2% (8.4% in 2005);
- costs of services increased by 1,243 million, or 13.3% in 2006 from 9,327 million in 2005 to 10,570 million in 2006 (of which 892 million was attributable to an increase in revenues due to other TLC operators), mainly due to the expansion of BroadBand and higher interconnection costs. The percentage of cost of services to revenues was 33.8% (31.2% in 2005);

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- lease and rental costs decreased by 61 million, from 1,104 million in 2005 to 1,043 million in 2006. The percentage of lease and rental costs to revenues was 3.3% (3.7% in 2005).
- **Employee benefits expenses** decreased by 341 million, or 8.2%, from 4,142 million in 2005 to 3,801 million in 2006. Such decrease was mainly due to the reduction in charges for termination benefit incentive plans, and, only to a lesser extent, to the reduction of employee benefits expenses at payroll and temp work costs of 28 million, or 0.8%. In particular, employee benefits expenses outside Italy increased by 83 million, or 27.3%, principally due to the increased average number of salaried staff (an increase of 2,094 units); the domestic component decreased by 424 million, or 11.0%, due to the reduction of the above termination benefit incentive plans and the reduced average number of salaried staff in 2006 (a decrease of 1,970 units).

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

Employee benefits expenses are detailed as follows:

	Year ended December 31,	
	2006	2005
(millions of Euro)		
<b>Employee benefits expenses at payroll:</b>		
Wages and salaries	2,625	2,600
Social security expenses	796	813
Employee severance indemnities	146	168
Other employee benefits expenses	71	88
	<b>(A)</b>	<b>3,638</b>
<b>Temp work costs</b>	<b>(B)</b>	<b>55</b>
<b>Miscellaneous expenses for personnel and for other labor-related services rendered:</b>		
Remuneration of personnel other than employees	18	18
Charges for termination benefit incentive plans	76	394
Other	14	9
	<b>(C)</b>	<b>108</b>
<b>Total employee benefits expenses</b>	<b>(A+B+C)</b>	<b>3,801</b>

The Group's average equivalent number of employees in 2006 was 79,993 units (excluding employees related to Discontinued operations/Non-current assets held for sale and including personnel with temp work contracts) compared to 79,869 units in 2005. The breakdown by category is as follows:

	Year ended December 31,	
	2006	2005
(Units)		
Executives	1,384	1,541
Middle management	5,065	4,744
White collars	70,748	70,375
Blue collars	417	722
<b>Total employees at payroll</b>	<b>77,614</b>	<b>77,382</b>
<b>Personnel with temp work contracts</b>	<b>2,379</b>	<b>2,487</b>

<b>Total employees</b>	<b>79,993</b>	<b>79,869</b>
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- **Other operating expenses** increased by 75 million (or 5.1%), from 1,468 million in 2005 to 1,543 million in 2006. Such operating expenses consist of the following:

	Year ended December 31,	
	2006	2005
	(millions of Euro)	
Impairments for bad debts and charges for non-financial credit management	564	521
Provision charges	107	71
TLC operating fees	236	181
Taxes on revenues of South American companies	222	178
Duties and indirect taxes	159	145
Penalties, compensations and administrative fines	49	31
Association fees, donations, scholarships and trainingships	25	25
Other expenses	181	316
<b>Total other operating expenses</b>	<b>1,543</b>	<b>1,468</b>

The increase in Other operating expenses was mainly due to the increases in impairments for bad debts and charges for non-financial credit management ( 43 million), provision charges ( 36 million), TLC

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

operating fees ( 55 million), taxes on revenues of South American companies ( 44 million) and duties and indirect taxes ( 14 million), partially offset by decrease in other expenses ( 135 million).

- **Internally generated assets** are costs relating to equipment, installations and services capitalized by Group companies. These capitalized costs increased by 25 million (or 5.3%), from 471 million in 2005 to 496 million in 2006, and are relating to:

	Year ended December 31,	
	2006	2005
	(millions of Euro)	
Intangible assets with a finite useful life	318	287
Property, plant and equipment owned	178	184
<b>Total internally generated assets</b>	<b>496</b>	<b>471</b>

- **Depreciation and amortization** increased by 255 million (or 4.9%), from 5,232 million in 2005 to 5,487 million in 2006. The percentage of depreciation and amortization to revenue was 17.5% in 2006 and 2005.

Depreciation and amortization are detailed as follows:

	Year ended December 31,	
	2006	2005
	(millions of Euro)	
<b>Amortization of intangible assets with a finite useful life:</b>		
Industrial patents and intellectual property rights	1,760	1,414
Concessions, licenses, trademarks and similar rights	310	253
Other intangible assets	110	17
	<b>(A) 2,180</b>	<b>1,684</b>
<b>Depreciation of tangible assets owned:</b>		
Property	48	103
Plant and equipment	2,644	2,910
Manufacturing and distribution equipment	33	31
Aircrafts and ships	7	9
Other assets	446	363
	<b>(B) 3,178</b>	<b>3,416</b>

<b>Depreciation of tangible assets held under finance lease:</b>		
Property	99	93
Plant and equipment	1	1
Aircrafts and ships	4	4
Other assets	25	34
	(C)	129
<b>Total depreciation and amortization</b>	<b>(A+B+C)</b>	<b>5,487</b>
		<b>5,232</b>

**Amortization of Intangible assets with a finite useful life** increased by 496 million in 2006 partly due to higher capital expenditures for the development of systems and new services, as well as the strengthening in 2006 compared to 2005 of the average exchange rate of the Brazilian Real against the euro in the Brazil Mobile Business Unit.

**Depreciation of tangible assets (owned and held under finance lease)** decreased by 241 million. In particular, the decrease was due to the effects of the revision in 2006 of the depreciation rates for assets relating the fixed and mobile network (a reduction of 319 million) which was partially offset by increases due to higher capital expenditures for the development of infrastructures for the network and as support to the business as well as foreign exchange rate effects of the Brazilian companies in the Brazil Mobile Business Unit.

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

- **(Gains) losses on disposals of non-current assets** changed from a net gain of 242 million in 2005 to a net gain of 95 million in 2006 (a change of 147 million). In particular, in 2006, such item included:

gains of 135 million, net of incidental expenses, relating to additional real estate property sales made by the Group in 2006 to the closed-end Raissa and Spazio Industriale Funds as part of the property sales program approved by the Board of Directors meeting held on December 21, 2005. In 2005 the gain arising from the carrying out of the first part of the program was 264 million;

the gain of 27 million on the sale of the entire real estate investment held in Ruf Gestion;

the loss of 33 million on the sale of the entire investment in Telecom Italia Learning Services;

the loss of 9 million on the sale of the Radiomaritime Activities business; and

the loss of 25 million as net balance between gains and losses on the sale of other non-current assets.

- **Impairment losses on non-current assets** decreased by 7 million, or 25.0%, from a loss of 28 million in 2005 to a loss of 21 million in 2006 mainly attributable to non current assets of the Latin American Nautilus group.

v **OPERATING PROFIT**

**Operating profit** decreased by 62 million, or 0.8%, from 7,499 million in 2005 to 7,437 million in 2006. As a percentage of revenues, operating profit was 23.8% in 2006 (25.1% in 2005).

v **SHARE OF PROFITS (LOSSES) OF ASSOCIATES AND JOINT VENTURES ACCOUNTED FOR USING THE EQUITY METHOD**

The **Share of profits (losses) of associates and joint ventures accounted for using the equity method** recorded profits of 51 million (profits of 23 million in 2005), an increase of 28 million compared with 2005.

Share of profits (losses) of associates and joint ventures accounted for using the equity method includes:

	Year ended December 31,	
	2006	2005
ETECSA.	47	45

(millions of Euro)



Sofora Telecomunicaciones S.A.	3	16
Solpart Participações S.A.	1	94
Avea I.H.A.S .		(122)
Other investments		(10)
	<u>          </u>	<u>          </u>
<b>Total share of profits (losses) of associates and joint ventures accounted for using the equity method</b>	<b>51</b>	<b>23</b>
	<u>          </u>	<u>          </u>

For further details about the above mentioned investments accounted for using the equity method please see Item 4. Information on the Telecom Italia Group 4.2 Business Units 4.2.7 Other Telecom Italia Group Activities , and Note Other Non-current assets of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v **FINANCE INCOME AND EXPENSES, NET**

**Total finance income and expenses** showed a net expense balance of 1,973 million (a net expense balance of 1,987 million in 2005), representing an improvement of 14 million compared to 2005.

The percentage of net financial expense to revenues was 6.3% compared with 6.6% in 2005.

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

Net finance income and expenses are detailed as follows:

	<u>Year ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
	(millions of Euro)	
Financial management balance(*)	(2,332)	(2,505)
Investment management and Avea provisions released to income	359	518
<b>Total finance income and expenses, net</b>	<b>(1,973)</b>	<b>(1,987)</b>

(\*) It refers mainly to net interest expenses and other borrowing costs, foreign exchange gains and losses and income and expenses from hedging and non-hedging derivatives.

Net financial expense in 2006 decreased by 14 million due to the following factors:

- the improvement in the financial management balance of 173 million mainly as a result of the reduction in net average debt exposure during 2006 compared to 2005 which more than compensated the negative impact arising from the increase of interest rates on the floating rate portion of debt;
- a decrease of 159 million due to the investment management and to the release of provisions relating to Avea I.H.A.S.

In 2006 the investment management balance and Avea provisions released to income totaling 359 million comprised:

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

the gain on the sale of the entire 4.99% stake held in Neuf Télécom ( 148 million);

other income relating to investment management ( 18 million).

In 2005, the investment management balance and Avea provisions released to income totaling 518 million comprised:

the release to income of a portion of the provisions set aside for sureties provided to banks which had financed Avea I.H.A.S. since there was no longer a risk owing to the cancellation of a part of the guarantees ( 423 million);

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gains connected with the sales of C-Mobil ( 61 million), the investment in Intelsat ( 2 million) and Golden Lines ( 5 million).

The breakdown of finance income and expenses is the following:

	<b>Year ended December 31,</b>	
	<b>2006</b>	<b>2005</b>
	(millions of Euro)	
Finance income	3,041	3,144
Finance expenses	(5,014)	(5,131)
<b>Total finance income and expenses, net</b>	<b>(1,973)</b>	<b>(1,987)</b>

For further details about finance income and finance expenses, please see Note Finance income and Note Finance expenses , respectively, of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

v **PROFIT BEFORE TAX FROM CONTINUING OPERATIONS**

**Profit before tax from continuing operations** decreased by 20 million (from 5,535 million in 2005 to 5,515 million in 2006).

As a percentage of revenues, profit before tax from continuing operations was 17.6% in 2006 (18.5% in 2005).

**Table of Contents**

**Item 5. Operating And Financial Review And Prospects**

**Results Of Operations For The Three Years Ended December 31, 2007**

v **INCOME TAX EXPENSE**

**Income tax expense** for the year increased by 124 million, or 5.2%, from 2,395 million in 2005 to 2,519 million in 2006. Such change was mainly due to the increase in taxable income as well as to the income tax expense recorded by the Parent Company Telecom Italia.

For further details about income tax expense, please see Note Income tax expense of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

The percentage of income tax expense to revenues was 8.1% in 2006 compared to 8.0% in 2005.

v **PROFIT FROM CONTINUING OPERATIONS**

**Profit from continuing operations** decreased by 144 million, or 4.6%, from 3,140 million in 2005 to 2,996 million in 2006. This decrease was due to the small decline in Profit before tax from continuing operations and the higher level of taxes in 2006 compared to 2005.

As a percentage of revenues, profit from continuing operations was 9.6% in 2006 (10.5% in 2005).

v **PROFIT (LOSS) FROM DISCONTINUED OPERATIONS/NON-CURRENT ASSETS HELD FOR SALE**

**Profit from Discontinued operations/Non-current assets held for sale** decreased by 543 million, from 550 million in 2005 to 7 million in 2006 and included:

- 31 million relating to the gain, net of incidental expenses, arising from the sale of Digital Venezuela in May 2006;
- 9 million for a provision charge recorded in connection with the sale of Digital Venezuela;
- 15 million for the positive contribution to profit by the same Digital Venezuela for the first four months of 2006;
- 30 million for a provision charge recorded in connection with the sale of Tim Hellas carried out in 2005.

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In 2005 we had more significant asset sales which resulted in the high level of profit in that year which included the gains, net of incidental expenses, on the sales of Tim Hellas ( 410 million) and Tim Perù ( 120 million), losses and incidental charges on the sales of the Finsiel group, the Entel Chile group and Gruppo Buffetti ( 24 million) and the profit of companies classified as Discontinued operations/Non-current assets held for sale ( 44 million).

### v PROFIT FOR THE YEAR

**Profit for the year** in 2006 decreased by 687 million, or 18.6%, from 3,690 million in 2005 to 3,003 million in 2006.

As a percentage of revenues, profit for the year was 9.6% in 2006 (12.3% in 2005).

In particular:

- profit attributable to equity holders of the Parent in 2006 was 3,014 million compared with 3,216 million in 2005, showing a decrease of 202 million;
- profit (loss) attributable to Minority Interest in 2006 was an 11 million loss compared with 474 million of profit in 2005, a decline of 485 million mainly due to the TIM merger transaction (tender offer and merger). During 2005, Telecom Italia S.p.A. acquired full control over the domestic mobile business through a tender offer in January 2005 and the merger in June 2005 with the consequent effect of eliminating Minority Interests attributable to Tim Italia.

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007****5.4.8 RESULTS OF OPERATIONS OF BUSINESS UNITS FOR THE YEAR ENDED DECEMBER 31, 2006 COMPARED WITH THE YEAR ENDED DECEMBER 31, 2005.**v **DOMESTIC**

The following table sets forth, for the periods indicated, certain financial and other data for the Domestic Business Unit. The data relating to 2006 and 2005 have been reclassified and presented consistent with the 2007 presentation.

	Year ended December 31,	
	2006	2005
	(millions of Euro, except percentages and employees)	
Gross revenues	25,785	25,820
Operating profit	7,676	7,895
% of gross revenues	29.8	30.5
Number of employees at year-end	66,835	69,362

**Gross revenues** decreased by 35 million, or 0.1%, from 25,820 million in 2005 to 25,785 million in 2006.

In 2006, in particular, gross revenues were significantly affected by the reduction in the fixed-mobile termination rates (a decrease in gross revenues of 152 million), which rates were effective from the second half of 2005, the acceleration of the migration of voice traffic from the fixed to the mobile network, as well as adjustments for amounts on premium services for traffic not recognized by customers ( 43 million). This traffic was identified, by the customers themselves, as the result of the fraudulent conduct of third parties.

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

Year ended December 31,	
2006	2005
(millions of Euro)	

Gross revenues	25,785	25,820
	<u>          </u>	<u>          </u>
<i>of which:</i>		
Fixed Telecommunications	16,988	17,341
Mobile Telecommunications	10,210	10,076
Eliminations and central functions contribution	(1,413)	(1,597)
	<u>          </u>	<u>          </u>

- **Revenues from Fixed Telecommunications** decreased by 353 million, or 2.0%, from 17,341 million in 2005 to 16,988 million in 2006.

The performance of the major business areas is reported below.

#### *Retail Telephone*

Revenues from Retail Telephone were 9,308 million in 2006, a decrease of 787 million, or 7.8% from 10,095 million in 2005. This business area was marked by a decrease in traffic as a result of the migration from fixed line to mobile traffic, reduced revenues due to changes in the regulatory framework (reduced charges associated with fixed-mobile termination and the 12XY subscriber information services) and pressure from competitors over prices in the Top Customer segment.

#### *Internet*

Revenues from Retail Internet were 1,511 million in 2006, an increase of 74 million, or 5.2% from 1,437 million in 2005, principally due to the growth in BroadBand revenues (an increase of 127 million, 11.5% compared to 2005). Domestic s portfolio of BroadBand retail customers in Italy at December 31, 2006 totalled approximately 5.6 million accesses (an increase of 17.1% compared to December 31, 2005).

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**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007***Data Business*

Revenues from Data Business were 1,743 million in 2006, a decrease of 124 million, or 6.6% compared to 1,867 million in 2005. This reduction, due to stronger competition in the Corporate client market and to the pricing review of certain contracts with public authorities, is particularly evident in leased lines services (a decrease of 58 million) and traditional Data Transmission using data packet technology (a decrease of 58 million). ICT services, however, recorded a positive performance, continuing its growth trend (an increase of 52 million, or 9.5% compared to 2005).

*Wholesale*

Revenues from Wholesale were 3,989 million in 2006, an increase of 463 million, or 13.1% compared to 2005 ( 3,526 million in 2005). Revenues from Domestic Wholesale services were 2,131 million in 2006, an increase of 180 million, or 9.2% compared to 2005 ( 1,951 million in 2005); revenues from International Wholesale services were 1,858 million in 2006, an increase of 283 million, or 18.0% compared to 2005 ( 1,575 million in 2005).

- **Revenues from Mobile Telecommunications** increased by 134 million, or 1.3%, from 10,076 million in 2005 to 10,210 million in 2006. Gross revenues were negatively impacted by the new termination price list which came into force (the price paid by fixed line operators when calls terminate on the mobile network) which reduced revenues by 372 million. Excluding such impact, gross revenues would have increased by 5% in 2006 compared to 2005.

The increase in 2006 revenues was principally due to the strong increase in Value Added Service ( **VAS** ) revenues to 1,649 million in 2006 (an increase of 152 million, or 10.2% compared to 2005) due to the continuing innovation of services and the portfolio of offerings on interactive services: revenues from interactive services increased by 103 million, or 20.2% compared to 2005. The percentage of VAS revenues to gross revenues was 16.2% in 2006 (14.9% in 2005) and the percentage of VAS revenues to services revenues was 17.5% in 2006 (16.0% in 2005).

Revenues from voice services ( 7,292 million in 2006) were impacted by an increase in outgoing traffic (an increase of 141 million, or 2.6%), which was more than offset by the decrease in incoming traffic (a decrease of 288 million, or 14.2%) and by the reduction in termination charges (a decrease of 372 million). Excluding the negative impact, due to the reduction in termination charges, revenues from voice services would have increased by 83 million, or 4.1%.

Revenues from equipment sales were 812 million in 2006, an increase of 106 million, or 15.0% compared to 2005. In 2006, 7.4 million handsets were sold (an increase of 1.6 million compared to 2005), of which 2.5 million related to UMTS handsets.

The contribution of the Domestic Business Unit to our consolidated revenues amounted to 25,635 million in 2006 and 25,698 million in 2005.



**Operating profit** decreased by 219 million, or 2.8%, from 7,895 million in 2005 to 7,676 million in 2006 and was highly affected by the variation in the revenue mix and by the added push given to sales to support new business initiatives as a result of competitive pressure in Italy, as well as to increased costs.

With regard to changes in costs, the following should be noted:

- acquisition of goods and services were 10,748 million in 2006, an increase of 6.0% compared to 2005. The growth of 604 million is principally due to the costs associated with investments in the development of BroadBand in Italy, as well as to higher interconnection costs (mainly as a result of greater off-net traffic volumes), higher purchase costs for products and content and electrical power used on industrial installations (principally attributable to price increases);
- employee benefits expenses were 3,276 million in 2006, a decrease of 399 million, or 10.9% compared to 2005. The decrease was largely due to the reduction in employees as well as lower restructuring costs;
- other operating expenses were 822 million in 2006, a decrease of 94 million, or 10.3% compared to 2005.

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

Depreciation and amortization were 4,304 million in 2006, a decrease of 132 million, or 3% compared to 2005. In 2006 Telecom Italia performed a review of the estimated useful life of its tangible assets in order to bring them into line with the technological and market developments of the last few years and also with the convergence of fixed mobile telecommunications. This review resulted in a decrease in depreciation charges and a positive impact on operating profit of the Domestic Business Unit. This positive effect was in part offset by an increase in the amortization for intangible assets mainly referring to software and Subscriber Acquisition Costs, the latter relating to some specific offerings for mobile telephony introduced in 2006.

**v EUROPEAN BROADBAND**

The following table sets forth, for the periods indicated, certain financial and other data for the European BroadBand Business Unit.

	<u>Year ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
	(millions of Euro, except	
	percentages and employees)	
Gross revenues	915	565
Operating loss	(125)	(117)
% of gross revenues	(13.7)	(20.7)
Number of employees at year-end	3,066	2,494

**Gross revenues** were 915 million in 2006 compared to 565 million in 2005, an increase of 350 million, or 61.9%. The overall portfolio of European BroadBand accesses at December 31, 2006 was 1,890,000 (an increase of 577,000 units, or 43.9% compared to 2005), while total accesses were 2,150,000.

The contribution of the European BroadBand Business Unit to our consolidated revenues amounted to 896 million in 2006 and 550 million in 2005.

**Operating loss** increased by 8 million (a loss of 125 million in 2006 compared to a loss of 117 million in 2005), despite the considerable increase in revenues.

Changes in costs, were attributable to:

- acquisition of goods and services amounted to 741 million in 2006, an increase of 254 million, or 52.3%, compared to 2005, on a par with the growth of the business;
- employee benefits expenses amounted to 124 million in 2006 and increased by 42 million, or 51.2% compared to 2005, due to the increase in the employees;
- depreciation and amortization charges were equal to 197 million in 2006 and increased by 84 million, or 74.3%, compared to 2005. Such charges were due to significant investments in network infrastructures and information systems and to commercial development.

v **BRAZIL MOBILE**

The following table sets forth, for the periods indicated, certain financial and other data for Brazil Mobile Business Unit.

	<u>Year ended December 31,</u>	
	<u>2006</u>	<u>2005</u>
	(millions of Euro, except	
	percentage and	
	employees)	
Gross revenues	3,964	2,900
Operating profit (loss)	21	(190)
% of gross revenues	0.5	(6.5)
Number of employees at year-end	9,531	9,043

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

**Gross revenues** were 3,964 million in 2006 compared to 2,900 million in 2005, an increase of 1,064 million, or 36.7%. The increase was due to the growth in the customer base (25.4 million mobile lines at December 31, 2006 compared with 20.2 million mobile lines at December 31, 2005), as well as the contribution made by value-added services (which rose from 5.7% of revenues in 2005 to 6.9% in 2006).

In July 2006, Anatel (the Brazilian regulatory agency) eliminated the Bill and Keep regulation under which Mobile Operators, until that date, did not receive or pay interconnection charges on the minutes of local mobile-mobile traffic when the balance between the incoming and outgoing minutes exchanged with a operator fell within a 45%-55% range. This change had a positive impact on revenues in 2006 of 262 million and a similar increase in interconnection charges.

The contribution of the Brazil Mobile Business Unit to our consolidated revenues amounted to 3,959 million in 2006 and 2,895 million in 2005.

**Operating profit** in 2006 was 21 million compared to an operating loss of 190 million in 2005, an improvement of 211 million. The improvement in 2006 was due to the above mentioned increase in gross revenues, although such increase was offset in large part by higher costs. The increased costs were attributable to the following reasons:

- acquisition of goods and services were 2,210 million in 2006, an increase of 22.5% compared to 2005 ( 1,804 million), mainly due to the aforementioned increase in interconnection charges. Such purchases as a percentage of gross revenues were 55.8% (62.2% in 2005);
- employee benefits expenses were 208 million in 2006 and increased by 30.8% compared to 2005 ( 159 million) due to the increase in the number of employees. Employee benefits expenses as a percentage of gross revenues were 5.3% (5.5% in 2005);
- other operating expenses were 642 million in 2006 and increased by 26.1% compared to 2005 ( 509 million). They include sundry expenses ( 466 million in 2006 compared to 378 million in 2005), principally made up of indirect taxes and duties, TLC operating fees, write-downs and bad debts expense ( 164 million in 2006 compared to 117 million in 2005) and other items ( 11 million in 2006 compared to 15 million in 2005);
- depreciation and amortization were 930 million in 2006 and increased by 44.2% compared to 2005 ( 645 million) as a consequence of higher investments in network infrastructure, information systems and Subscriber Acquisition Costs. The latter costs (referring to subsidies for the purchase of handsets when there are contracts binding the customer to the company for a period of at least 12 months, otherwise a penalty is applied in the event of the early cancellation of the contract) are capitalized and amortized over the minimum period of the underlying contract; in 2006, such costs resulted in higher amortization of 58 million.

v **MEDIA**

The following table sets forth, for the periods indicated, certain financial and other data for the Media Business Unit.

	Year ended December 31,	
	2006	2005
	(millions of Euro, except percentage and employees)	
Gross revenues	207	180
Operating loss	(137)	(130)
% of gross revenues	(66.2)	(72.2)
Number of employees at year-end	919	886

**Gross revenues** increased by 27 million, or 15.0%, from 180 million in 2005 to 207 million in 2006. The increase in gross revenues was due to the contribution of domestic advertising sales, which outpaced the flat sales of the Italian advertising market's television sector during 2006, and the growth in digital terrestrial revenues.

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Results Of Operations For The Three Years Ended December 31, 2007**

In particular:

- revenues in 2006 of the Free to Air analog and satellite business area were 168 million, an increase of 3.6% compared to 2005;
- revenues from Digital Terrestrial Television were 32 million, compared to 10 million in 2005;
- revenues from the News area were 9 million, an increase of 38.8% compared to 2005.

The contribution of the Media Business Unit to our consolidated revenues amounted to 197 million in 2006 and 176 million in 2005.

**Operating loss** increased by 7 million (a loss of 130 million in 2005 compared to a loss of 137 million in 2006), mainly due to an increase in depreciation and amortization charges (18 million) in the Television area as a result of capital expenditures made during 2005 following the acquisition of a new nationally-television network, as well as the acquisitions made in 2006 of new frequencies for Digital Terrestrial TV.

2006 operating loss (excluding depreciation and amortization) improved in analog and satellite Free to Air broadcasting, driven by the growth of national advertising (an increase of 10.8%). The improvement was also a reflection of La7's actions to concentrate its resources on adding more programs to its schedule with a higher audience/advertising return and MTV's actions of developing new multichannel/multiplatform strategies. Digital terrestrial TV, notwithstanding an improvement in pay-per-view margins, still loss-making, reported higher operating costs associated with the start-up of the new free channels (e.g. La7 Sport and Flux) in relation to which advertising revenues remained negligible.

v **OLIVETTI**

The following table sets forth, for the periods indicated, certain financial and other data for the Olivetti Business Unit.

	Year ended December 31,	
	2006	2005
	(millions of Euro, except	
	percentage and employees)	
Gross revenues	440	452
Operating loss	(50)	(38)

% of gross revenues	(11.4)	(8.4)
Number of employees at year-end	1,428	1,750

**Gross revenues** decreased by 12 million, or 2.7% from 452 million in 2005 to 440 million in 2006. Excluding the effects of change in the scope of consolidation, exchange rates and the sale of intellectual property rights, the decrease in gross revenues would have been 5 million (-1.1%). The decrease is mainly due to a decrease in revenues related to products for Gaming and traditional Ink-jet products, which were only partly offset by higher revenues of specialized printers, new Ink-jet products (multifunctional color printers and portable photo printers launched on the market during the last months of 2005) and professional Office products.

The contribution of the Olivetti Business Unit to our consolidated revenues was 385 million in 2006 and 400 million in 2005.

**Operating loss** increased by 12 million, or 31.6% from 38 million in 2005 to 50 million in 2006 principally due to the decrease in revenues.

**Table of Contents**

Item 5. Operating And Financial Review And Prospects

Liquidity And Capital Resources

**5.5 LIQUIDITY AND CAPITAL RESOURCES****5.5.1 LIQUIDITY**

The Telecom Italia Group's primary source of liquidity is cash generated from operations and its principal uses of funds are the payment of operating expenses, capital expenditures and financial investments, the servicing of debt, the payment of dividends to shareholders, and strategic investments, such as international acquisitions.

The table below summarizes, for the periods indicated, the Telecom Italia Group's cash flows.

	<u>2007</u>	<u>2006</u>	<u>2005</u>
	(millions of Euro)		
Cash flows from operating activities	8,690	9,194	9,778
Cash flows used in investing activities	(4,246)	(4,191)	(17,421)
Cash flows from (used in) financing activities	(5,224)	(7,972)	8,767
Cash flows from (used in) Discontinued operations/Non-current assets held for sale		(13)	26
<b>Aggregate cash flows (A)</b>	<b>(780)</b>	<b>(2,982)</b>	<b>1,150</b>
<b>Net cash and cash equivalents (*) at beginning of the year (B)</b>	<b>6,960</b>	<b>9,958</b>	<b>8,667</b>
<b>Net foreign exchange differences on net cash and cash equivalents (C)</b>	<b>24</b>	<b>(16)</b>	<b>141</b>
<b>Net cash and cash equivalents (*) at end of the year (D=A+B+C)</b>	<b>6,204</b>	<b>6,960</b>	<b>9,958</b>

(\*) For further details please see the Consolidated Cash Flow Statements for the years ended December 31, 2007, 2006 and 2005 in the Consolidated Financial Statements included elsewhere in this Annual Report.

**Cash flows from operating activities.** Cash flows from operating activities were 8,690 million in 2007, 9,194 million in 2006 and 9,778 million in 2005.

**2007 compared to 2006**

The decrease in 2007 compared to 2006 of 504 million was primarily attributable to:

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a reduction of 577 million in profit from continuing operations (a profit of 2,419 million in 2007 compared to a profit of 2,996 million in 2006);

- the negative effect of net change in deferred tax assets and liabilities equal to 913 million (from a net source of 1,843 million in 2006 to a net source of 930 million in 2007);
- the increase in net gains realized on disposals of non-current assets (including investments) of 150 million (from a net gain of 317 million in 2006 to a net gain of 467 million in 2007);
- the negative effect of change in employee benefits liabilities of 102 million (a net use of 216 million in 2007 compared to a net use of 114 million in 2006);
- the negative effect of net change in miscellaneous receivables/payables and other assets/liabilities of 322 million (a net use of 502 million in 2007 compared to a net use of 180 million in 2006).

Such reductions in cash flows were partially offset by:

- an increase in depreciation and amortization of 324 million ( 5,811 million in 2007 compared to 5,487 million in 2006);
- the positive effect of change in trade receivables and net receivables on construction contracts of 562 million (a net source of 101 million in 2007 compared to a net use of 461 million in 2006);
- the positive effect of change in trade payables of 758 million (a net source of 748 million in 2007 compared to a net use of 10 million in 2006).

**Table of Contents**

**Item 5. Operating And Financial Review And Prospects**

**Liquidity And Capital Resources**

**2006 compared to 2005**

The decrease in 2006 compared to 2005 of 584 million was primarily attributable to:

- a reduction of 144 million in profit from continuing operations (a profit of 2,996 million in 2006 compared to a profit of 3,140 million in 2005);
- the negative effect of change in employee benefits liabilities of 369 million (a net use of 114 million in 2006 compared to a net source of 255 million in 2005);
- the negative effect of change in trade receivables and net receivables on construction contracts of 790 million (a net use of 461 million in 2006 compared to a net source of 329 million in 2005);
- the negative effect of change in trade payables of 194 million (a net use of 10 million in 2006 compared to a net source of 184 million in 2005).

Such reductions in cash flows were partially offset by:

- an increase in depreciation and amortization of 255 million ( 5,487 million in 2006 compared to 5,232 million in 2005);
- a positive effect of net change in deferred tax assets and liabilities equal to 496 million (a net source of 1,843 million in 2006 compared to a net source of 1,347 million in 2005);
- a positive effect of net change in miscellaneous receivables/payables and other assets/liabilities of 177 million (a net use of 180 million in 2006 compared to a net use of 357 million in 2005).

***Cash flows used in investing activities.*** Cash flows used in investing activities were 4,246 million in 2007, 4,191 million in 2006 and 17,421 million in 2005.

**2007 compared to 2006**

The increase in cash used in investing activities in 2007 compared to 2006 of 55 million was due to:

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- an increase in capital expenditures (tangible and intangible assets on a cash basis) of 147 million ( 5,251 million in 2007 compared to 5,104 million in 2006);
- the acquisitions in 2007 of subsidiaries and businesses, net of cash acquired, totaling 636 million (principally related to the purchase of the controlling interest of the Internet activities of AOL Germany, the entire stake of InterNLnet B.V. and Shared Service Center);
- a decrease of 341 million in proceeds from sale of subsidiaries, net of cash disposed of ( 4 million in 2007 compared to 345 million in 2006).

Such effects were partially offset by:

- a decrease in acquisitions of other investments of 205 million ( 1 million of acquisitions in 2007 compared to acquisitions of 206 million in 2006);
- a positive effect of change in financial receivables and other financial assets of 739 million (a net source of 475 million in 2007 compared to a net use of 264 million in 2006);
- an increase in proceeds from sale/repayments of intangible, tangible and other non-current assets of 125 million (a net source of 1,163 million in 2007 compared to a net source of cash of 1,038 million in 2006).

### **2006 compared to 2005**

The decrease in 2006 compared to 2005 of 13,230 million was due to:

- a decrease in acquisitions of subsidiaries and businesses, net of cash acquired, of 390 million (no acquisitions occurred in 2006 compared to acquisitions of 390 million in 2005 that were principally related to the purchase of the controlling interest in Liberty Surf Group and the acquisitions of Elefante TV and Delta TV);
- a decrease in acquisitions of other investments of 14,338 million (acquisitions decreased from 14,544 million in 2005 to 206 million in 2006; in 2005 acquisitions were mainly due to the consideration paid for the tender offer for the TIM shares and the further purchases of TIM in connection with the acquisition of the minority interest in TIM);

**Table of Contents**

**Item 5. Operating And Financial Review And Prospects**

**Liquidity And Capital Resources**

- a positive effect of change in financial receivables and other financial assets of 210 million (a net use of 264 million in 2006 compared to a net use of 474 million in 2005);
- an increase in proceeds from sale/repayments of intangible, tangible and other non-current assets of 88 million (a net source of 1,038 million in 2006 compared to a net source of 950 million in 2005).

Such effects were partially offset by:

- an increase in capital expenditures (tangible and intangible assets) on a cash basis of 89 million ( 5,104 million in 2006 compared to 5,015 million in 2005);
- a decrease of 1,707 million in proceeds from sale of subsidiaries, net of cash disposed of (a net source of 345 million in 2006 compared to a net source of 2,052 million in 2005).

***Cash flows from (used in) financing activities.*** Cash flows used in financing activities were 5,224 million in 2007, 7,972 million in 2006 and 8,767 million in 2005.

*Cash flows used in financing activities in 2007 of 5,224 million reflected the following:*

- a decrease in financial liabilities and other of 2,393 million, mainly as a result of repayments of non-current financial liabilities ( 5,220 million) partially offset by the issuance of new debt ( 2,625 million);
- the payment of dividends of 2,831 million.

*Cash flows used in financing activities in 2006 of 7,972 million reflected the following:*

- a decrease in financial liabilities and other of 4,977 million, mainly as a result of repayment of non-current financial liabilities ( 9,995 million) partially offset by the issuance of new debt ( 5,222 million);
- the payment of dividends of 2,997 million.

*Cash flows from financing activities in 2005 of 8,767 million reflected the following:*

-

an increase in financial liabilities and other of 11,153 million, mainly as a result of the additional debt incurred in connection with the cash tender offer for the TIM shares;

- proceeds from equity instruments of 102 million;
- a negative contribution in share capital proceeds/repayments of 160 million;
- the payment of dividends of 2,328 million.

**Cash flows from (used in) Discontinued operations/Non-current assets held for sale.** In 2007, there were not cash flows from, or used, in Discontinued operations/Non-current assets held for sale.

Cash flows used in Discontinued operations/Non-current assets held for sale were 13 million in 2006 compared to cash flows from Discontinued operations/Non-current assets held for sale of 26 million in 2005.

## 5.5.2 CAPITAL RESOURCES

### **Net Financial Debt**

Net Financial Debt is a non-GAAP financial measure as defined in Item 10 of Regulation S-K under the 1934 Act. For further details please see 5.4.2 Non-GAAP Financial Measures .

On a consolidated basis, at December 31, 2007, Net Financial Debt was 35,701 million compared to 37,301 million at December 31, 2006 (a decrease of 1,600 million).

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Liquidity And Capital Resources**

Given the ratio:

Net Financial Debt
EBITDA

we have targeted a ratio about 2.5 to be achieved by the end of 2010.

Please see Introduction Cautionary Statement for Purposes of the Safe Harbor Provisions of the United States Private Securities Litigation Reform Act of 1995, included elsewhere in this Annual Report, for a discussion of factors which would cause our actual results to differ materially from the target discussed above. See, also, Item 3. Key Information 3.1 Risk Factors.

*There can be no assurance that we will be able to achieve the financial target we have established.*

Net Financial Debt is detailed in the following table:

	<b>As of</b>	
	<b>December 31,</b>	
	<b>2007</b>	<b>2006</b>
	<b>(millions of Euro)</b>	
<b>GROSS FINANCIAL DEBT</b>		
<b>Non-current financial liabilities (Long-term debt)</b>		
Financial payables	35,241	38,842
Finance lease liabilities	1,809	1,847
Other financial liabilities	1	114
	<b>37,051</b>	<b>40,803</b>
<b>Current financial liabilities (Short-term debt), excluding financial liabilities directly associated with Discontinued operations/Non-current assets held for sale</b>		
Financial payables	6,315	5,374
Finance lease liabilities	262	269
Other financial liabilities	8	10
	<b>6,585</b>	<b>5,653</b>
<b>Financial liabilities directly associated with Discontinued operations/Non-current assets held for sale</b>		

<b>TOTAL GROSS FINANCIAL DEBT (A)</b>	<b>43,636</b>	<b>46,456</b>
<b>FINANCIAL ASSETS</b>		
<b>Non-current financial assets</b>		
Securities other than investments	9	12
Financial receivables and other non-current financial assets	686	679
	<b>695</b>	<b>691</b>
<b>Current financial assets, excluding financial assets classified under Discontinued operations/Non-current assets held for sale</b>		
Securities	390	812
Financial receivables and other current financial assets	377	433
Cash and cash equivalents	6,473	7,219
	<b>7,240</b>	<b>8,464</b>
<b>Financial assets classified under Discontinued operations/Non-current assets held for sale</b>		
<b>TOTAL FINANCIAL ASSETS (B)</b>	<b>7,935</b>	<b>9,155</b>
<b>NET FINANCIAL DEBT (A-B)</b>	<b>35,701</b>	<b>37,301</b>

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Liquidity And Capital Resources**

The following chart summarizes the major components which had an impact on the change in Net Financial Debt during 2007 (in millions of Euro):

In particular:

- **capital expenditures** were 5,520 million in 2007, an increase of 406 million, or 7.9% from 2006. Details are as follows:

	<u>2007</u>	<u>2006</u>
	(millions of Euro)	
Domestic	4,064	3,894
European BroadBand	508	467
Brazil Mobile	865	699
Media, Olivetti and other operations	93	116
Adjustments	(10)	(62)
<b>Total</b>	<b><u>5,520</u></b>	<b><u>5,114</u></b>

More than 70% of capital expenditures were invested in the domestic business, particularly for the development of new services, the extension of the coverage of new technologies such as UMTS and ADSL, and the development of platforms and systems to support the business; approximately 16% were invested in the mobile business in Brazil, while 10% were invested in the development of the broadband services in France and Germany; the remaining part was related to Olivetti, Telecom Italia Media and Central Functions of Telecom Italia.

Additional details are provided as follows:

**fixed telephony activities** capital expenditures were 2,720 million in 2007; a large portion of such capital expenditures (approximately 36%) was used for Broadband development (which mainly includes expenditures for ADSL retail and business as well as to ensure the availability of communication technologies without social and geographic discrimination (this area of initiatives is called Digital Divide) and New Services (IP-TV, new releases for services etc.). The remaining capital expenditures were for the development of the network (in particular, the access network and the expansion of services, the latter also including international bandwidth offerings), for support systems (Business Support Systems such as billing, revenue assurance, customer care and Operational Support Systems);



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**Table of Contents**

**Item 5. Operating And Financial Review And Prospects**

**Liquidity And Capital Resources**

**domestic mobile telephony** capital expenditures were 1,139 million in 2007; 45% of such capital expenditures were used for the development of the UMTS and systems development (in particular, software development for the launch of new plans and services). The remaining part of the capital expenditures related to upgrading the network, supporting sales policies and subscriber acquisition costs);

**European BroadBand** capital expenditures were 508 million in 2007; 340 million were used for Broadband development in Germany, approximately 30% of capital expenditures were used for Broadband development in France and the remaining expenditures related to BroadBand in The Netherlands;

**mobile telephony in Brazil** capital expenditures were 865 million in 2007; approximately 50% of this amount was earmarked for the expansion and maintenance of the network infrastructures and the development of information systems (compared to 2006 these include the launch of UMTS service and the support of new services/offerings). Approximately 25% of total expenditures were used to acquire handsets on loan and to support the offering.

- **Financial investments** were 635 million in 2007 and were principally related to the acquisition of the Internet activities of AOL Germany.
- **Sale of investments and other disposals** led to a reduction in debt of 1,277 million. Such sales and disposals included the following transactions:

sale of the entire investment held in Oger Telecom for 462 million;

sale of the entire investment held in Capitalia for 74 million;

sale of the entire investment held in Mediobanca for 236 million;

sale of the entire investment held in Solpart Participações for 360 million;

sale of the entire investment held in Brasil Telecom Participações for 48 million;

sale of other non-current assets, reimbursements of capital and distribution of dividends by associates aggregating 97 million.

The sale of receivables to factoring companies had a positive effect on net financial debt at December 31, 2007 of 755 million ( 1,499 million as of December 31, 2006).

***Gross Financial Debt***

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On a consolidated basis, at December 31, 2007, our gross financial debt amounted to 43,636 million ( 46,456 million at December 31, 2006) and included non-current financial liabilities (long-term debt) of 37,051 million ( 40,803 million at December 31, 2006) and current financial liabilities (short-term debt) of 6,585 million ( 5,653 million at December 31, 2006).

As of December 31, 2007 approximately 72% of our gross financial debt was denominated in Euro, while the remainder was primarily denominated in U.S. Dollars, Pound Sterling, Brazilian Reais and Japanese Yen.

The following table sets out the currency composition of our gross financial debt:

	As of December 31,			
	2007		2006	
	Millions of foreign currency	Millions of Euro	Millions of foreign currency	Millions of Euro
U.S.\$	12,805	8,699	13,126	9,966
GBP	1,783	2,431	1,782	2,653
BRL	1,946	746	2,177	773
JPY	31,922	193	20,755	132
EURO		31,567		32,932
<b>Total gross financial debt</b>		<b>43,636</b>		<b>46,456</b>

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Liquidity And Capital Resources**

In 2007, the share of our long-term debt (excluding current portion) as a percentage of total gross financial debt decreased from 88% to 85%.

For information regarding the split of our debt between fixed rate and floating rate please see Note Financial risk management of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

Long-term debt includes notes we have issued in order to reduce our dependence on short-term debt, extend the average life of our financial debt and expand our investor base. For this purpose, we have issued long-term debt in the capital markets under, among others:

- the Telecom Italia Euro Medium Term Note ( **EMTN** ) Programme. On December 21, 2005, the Board of Directors of Telecom Italia S.p.A. set a new maximum ceiling for its EMTN Programme, which regulates the placement, also for more than one transaction, for more than one tranche and for more than one currency, of bonds by Telecom Italia S.p.A. and/or its wholly-owned subsidiary Telecom Italia Finance S.A. under a guarantee by Telecom Italia S.p.A. The new maximum ceiling was raised to 15 billion against the previous 10 billion;
- the Form F-3 Registration Statement, filed with the Securities and Exchange Commission on August 9, 2005 and effective as of August 30, 2005 which allows issuances for a total amount of U.S.\$10 billion in debt at various terms, rates and maturities;
- the Olivetti Euro Medium Term Note Programme, as updated and amended on June 8, 2001 and May 14, 2002, which allowed for the issuance of a total amount of 15 billion in debt (or the equivalent in other currencies), at various terms, rates and maturities;
- the Old Telecom Italia Global Medium Term Note Program ( **Global Note Program** ), which allowed for the issuance of a total amount of U.S.\$12 billion in debt (or the equivalent in other currencies), at various terms, rates and maturities.

Currently Telecom Italia issues new long-term debt only from the first two programmes of the above list. The following table highlights the utilization of the above mentioned programmes at the end of 2007.

	<b>As of December 31, 2007</b>	
	<b>EMTN Programme</b>	<b>Form F-3 Registration Statement</b>
	<b>(millions of Euro)</b>	<b>(millions of U.S.\$)</b>
Total amount of the program	15,000.00	10,000.00
Notes and bonds issued	11,965.69	5,100.00
Notes and bonds repaid	1,499.72	0

Net utilization of the program	10,465.97	5,100.00
Remaining available amount of the program	4,534.03	4,900.00

**Notes and bonds (including convertible bonds)**

As of December 31, 2007 the non-current and current portions of notes and bonds (including convertible bonds) amounted to 32,080 million ( 34,395 million at December 31, 2006) and consisted of the following:

	As of December 31, 2007			As of December 31, 2006		
	Non-current portion	Current portion	Total	Non-current portion	Current portion	Total
	(millions of Euro)					
Notes and bonds	27,048	4,514	31,562	29,856	4,050	33,906
Convertible bonds	511	7	518	482	7	489
<b>Total</b>	<b>27,559</b>	<b>4,521</b>	<b>32,080</b>	<b>30,338</b>	<b>4,057</b>	<b>34,395</b>

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Liquidity And Capital Resources**

At December 31, 2007, the nominal repayment amount for notes and bonds (including convertible bonds) amounted to 31,286 million ( 33,693 million at December 31, 2006) and consisted of the following:

	<b>As of December 31, 2007</b>	<b>As of December 31, 2006</b>
	(millions of Euro)	
Notes and bonds	30,712	33,119
Convertible bonds	574	574
<b>Total</b>	<b>31,286</b>	<b>33,693</b>

Changes in outstanding notes and bonds (including convertible bonds) which occurred during the year 2007 are analyzed as follows.

**New issuances:**

- on June 7, 2007 Telecom Italia S.p.A. issued the following bonds under its 15 billion EMTN Programme:
  - 850 million with a quarterly coupon indexed to the 3-month Euribor plus a spread of 0.20%, due on June 7, 2010;
  - 400 million with a quarterly coupon indexed to the 3-month Euribor plus a spread of 0.79%, due on June 7, 2016;
- on July 19, 2007, Telecom Italia S.p.A. issued 500 million under its 15 billion EMTN Programme with a quarterly coupon indexed to the 3-month Euribor plus a spread of 0.63%, due on July 19, 2013;
- Telecom Italia S.p.A. 2002 2022 floating rate notes, reserved for subscription by employees and retired personnel of the Telecom Italia Group, at December 31, 2007 was equal to 297 million (nominal amount) and increased during 2007 by 47 million ( 250 million at December 31, 2006).

**Repayments and conversions:**

In 2007 the following notes and bonds reached maturity and were repaid:

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- **Telecom Italia S.p.A. 5.625% due 2007:** on February 1, 2007, at maturity, Telecom Italia S.p.A. repaid the 1,250 million notes;
- **Telecom Italia Finance S.A. 6.50% due 2007:** on April 24, 2007, Telecom Italia Finance S.A. repaid the 1,720 million notes (the originally issued amount of 1,750 million was reduced as a result of 30 million notes repurchased on the market and then cancelled).

Furthermore, on January 24, 2008 Telecom Italia Finance S.A. repaid the 1,658.9 million notes **Telecom Italia Finance S.A. 5.875% due 2008** (the originally issued amount of 1,750 million was reduced as a result of the repurchase on the market of notes which were then cancelled).

For further details about the outstanding notes and bonds please see also Note Financial liabilities (current and non-current) of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

The following outstanding bonds carry certain protections for investor which would be triggered by a change in the credit ratings assigned to Telecom Italia:

- Telecom Italia Finance S.A. 2,000 million bonds, 7.250%, due 2011;
- Telecom Italia Finance S.A. 1,500 million bonds, 5.150%, due 2009;
- Telecom Italia Finance S.A. 2,210 million bonds, 6.575%, due 2009.

A decrease in our credit ratings below certain thresholds would result in an increase in interest rates due to step-up provisions in the above mentioned bonds.

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Liquidity And Capital Resources**

As a result of the Standard and Poor's downgrade which occurred on March 17, 2008, (from BBB+ to BBB), the coupon on the Telecom Italia Finance S.A. 2,000 million bonds due 2011 increased from 7.250% to 7.500% starting with the interest period commencing on April 20, 2008 and payable on April 20, 2009.

A Standard and Poor's downgrade alone is not sufficient to trigger the increase of the coupons of the other above mentioned bonds with a step-up/step-down clause.

For a description about the step-up provisions, please see Note Financial liabilities (current and non-current) Mechanism describing how coupons change on step-up/step-down bonds in relation to a change in the rating in Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

**Bank Facilities**

Committed credit lines outstanding at the end of 2007, consist of the Group's 8.0 billion *Revolving Credit Facility* expiring in 2014 drawn for 1.5 billion. The Group also has a 1.5 billion *Term Loan Facility* expiring in 2010 which is completely drawn.

In January 2007 2 billion of a syndicated *Revolving Credit Facility* expiring in March 2007 was cancelled and at the same time the above mentioned *Revolving Credit Facility* formerly expiring in August 2012 was increased by the same amount; in August 2007, the maturity was extended by two years to the end of August 2014.

The composition and the draw down of the syndicated committed credit line available at December 31, 2007, represented by the *Revolving Credit Facility* of 8 billion expiring August 2014, are presented as follows:

	Revolving Credit Facility expiring 2007		Revolving Credit Facility expiring 2014		Total	
	Committed	Drawn down	Committed	Drawn down	Committed	Drawn down
(billions of Euro)						
<b>As of December 31, 2006</b>	<b>2.0</b>		<b>6.0</b>	<b>1.5</b>	<b>8.0</b>	<b>1.5</b>
Increase in the amount of the 2012 <i>Revolving Credit Facility</i> ; cancellation of the 2007 <i>Revolving Credit Facility</i> , and extension to 2014 of the maturity of the <i>Revolving Credit Facility</i> (formerly 2012)	(2.0)		2.0			

<b>As of December 31, 2007</b>	<b>8.0</b>	<b>1.5</b>	<b>8.0</b>	<b>1.5</b>
--------------------------------	------------	------------	------------	------------

In August 2007, in addition to the extension of the expiration date, a revision was made to the acquisition of control clause of the revolving credit facility which ensured that the credit line would remain available to Telecom Italia following the acquisition by Telco of its stake in Telecom Italia.

The amendments were agreed without changing the economic terms of the credit line (Euribor +0.225%) and allowed the average term of the availability of the revolving credit facility of 8 billion in committed bank lines to be extended, ensuring maximum flexibility in terms of access to capital markets.

The change in the acquisition of control clause was also adopted in the documentation of the syndicated bank line (Term Loan) with a January 2010 maturity.

With respect to the syndicated bank line expiring in January 2010 (3,000 million at the end of 2006), in 2007 early repayments were made in the amount of 1,500 million (reducing the committed amount to 1,500 million): the bank line is therefore completely drawn for a nominal amount of 1,500 million.

**Debt to Equity Ratio.** The Telecom Italia Group's debt to equity ratio, calculated as the ratio of consolidated net financial debt to equity (including Minority Interest), was 132.3% and 137.7% as of December 31, 2007 and December 31, 2006, respectively.



**Table of Contents**

**Item 5. Operating And Financial Review And Prospects**

**Liquidity And Capital Resources**

**Credit rating**

As of May 5, 2008 the Telecom Italia S.p.A. credit ratings are as follows:

- Moody s: Baa2 , negative outlook (rating confirmed on February 20, 2008);
- Standard and Poor s: BBB , stable outlook (change from BBB+ occurred on March 17, 2008);
- Fitch Ratings: BBB+ , stable outlook (rating confirmed on March 10, 2008).

For a discussion on financial instrument contractual clauses related to credit rating changes, please see the Note Financial liabilities (current and non-current) of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

***Treasury policies***

We employ a variety of financing instruments to fund our operations and liquidity needs. The main financial instruments we use are notes and bonds and committed credit facilities.

Telecom Italia has a centralized treasury that provides financial assistance to the Telecom Italia Group, and generally operates as the Group s principal banker, allocating cash where needed and collecting the liquid resources of the members of the Group. As a result, we are able to ensure that our subsidiaries have adequate liquidity to satisfy their financial requirements. Telecom Italia also acts on behalf of its subsidiaries in negotiating bank lines of credit and provides financial consultancy services to its subsidiaries.

The central treasury function reduces the need for the members of the Group to utilize banks, enables members of the Group to obtain more favorable terms from banks when needed and enables us to maintain control over cash flows and to assure better utilization of surplus liquidity.

Liquidity represented by Cash and cash equivalents amounted to 6,473 million and 7,219 million and at the end of 2007 and 2006 respectively. They consisted of the following:

<b>As of December 31, 2007</b>	<b>As of December 31, 2006</b>
--	--

	(millions of euro)	
Liquid assets with banks, financial institutions and post offices	6,267	7,186
Checks, cash, other receivables and deposits for cash flexibility	3	6
Securities other than investments (due within 3 months)	203	27
<b>Total</b>	<b>6,473</b>	<b>7,219</b>

Cash and cash equivalents are widely held in euro.

For a further discussion on funding and treasury policies, please see Note Financial Risks Management and Note Cash and Cash equivalents of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

### **Off-Balance Sheet Arrangements**

As of December 31, 2007, the Telecom Italia Group had the following items that are considered to be off-balance sheet arrangements.

*Purchase commitments* for 672 million related mainly to:

- 268 million of orders to suppliers of Telenergia relating to the electrical power supply agreements reached with Endesa for the period 2006-2008, with Edison Energia for the period 2007-2009 and with Eni for 2008;
- 375 million for DVB-H contracts signed between Telecom Italia and the main domestic TV operators (in particular Mediaset group and Sky Italia) in order to provide TIM TV service;
- 13 million for the commitment to acquire a stake in Fondo Clessidra.

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Liquidity And Capital Resources**

*Sale commitments* for a total amount of 2 million.

The purchase and sale commitments above mentioned refer to commitments that do not fall within the normal operating cycle of the Group.

As of December 31, 2007, the Group has given guarantees of 287 million, net of 169 million of counter-guarantees received, which consisted mainly of guarantees provided by Telecom Italia on behalf of associated companies (95 million) and others for medium and long-term loans.

In addition, the 47.80% interest in Tiglio I has been pledged to the banks that financed the associate.

As of December 31, 2007, Telecom Italia Group companies have also issued support letters for a total of 129 million, mainly on behalf of associates to guarantee insurance policies, lines of credit and overdraft arrangements.

For further details please see Note Contingent assets and liabilities, commitments and other guarantees of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**Contractual Obligations and Commitments**

The following tables aggregate our contractual obligations and commitments with definitive payment terms which will require significant cash outlays in the future in terms of nominal amounts and carrying values in accordance with IFRS.

The average maturity of financial non-current liabilities was equal to 7.73 years.

As of December 31, 2007 the carrying amounts of payables due under IFRS (including fair value adjustment and measurement at amortized cost) and the relating expiration dates were as follows:

<b>Amounts(*) due as of December 31,</b>						
<b>2008(**)</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>After 2012</b>	<b>Total</b>

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	(millions of Euro)						
Notes and bonds	4,521	3,846	2,685	4,133	3,244	13,651	32,080
Loans and other debts	1,074	279	1,930	401	143	4,930	8,757
Finance lease liabilities	262	211	177	149	112	1,160	2,071
<b>Total non-current financial liabilities</b>	<b>5,857</b>	<b>4,336</b>	<b>4,792</b>	<b>4,683</b>	<b>3,499</b>	<b>19,741</b>	<b>42,908</b>
<b>Current financial liabilities</b>	<b>728</b>						<b>728</b>
<b>Total gross financial debt</b>	<b>6,585</b>	<b>4,336</b>	<b>4,792</b>	<b>4,683</b>	<b>3,499</b>	<b>19,741</b>	<b>43,636</b>

(\*) Financial commitments include accrued expenses and deferred income, of which 1 million is in non-current financial liabilities, 1,232 million in non-current financial liabilities maturing within 1 year and 17 million in other current financial liabilities.

(\*\*) Of which 501.1 million matures on September 14, 2008 and refers to Telecom Italia Finance S.A. bonds with the right of the bondholders to extend the maturity date by 21 months; final maturity date is March 2012.

As of December 31, 2007, the nominal repayment amounts of payables and the relating expiration dates were as follows:

	Amounts due as of December 31,						
	2008(*)	2009	2010	2011	2012	After 2012	Total
	(millions of Euro)						
Notes and bonds	3,588	3,820	2,748	4,109	3,250	13,771	31,286
Loans and other debts	802	279	1,931	392	142	4,960	8,506
Finance lease liabilities	244	211	177	149	112	1,160	2,053
<b>Total non-current financial debt</b>	<b>4,634</b>	<b>4,310</b>	<b>4,856</b>	<b>4,650</b>	<b>3,504</b>	<b>19,891</b>	<b>41,845</b>
<b>Current financial liabilities</b>	<b>707</b>						<b>707</b>
<b>Total gross financial debt</b>	<b>5,341</b>	<b>4,310</b>	<b>4,856</b>	<b>4,650</b>	<b>3,504</b>	<b>19,891</b>	<b>42,552</b>

(\*) Of which 499.7 million matures on September 14, 2008 and refers to Telecom Italia Finance S.A. bonds with the right of the bondholders to extend the maturity date by 21 months; last maturity date is March 2012.

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Liquidity And Capital Resources**

As of December 31, 2007, financial assets amounted to 7,935 million (of which 7,240 million classified as current financial assets) and permit, together with the total unused committed credit lines of 6.5 billion, sufficient coverage of estimated maturities.

For further details please see also Note Financial instruments and Note Other information, Operating leases of the Notes to Consolidated Financial Statements included elsewhere in this Annual Report.

**5.5.3 CAPITAL EXPENDITURES**

The table below sets forth, for the periods indicated, our total capital expenditures (on an accrual basis) allocated to the Business Units on the basis of the organizational structure at December 31, 2007.

	Year ended December 31,		
	2007(1)	2006(1)(2)	2005(1)(2)
	(millions of Euro)		
Purchase of tangible assets:			
Domestic	2,467	2,302	2,507
European BroadBand	265	225	218
Brazil Mobile	388	342	598
Media	21	29	27
Olivetti	7	10	18
Other Operations and eliminations(3)	15	19	20
<b>Total purchase of tangible assets(4)</b>	<b>3,163</b>	<b>2,927</b>	<b>3,388</b>
<b>Purchase of intangible assets(5)</b>	<b>2,357</b>	<b>2,187</b>	<b>1,785</b>
<b>Total capital expenditures(6)</b>	<b>5,520</b>	<b>5,114</b>	<b>5,173</b>

(1) All financial data exclude those relating to the consolidated companies considered as Discontinued operations/Non-current assets held for sale.

(2) The data relating to 2006 and 2005 have been reclassified and presented consistently with the 2007 presentation.

(3) The economic and financial results of Entel Bolivia have been included in Other Operations.

(4) Purchase of tangible assets is mainly related to local and long distance networks, exchange equipment, investments in subscribers equipment, radio and transmission equipment.

(5) Purchase of intangible assets includes expenditures for software for telecommunications systems and licenses.

(6) Intercompany capital expenditures are adjusted to eliminate intercompany profit.

In the three years ended December 31, 2007, 2006 and 2005, cash flows generated by operating activities ( 8,690 million in 2007, 9,194 million in 2006 and 9,778 million in 2005) exceeded capital expenditures on an accrual basis ( 5,520 million in 2007, 5,114 million in 2006 and 5,173 million in 2005).

The capital expenditures planned for the three years 2008-2010 are approximately 15 billion, of which about 5.4 billion are allocated to 2008 (in line with the prior year).

The breakdown of capital expenditures by sector of activity is as follows:

- for the domestic business, the 2008 target is over 3.5 billion, and approximately 11 billion overall in the three-year period 2008-2010;
- for Tim Brasil, the 2008 target is approximately 1.5 billion (including 0.5 billion for the acquisition of UMTS licenses in Brazil), and approximately 3 billion overall in the three-year period 2008-2010;
- for HanseNet (European BroadBand), the 2008 target is approximately 0.3 billion in 2008, and approximately 0.7 billion overall in the three-year period 2008-2010.

For further details please see 5.5.2 Capital Resources .

For details about market risk disclosures please see Item 11. Quantitative And Qualitative Disclosures About Market Risks .

**Table of Contents**

**Item 5. Operating And Financial Review And Prospects**

**Research, Development And Innovation**

**5.6 RESEARCH, DEVELOPMENT AND INNOVATION**

The Italian market for telecommunications is considered among the most advanced, both from the technological viewpoint and the evolution of customer attitudes and consumption profiles.

Technological innovation is therefore an essential and differentiating factor in permitting the Telocom Italia Group to develop a competitive advantage and maintain leadership in an increasingly competitive market.

The technological and innovative advances the Group has made over the years in the design, development and adoption of state-of-the-art networks, terminals and services, have also been utilized in foreign countries where the Group operates.

Technological research and development activities range from reviews of basic technologies, aimed at increasing network and system efficiency, to complex activities involving the review of platforms, services and architectures; the effort concentrated on the field by business unit operational departments is therefore essential to assure the compliance of new services to customer needs and the continuous improvement of qualitative levels.

Besides by Telecom Italia Lab ( **TILab** ), technological innovation activities are carried out also by the operational and business units (Network, Market, Information Technology, Web & Media and Security) as well as by Olivetti.

During financial year 2007 the investments of the Telecom Italia Group for tangible and intangible assets related to development and innovation totalled approximately 3,400 million. Internal resources devoted to these activities as well as to research amount approximately to 6,200, with an overall commitment equal to approximately 560 million (of which approximately 163 million already included in the investments).

Total research and development costs incurred in 2007 amounted to approximately 122 million ( 133 million in 2006 and 180 million in 2005) and included external costs, employee benefits expenses of dedicated staff and depreciation and amortization.

In 2007 the research and development centres of Telecom Italia carried out in particular the activities detailed below.

**TILAB**

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TILab is primary source of research and development activities for the Telecom Italia Group and operates as a centre of competence for the internal departments devoted to business development and also operates externally as a centre of excellence for the telecommunications industry. The TILab laboratories have contributed for instance to the development and success of achievements such as GSM, MP3 and optical transmission.

TILab activities are focused on research, evaluation and development of emerging technologies and on the revision of basic technologies designed to increase the efficiency of networks and systems as well as of platforms, services and network architectures.

TILab regularly collaborates with both national and international research centres and with the most qualified academic institutes (the Polytechnic institutes of Turin and Milan, the Universities of Pisa, Genoa, Florence, Rome, Naples, Bologna, Reggio Emilia, Brescia, Turin, Verona, Modena, the University of Berkeley, the Columbia University and Massachusset Institute of Technology). TILab continued in particular with the Polytechnic Institute of Turin the collaboration on the University Master Network and Services Innovation in the ICT Sector , with the objective of training on specific technological skills through a marked integration between classroom and laboratory activities.



**Table of Contents****Item 5. Operating And Financial Review And Prospects****Research, Development And Innovation**

In 2007 forty-seven new patents were filed (63 in 2006), of which 10 are the result of joint research projects with Pirelli Labs (to be added to more than 500 patents already filed). A breakdown by activity sector is reported below:

Within the framework of the activities aimed at the Group's technology development, TILab has set out a Technological Plan 2008-2010, outlining the strategic parameters for the development of the network and platforms in terms of target architecture, as well as technological and operational assets. The plan also provides in depth information on subjects which are particularly strategic and relevant to the positioning of the Telecom Italia Group technologies such as terminal development and multimedia domestic solutions, the start of NGN2, the service framework and the related brokering towards third parties, information technology as network service, the content-based services and their convergence towards communication.

The results accomplished by TILab in 2007 with respect to infrastructures and platforms have contributed to raise the Group's profitability by improving the network solution efficiency and consequently rationalizing costs, and by developing solutions that allow the Group to offer new services and performances. Particularly relevant from this standpoint are the following initiatives:

- the engineering of technical solutions for the new generation network NGN2, which has been implemented initially in the Milan area;
- the implementation of a naked ADSL solution, representing in perspective the transition towards IP telephony, substituting traditional analogical access, it ensures number portability, reuse of home equipment and access to non geographic phone numbers;
- the experimental start of real time monitoring of energy efficiency in the exchange areas of Telecom Italia; the appropriate distribution of technologies such as the wireless sensor networks made it possible in particular to experiment the efficiency of energy saving solutions, implemented through the monitoring and profiling of consumptions related to single systems, the support of designs related to energy saving targeted interventions, the identification of operation and consumption anomalies;
- the definition of introduction scenarios in the field of both fixed and mobile WiMAX technology, in terms of architecture and impact on the access network and terminals, as well as the related simulation of the system performances;
- the definition of innovative algorithms/models to plan the radiomobile access network, also in real-time, for the relevant sizing and optimization with the development of new functionalities of the TIMPLAN/GUITAR software platform. The results achieved enabled new solutions for the management of radio resources in scenarios characterized by multiple radio access technologies and the production of simulation tools for the optimized use of the frequency spectrum;
- the definition of the software platform development scenario at service level (Service Framework) to enable the role of platform provider to third parties (Service Broker), for application in different vertical situations, with focus first of all on services for car drivers (emergency, information services, traffic management, fleet management). Within this framework service prototypes on a circulating vehicle have been experimented, and used as demo in several occurrences, among which the presentation to the Turin Mayor and to the CTO Summit in Venice. The activity is connected to the

Tema.mobility initiative, in partnership with Magneti Marelli;

**Table of Contents****Item 5. Operating And Financial Review And Prospects****Research, Development And Innovation**

- the laboratory experimentation of possible applications of principles oriented to the Web 2.0 paradigm and the world of telecommunications started. It aims at supporting the study of new business models and scenarios for the integration between Web 2.0 and the software platform with regard to the telecommunication operator service. In particular, solutions for functionalities available via the internet have been realized, as well as a system allowing users to create/share services within a community.

Concerning the development of new services, the activities carried out and the results achieved have generated new opportunities in support of the development of the current offer and of the expansion to new product or service segments. The most significant implementations achieved in 2007 are described below:

- the development, integration and test of the dual mode service launched with the name of Unico. The service allows to manage on a single dualmode mobile terminal (2G-3G/WiFi) the fixed telephony VoIP service Alice Voce and the mobile telephony 2G/3G TIM service;
- the design, development, integration and test of the TIM Casa solution. The service allows customers to call from home on the mobile network with differentiated tariffs and by using the fixed network phone numbers;
- the development in the field of digital entertainment services, of the IPTV services, such as high definition digital and interactive television, video and music services on demand, and self-production of multimedia and web-diffused content such as Plays in the community ;
- the demonstration of the first innovative applications of mobile TV on commercial terminal such as Rich Media , which will allow the operator to have a sophisticated control of the user interface and particularly attractive interactive applications;
- the release of a new Set Top Box also offering access to the Terrestrial Digital TV channels managing video codes and high performances;
- the implementation among mobile services of the SMS Real Time Charging function, meant to reduce the frauds generated by SMS sent by mobile and large account users towards other mobile operators;
- the start-up of an innovative experiment based on the implementation of a service named First Life Communicator which has allowed the Group to access the virtual community Second Life with the telephone service subsequently extendable with e-mail and instant messaging;
- the continuation of research on new television utilization paradigms (Dynamic TV) which, taking advantage of the interest associated with mass content diffused through DTT or IPTV, aim at the effective promotion of a high number of niche content available in digital format and at low cost;
- the study and development of interactive and multichannel multimedia advertising service prototypes (IPTV and Mobile) through the use of innovative technologies such as for instance the 2D barcode, access to past television programs, and the 3D mobile client presented at the Science Festival of Genoa and at the Science White Night of Turin. Their purpose is the simplification of advertising content fruition, making it more attractive at the same time;

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- the analysis and development of service prototypes based on the Mobile Personal Web Server such as personal sites and personal journals;
- the initiatives to amplify the SIM role on the mobile terminal, transforming it into an operator asset, as a tool for the authentication and personalization of services to the customer. In this sense, the specifications related to the new SIM/USIM and the requirements for the new SIM-based services have been defined, in addition to the development and experimentation of the first mega/giga SIM prototypes;
- the development of the architecture and communication protocols among equipment using the SIM and the integrated Zig Bee (ZSIM) radio interface as a safety component managed by the network operator to ensure high safety communication while enabling Authentication/Authorisation services and the configuration and personalization of equipment and services through proximity technologies;
- the preparation of demos and technical experiments with respect to Radiomobile commerce, in order to assess solutions and new services using proximity technologies for the support of mobile-commerce services, such as micro-payments and mobile-ticketing.

**Table of Contents**

**Item 5. Operating And Financial Review And Prospects**

**Research, Development And Innovation**

In conclusion we report the results achieved in the field of validation and test of innovative solutions in the TILAB testing laboratories, as a contribution to ensuring the availability of high technical quality solutions and meeting the market requirements. Test campaigns have been implemented to develop the systems for the ADSL access network and for the new generation one (NGN2). Other test campaigns concerned the terminals and network terminations for the Group s offer both of innovative services (i.e. Access Gateway, videophone, DECT headers, Set top box for IPTV) and traditional services (Cordless, Printers, Fax, etc.).

**The Olivetti Group**

The Olivetti Group devotes a significant number of its employees to the technological research and development sector. Its research centres, located both in Italy and abroad, are staffed by about 200 employees, accounting for over 15% of its total workforce.

In 2007, the Olivetti research centres have been committed to the development of products and terminals for counter automation and of ink-jet products and accessories.

**Table of Contents**

d Financial Review And Prospects

Cautionary Statement For Purposes Of The Safe Harbor Provisions Of The United States Private Securities Litigation Reform Act Of 1995

**5.7 CAUTIONARY STATEMENT FOR PURPOSES OF THE SAFE HARBOR PROVISIONS OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995**

The Private Securities Litigation Reform Act of 1995 provides a safe harbor for forward-looking statements. The foregoing discussion in Item 5. Operating and Financial Review and Prospects and the following discussion under Item 11. Quantitative and Qualitative Disclosures About Market Risks contain forward-looking statements. Forward-looking statements are statements that are not historical facts and can be identified by the use of forward-looking terminology such as believes, may, is expected to, will continue, should, seeks or anticipates or similar expressions or the negative thereof or other comparable terminology, or by the forward-looking nature of discussions of strategy, plans or intentions.

The following important factors could cause our actual results to differ materially from those projected or implied in any forward-looking statements:

- the continuing impact of increased competition in a liberalized market, including competition from established domestic competitors and global and regional alliances formed by other telecommunications operators in our core Italian domestic fixed-line and wireless markets;
- our ability to restructure our organizational model from one based on technology (fixed and mobile) to one based on customer segments (consumers, SOHOs, SMEs, Corporates) in order to focus on customers and their needs in utilizing our products and services;
- our ability to utilize our relationship with Telefónica (through our new shareholder structure) to attain synergies primarily in areas such as network, IT, purchasing, sales activities in Germany and international mobile roaming;
- our ability to introduce new services to stimulate increased usage of our fixed and wireless networks to offset declines in the traditional fixed-line voice business due to the continuing impact of regulatory required price reductions, market share loss, pricing pressures generally and shifts in usage patterns;
- our ability to successfully implement our internet and broadband strategy both in Italy and abroad;
- our ability to successfully achieve our debt reduction targets;
- the impact of regulatory decisions and changes in the regulatory environment in Italy and other countries in which we operate;
- the impact of economic development generally on our international business and on our foreign investments and capital expenditures;
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our services are technology-intensive and the development of new technologies could render such services non-competitive;

- the impact of political and economic developments in Italy and other countries in which we operate;
- the impact of fluctuations in currency exchange and interest rates;
- our ability to successfully implement our strategy over the 2008-2010 period;
- our ability to build up our business in adjacent markets (pay-TV and IT services) and in international markets (particularly Brazil in mobile telecommunications and Europe Germany in BroadBand), due to our specialist and technical resources;
- our ability to achieve the expected return on the investments and capital expenditures we have made and continue to make in Brazil on mobile and in Europe on BroadBand;
- the amount and timing of any future impairment charges for our licenses, goodwill or other assets; and
- the outcome of litigation, disputes and investigations in which we are involved or may become involved.

The foregoing factors should not be construed as exhaustive. Due to such uncertainties and risks, readers are cautioned not to place undue reliance on such forward-looking statements, which speak only as of the date hereof. We undertake no obligation to release publicly the result of any revisions to these forward-looking statements which may be made to reflect events or circumstances after the date hereof, including, without limitation, changes in our business or acquisition strategy or planned capital expenditures, or to reflect the occurrence of unanticipated events.

**Table of Contents****Item 6. Directors, Senior Management and Employees****Directors****Item 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES****6.1 DIRECTORS**

On April 14, 2008 the Shareholders Meeting of the Company elected a new Board of Directors of Telecom Italia. The Shareholders Meeting established the number of Directors at 15 and that their term of office would be for three-years, that is up to the Shareholders Meeting which will be convened to approve the financial statements of the Company for the year ended December 31, 2010.

On April 15, 2008, the Board of Directors elected Gabriele Galateri di Genola and Franco Bernabè, respectively, as Chairman of the Board of Directors and Chief Executive Officer.

Consequently, as of May 5, 2008 the Board of Directors of Telecom Italia was composed as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Appointed</u>
Gabriele Galateri di Genola	61	Chairman	2008
Franco Bernabè	59	Chief Executive Officer/Director	2008
César Alierta Izuel	63	Director	2008
Paolo Baratta(1)	68	Director	2008
Tarak Ben Ammar	58	Director	2008
Roland Berger(1)	70	Director	2008
Elio Cosimo Catania(1)	61	Director	2008
Jean Paul Fitoussi(1)	65	Director	2008
Berardino Libonati	74	Director	2008
Julio Linares López	62	Director	2008
Gaetano Micciché	57	Director	2008
Aldo Minucci	61	Director	2008
Gianni Mion	64	Director	2008
Renato Pagliaro	51	Director	2008
Luigi Zingales(1)	45	Director	2008

(1) Independent Directors. For details on the criteria applied to determine independence, see Item 10. Additional Information 10.1 Corporate Governance 10.1.2 General Board of Directors Independent Directors .

As of May 7, 2008 the Secretary of the Board of Directors was the General Counsel of Telecom Italia, Francesco Umile Chiappetta.

Up to April 14, 2008 the Board of Directors in charge was the Board appointed by the Shareholders Meeting held on April 16, 2007. This Shareholders Meeting elected the Board of Directors of Telecom Italia by establishing the number of directors at 19 and set the expiration for the term of office as one year, that was, up to the date of the Shareholders Meeting called to approve the financial



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statements for the year ended December 31, 2007.

On July 4, 2007 the director Luciano Gobbi resigned. The Board of Directors in its meeting held on July 24, 2007 appointed Gaetano Miccichè as director.

On October 25, 2007, the directors Claudio De Conto and Carlo Alessandro Puri Negri resigned and the Board of Directors in its meeting held on November 8, 2007 appointed César Alierta Izuel and Julio Linares López as directors.

Subsequently, the directors Pasquale Pistorio (Chairman of the Board), Carlo Orazio Buora (Executive Deputy Chairman) and Riccardo Ruggiero (Chief Executive Officer and General Manager) resigned from their respective offices and from the Board of Directors, and director Diana Bracco resigned too from the Board, all with effect from December 3, 2007, the date of the Board of Directors meeting that co-opted Gabriele Galateri di Genola and Franco Bernabé, appointing them as Chairman and Chief Executive Officer, respectively.

**Table of Contents****Item 6. Directors, Senior Management and Employees****Directors**

On December 31, 2007 the Board of Directors of the Company was thus composed of 17 directors, as follows:

<u>Name</u>	<u>Age</u>	<u>Position</u>	<u>Appointed</u>
Gabriele Galateri di Genola	61	Chairman	2007
Franco Bernabé	59	Chief Executive Officer/Director	2007
César Alierta Izuel	63	Director	2007
Paolo Baratta(1)	68	Director	2007
Gilberto Benetton	66	Director	2007
Stefano Cao(1)	56	Director	2007
Renzo Capra(1)	78	Director	2007
Domenico De Sole(1)	64	Director	2007
Luigi Fausti(1)	79	Director	2007
Jean Paul Fitoussi(1)	65	Director	2007
Julio Linares López	62	Director	2007
Gaetano Micciché	57	Director	2007
Aldo Minucci	61	Director	2007
Gianni Mion	64	Director	2007
Renato Pagliaro	51	Director	2007
Cesare Giovanni Vecchio(1)	46	Director	2007
Luigi Zingales(1)	45	Director	2007

(1) Independent Directors. For details on the criteria applied to determine independence, see Item 10. Additional Information 10.1 Corporate Governance 10.1.2 General Board of Directors Independent Directors .

In 2007:

- the Board of Directors met nine times, with meetings generally scheduled pursuant to a calendar set forth in advance;
- the Internal Control and Corporate Governance Committee (as of December 31, 2007 composed of Paolo Baratta Chairman, Domenico De Sole, Luigi Fausti, Cesare Giovanni Vecchio) held eleven meetings. Where deemed desirable in light of the issues on the agenda, the Committee and the Board of Auditors held joint meetings;
- the Remuneration Committee (as of December 31, 2007 composed of Luigi Zingales Chairman, Stefano Cao, Renzo Capra and Luigi Fausti) met six times;
- the Strategy Committee (as of December 31, 2007 composed of the Chairman of the Board Gabriele Galateri di Genola, the Chief Executive Officer Franco Bernabé and Directors Paolo Baratta, Domenico De Sole, Jean Paul Fitoussi and Renato Pagliaro) met four times.

For a detailed description of Telecom Italia s corporate governance, including activities, responsibilities and organization of the Board of Directors and the Committees, see Item 10. Additional Information 10.1 Corporate Governance .

**6.1.1 BIOGRAPHICAL DATA**

The following are the selected biographical data of the Directors.

**Gabriele Galateri di Genola:** Gabriele Galateri di Genola was born in Rome in 1947. He was appointed Chairman of Telecom Italia on December 3, 2007 and confirmed in the office (after having been appointed Director for a three year period by the Shareholders Meeting of April 14, 2008) on April 15, 2008. After earning his MBA at the Columbia University Business School, Mr. Galateri di Genola began his career in 1971 at the Headquarters of the Banco di Roma, where he started as Head of the Financial Analysis Office before being appointed to manage the International Loans Office. From 1974 to 1976 he worked as Financial Director of the Saint Gobain Group in Italy. In 1977, he joined FIAT S.p.A., where he moved from Head of North, Central and South American Operations at the International Finance Office, to Head of International Finance and, ultimately, to Director of Finance. Mr. Galateri di Genola became CEO of Ifil S.p.A. in 1986. In 1993, he took on the positions of CEO and General Manager of IFI, which he retained until 2002. In June 2002, he was appointed CEO of FIAT S.p.A.. Between April 2003 and June 2007, Mr. Galateri di Genola was Chairman of Mediobanca S.p.A.. He is a non-executive Board member of Banca Esperia S.p.A., Banca CRS S.p.A., Italmobiliare S.p.A., Fiera di Genova S.p.A., Utet S.p.A. and Accor S.A.. Mr. Galateri di Genola is a Vice Chairman of Assicurazioni Generali S.p.A. and RCS MediaGroup S.p.A.. He is Board member of the European Institute of Oncology and Knight of Labour (Cavaliere del Lavoro).

**Table of Contents****Item 6. Directors, Senior Management and Employees****Directors**

**Franco Bernabé:** Franco Bernabé was born in Vipiteno/Sterzing (Bozen) in 1948. He was appointed Chief Executive Officer of Telecom Italia on December 3, 2007 and confirmed in the office on April 15, 2008. After earning his degree with honours in Economics and Political Science at the University of Turin in 1973, Mr. Bernabé worked for two years as a post-graduate fellow at the Einaudi Foundation. He began his professional career in 1976 as a Senior Economist at the OECD Department of Economics and Statistics in Paris. In 1978 he joined the Planning Department of FIAT as Chief Economist. In 1983 he joined Eni as an Assistant to the Chairman and became subsequently the Head of Corporate Planning, Financial Control and Corporate Development. From 1992 to 1998 Mr. Bernabé was CEO of Eni. During this two terms, he achieved the turnaround of the company and its successful privatization bringing Eni to be one of the largest oil companies by market capitalization worldwide. In November 1998 he became CEO of Telecom Italia, a position he retained until 1999, when he left following the takeover of Telecom Italia by Olivetti. At the end of 1999 he founded FB Group, an investment company active in the areas of financial advisory, ICT and renewable energy. In 2004, following the merger of the financial advisory activities of FB Group with the Rothschild Group, he was appointed as Vice Chairman of Rothschild Europe. Mr. Bernabé has also served *pro bono* on different public assignments: in 1999 he was appointed by the Italian Prime Minister as a special representative of the Italian Government for the reconstruction of Kosovo; between 2001 and 2003 he was the Chairman of La Biennale di Venezia, and since 2004 he is the Chairman of Mart, the foremost Italian museum of modern art. Mr. Bernabé has served on the Advisory Board of the Council on Foreign Relations, and currently serves on the Board of the Peres Center for Peace, on the Advisory Board of the Observatoire Méditerranéen de l'Énergie and on the Board of PetroChina. He also served on the boards of several listed companies including, among others, Fiat and TNT.

**César Alierta Izuel:** César Alierta Izuel was born in Zaragoza (Spain) in 1945. Mr. Alierta took a degree in law from the University of Zaragoza and earned an MBA at the University of Columbia (New York) in 1970. Mr. Alierta has been a Director of Telecom Italia since November 8, 2007. He has been Chairman of Telefónica S.A. since July 2000. Mr. Alierta is also member of the Columbia Business School Board of Overseers. Between 1970 and 1985, he was General Manager of the Capital Markets division at Banco Urquijo in Madrid. Subsequently, he was the Chairman and founder of Beta Capital, Sociedad de Valores, S.A., which he combined as from 1991 with his position as Chairman of the Spanish Financial Analysts Association. He has also been a member of the Board of Directors and Standing Committee of the Madrid Stock Exchange, Plus Ultra Compañía de Seguros y Reaseguros, S.A. and Iberia, S.A.. Between 1996 and November 1999, he was Director and Chairman of Tabacalera S.A. changed its name into Altadis S.A. (following its merger with the French Group, Seita Société Nationale D'Exploitation Industrielle des Tabacs et Allumettes) and he became Director and Chairman of Altadis S.A.. He was the Chairman of Altadis S.A. until July 2000, although he continued as a member of its Board of Directors until February, 2008. He joined the Board of Directors of Telefónica on January 29, 1997. He is also a member of the Board of Directors of China Netcom Group Corporation.

**Paolo Baratta:** Paolo Baratta was born in Milan in 1939. Mr. Baratta has been a Director of Telecom Italia since May 6, 2004. In 1967 he began doing economic research at the Associazione per lo sviluppo dell'industria nel Mezzogiorno (Svimez) in Rome. In 1979 he became a Director of the Istituto per il Credito alle Imprese di Pubblica Utilità (ICIPU) and then Deputy Chairman. From 1980 to 1992 he was Chairman of ICIPU, Consorzio di Credito per le Opere Pubbliche (CREDIOP), Deputy Chairman of Nuovo Banco Ambrosiano (later Banco Ambrosiano Veneto) and the Italian Bankers Association (ABI). In addition to being a Director of various companies, he was Chairman of the Centro Beneduce per gli studi in Campo Bancario e Assicurativo. In 1993 he became Minister for Privatizations with responsibility for the reorganization of the system of state holdings. In 1993-94 he was Minister for Foreign Trade and Minister for Industry ad interim. In 1995-96 he was Minister for Public Works and minister for the Environment. From 1997 to 2000 he was chairman of Bankers Trust S.p.A. and from 1998 to 2000 Chairman of the Biennale di Venezia. He is a member of the Società Italiana degli Economisti and currently is Chairman of the Comitato Venezia Internazionale, the Centro per la Proprietà Intellettuale di Venezia and the Fondazione Lorenzo Valla. He is also Chairman of the Biennale di Venezia (Foundation), a Director of Edizione Holding S.p.A., Ferrovie dello Stato S.p.A., Svimez-Roma and the Fondo per l'Ambiente Italiano (FAI).

**Tarak Ben Ammar:** Tarak Ben Ammar was born in Tunis in 1949. Mr. Ben Ammar has been a Director of Telecom Italia since April 14, 2008. He started his career in 1977, as a film producer. In 1990, he established Quinta Communications, a company used as a vehicle for a number of investments and as a production and distribution company, that was also engaged in trading of

audiovisual rights (acquired from U.S. producers and sold to European Broadcasters); in addition Quinta Communications diversified its activities by building up a

**Table of Contents****Item 6. Directors, Senior Management and Employees****Directors**

portfolio of strategic investments in the media services industry. In addition, Mr. Ben Ammar established close working relationships with a selected number of prominent international investors in the media industry. Mr. Ben Ammar was awarded the Legion d Honneur in 1984 for his cultural contributions. Mr. Ben Ammar is Chairman of the Board of Directors of Quinta Communications S.A.; Chief Executive Officer of many companies (such as Europa TV, Prima TV, ex Machina S.a.S., Andromeda Tunisie S.A., Promotions et Participations International S.A., Holland Coordinator & Service Company Italia S.p.A., Eagle Pictures S.p.A.); Managing Director of Carthago Film S.a.r.l., Quinta Communications USA Inc., and Quinta Communications Distribution Tunisie S.A.R.L., Téléclair S.a.r.l.; Director of TV Breizh, Mediobanca S.p.A., the Weinstein Company, APrime Group S.a.S., LuxVide S.p.A., Holland Coordinator & Service Company B.V., Delta Films Limited and other companies of the Delta Group.

**Roland Berger:** Roland Berger was born in Berlin in 1937. Mr. Berger has been a Director of Telecom Italia since April 14, 2008. He studied business administration in Munich and Hamburg. Prior to founding his strategy consultancy in 1967, Roland Berger was employed as a consultant and ultimately partner at a leading American consulting firm based in Milan and Boston. Roland Berger Strategy Consultants has grown to become the number 4 among the world's leading strategy consultancies with 36 offices in 25 countries. The company advises leading international industry and service enterprise as well as public institutions. Its currently 2,000 employees generated sales of more than euro 600 million in 2007. Roland Berger was a lecturer in Marketing and Advertising at the Technical University of Munich from 1971 to 1972. Since 1996 he has been a lecturer and since 2000 Honorary Professor for Business Administration and Management Consulting at the Brandenburg Technical University in Cottbus. He is a member of the Councils of the Ludwig-Maximilians-Universitat, Munich, and of the University of Music and Performing Arts in Munich. Furthermore, he is a member of the Board of Trustees of the Institute for Economic Research at the University of Munich and member of the Board of the renowned INSEAD business school in Fontainebleau, France. Roland Berger was a member of many expert groups advising various federal and state governments. The Portuguese State President, Anibal Cavaco Silva, appointed him to the Globalization Council Portugal. In 2007, Roland Berger was appointed by the European Commission to the High Level Group of Independent Stakeholders on Administrative Burdens headed by former State Premier Dr. Edmund Stoiber. He is Chairman of Roland Berger Strategy Consultants, Munich and of the Board of Trustees of his private Roland Berger Foundation. The Roland Berger Foundation is committed to protecting human dignity and human rights worldwide, and to facilitating access to high-quality education for talented young people from weaker social classes in Europe. Roland Berger is a member of various supervisory and advisory boards of national and international companies, foundations and organizations and also a member of various international advisory boards.

**Elio Catania:** Elio Catania was born in Catania in 1946. Mr. Catania has been a Director of Telecom Italia since April 14, 2008. He graduated in Electrical Engineering at the Roma University and earned a Master in Management Science at Sloan Management School, MIT, Boston. Elio Catania performed a large proportion of his managerial work at IBM, which he joined in 1970. He operated in four continents and held the following position, among others: President of IBM Latin America, based in New York; Vice President of Marketing for IBM Europe, based in Paris; President and Chief Executive of IBM Italia; President of IBM South Europe. From 2004 to 2006 he was Chairman and Chief Executive Officer of Ferrovie dello Stato. Mr. Catania is Chairman and Managing Director of ATM Group (Milan Transport Company), member of the Board of Management of Banca Intesa Sanpaolo, Vice President of Assonime (Association of Italian Joint Stock Companies), Vice President of the Council for the United States and Italy (CRISU), member of the Committee of Confindustria, was awarded the Knight of Labour (Cavaliere del Lavoro) honor since 2001.

**Jean Paul Fitoussi:** Jean-Paul Fitoussi was born in La Goulette (Tunisia) in 1942. Mr. Fitoussi has been a Director of Telecom Italia since May 6, 2004. Mr. Fitoussi is Professor of Economics at the Institut d Études Politiques in Paris, where he has taught since 1982 and whose Scientific Committee he now chairs. He is currently President of the Observatoire Français des Conjonctures Economiques (OFCE), an economic research and forecasting institute. Mr. Fitoussi graduated *cum laude* in Law and Economics at the University of Strasbourg with a thesis on inflation, equilibrium and unemployment. He began his academic career as a contract professor at the University of Strasbourg. Between 1979 and 1983 he taught at the European University Institute, Florence, and in 1984 was visiting professor at the University of California, Los Angeles. Since 1998 he has been a member of the board of the École Normale Supérieure. In 1997 he became a member of the Prime Minister's Council for Economic Analysis. In 1996 he was named to the Commission Économique de la Nation. He was secretary of the International Economic Association

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beginning in 1984 and has been an expert for the Economic and Monetary Committee of the European Parliament. Between 1990 and 1993 he was Chairman of the Economic Council of the

**Table of Contents****Item 6. Directors, Senior Management and Employees****Directors**

European Bank for Reconstruction and Development. In the field of publishing, Mr. Fitoussi is managing editor of the Revue et Lettre de L'OFCE, member of the Editorial Board of Labour and The International Journal of Development Planning Literature and the scientific committee of International Labour Review and Critique Internationale. His writing appears regularly in newspapers in France and abroad and he is commentator for La Repubblica and Le Monde. Since 2002 he has been Director of the Fondation Nationale des Sciences Politiques. In the field of research, Mr. Fitoussi has concentrated on inflation theory, unemployment, foreign trade and the role of macroeconomic policy. As President of the OFCE and founder of its International Economic Policy Group (of which he is a member), he has made numerous contributions to the current economic policy debate, particularly on the issues of economic integration and transition. Mr. Fitoussi has received the Association Française de Sciences Économiques (French Association for Economic Sciences) Award, and the Rossi Award from the Académie des Sciences Morales et Politiques (Academy of Moral and Political Sciences). He has been awarded various honours including the Honorary Deanship of the Faculty of Economics in Strasbourg, Honoris Causa degree at the Buenos Aires University, and in his own country the decorations of Chevalier de l'Ordre National du Mérite (Knight of the National Order of Merit) and Chevalier de la Légion d'Honneur (Knight of the Legion of Honour).

**Berardino Libonati:** Berardino Libonati was born in Rome, in 1934. He has been a Director of Telecom Italia since April 14, 2008. He has been a lawyer since 1961, and Professor of Commercial Law at La Sapienza, the First University of Rome, since 1981. He held various positions in technical legal reviews such as *Rivista del diritto commerciale e del diritto generale delle obbligazioni*, *Concorrenza e Mercato* and *Rivista delle società*. Berardino Libonati was Auditor to ENI S.p.A. from August 1992 to June 1995; chairman of the board of the Banco di Sicilia S.p.A. from July 1994 to May 1997; chairman of the board of Finnat Euramerica SIM S.p.A. from May 1995 to May 1997; chairman of the board of Telecom Italia S.p.A. from October 1998 to June 1999; chairman of the board of TIM Telecom Italia Mobile S.p.A. from August 1998 to June 1999; chairman of the board of Nomisma S.p.A. from May 2003 till May 7, 2007; a director of Mediobanca S.p.A. from July 30, 2001 to July 2, 2007; chairman of the board of Swiss Re Italia S.p.A. from January 1996 to June 2006; chairman of the board of Alitalia S.p.A. from February 22, 2007 till July 31, 2007; chairman of the board of Banca di Roma S.p.A. from June 28, 2002 till October 4, 2007. He has been chairman of Unidroit Institut pour l'Unification du Droit Privé since January 2000. He has been on the board of ESI Edizioni Scientifiche Italiane S.p.A. since January 23, 2003 and has served on the board of directors of Pirelli S.p.A. since April 28, 2005. He has been part of the board of directors of RCS Media Group S.p.A. since April 27, 2006 and vice chairman of Unicredit since August 3, 2007. Berardino Libonati was appointed Chairman of Telecom Italia Media on April 10, 2008.

**Julio Linares López:** Julio Linares López was born in Medina de Pomar (Spain) in 1945. He has been a Director of Telecom Italia since November 8, 2007. Mr. Linares is a telecommunications engineer who joined Telefónica's R&D Centre in May 1970, and held various positions there before being appointed Head of Telefónica's Technology department in 1984. In April 1990 he was appointed General Manager of Telefónica Investigación y Desarrollo S.A., (Telefónica I + D). In December 1994, he became Deputy General Manager of Telefónica's Marketing and Services Development department, in the commercial area, subsequently moving to the position of Deputy General Manager for Corporate Marketing. In July 1997 he was appointed CEO of Telefónica Multimedia S.A., and President of Telefónica Cable and Producciones Multitematicas S.A.. In May 1998, he was appointed General Manager of Strategy and Technology in Telefónica Corporate Centre. He has been Executive Chairman of Telefónica de España S.A., since January 2000. In December 2005 he became Managing Director for Coordination, Business Development and Synergies in Telefónica, S.A.. He is also a Member of Telefónica S.A.'s Board of Directors and of its Executive Commission and Executive Committee. In December 2007 he was appointed Chief Operating Officer of Telefónica, S.A.. He is also a member of the Board of Directors in Telefónica de España, S.A., Telefónica 02 Europe, plc and Sogecable S.A..

**Gaetano Miccichè:** Gaetano Miccichè was born in Palermo in 1950. Mr. Miccichè has been a Director of Telecom Italia since July 24, 2007. He graduated in Law and then obtained a Master in Business Administration at the SDA Bocconi with merit certificate. He began his professional experience in 1971 as Manager for Corporate Clients at Cassa Centrale Risparmio Province Siciliane. In 1989 he was appointed Central Financial Director at Rodriguez S.p.A., world leading company in the high-speed navigation sector. From 1992 to 1995 he was Managing Director and later Liquidating Administrator at Gerolimich Unione Manifattura, Holding Company with stakes in various industrial sectors. In 1996 he became General Manager of Santavaleria



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S.p.A., industrial Holding Company in chemical and glass sectors. From 1997 to 2002 he was Chief Executive Officer and General Manager of Olcese S.p.A.. Since 2002 he has been in Intesa Sanpaolo S.p.A. as Head of Corporate & Investment Banking

**Table of Contents****Item 6. Directors, Senior Management and Employees****Directors**

Division and as Chief Executive Officer of Banca IMI. He is also member of the Conseil de Surveillance of Equinox Investment Company S.C.p.A..

**Aldo Minucci:** Aldo Minucci was born in Reggio Calabria in 1946. Mr. Minucci has been a Director of Telecom Italia since April 16, 2007. After graduating in Law, in 1972 he was employed by Assicurazioni Generali S.p.A., working in the Tax Consulting Service, for which he became Manager in 1983. In 1993 he was appointed Central Executive Officer with responsibility for the Administration and Tax Coordination Service, and supervision of the Tax Consultancy Service. In 1995 he took on the position of Deputy General Manager for Technical-Commercial Coordination for the Insurance Companies in Italy, and he is Supervisor of the Group's Internal Audit Service. Mr. Minucci is Chairman of Genertel S.p.A. and Telco S.p.A., he is Director of Alleanza Assicurazioni S.p.A., Banca Generali S.p.A., AC.E.G.A.S. S.p.A., Intesa Previdenza SIM S.p.A., Intesa Vita S.p.A., Gemina S.p.A., Toro S.p.A., INA Assitalia S.p.A., FATA Vita S.p.A., FATA Assicurazioni Danni S.p.A., and ADR- Aeroporti di Roma S.p.A..

**Gianni Mion:** Gianni Mion was born in Vo' (Padua) in 1943. Mr. Mion has been a Director of Telecom Italia since November 7, 2001. He began his professional experience in 1967 as Auditor with KPMG (formerly Peat Marwick, Mitchell). Since 1973 he has been Controller of Mc Quay Europe S.p.A. and in 1974 Mr. Mion was appointed Deputy General Manager of Gepi S.p.A.. From 1983 to 1985 he was Chief Executive Officer of Fintermica S.p.A. and since 1986 he has been Chief Financial Officer of Marzotto S.p.A.. He is currently Managing Director of Edizione Holding S.p.A. and Sintonia S.p.A. (appointed in March 2007), holding companies of the Benetton family. He is also Director of Benetton Group S.p.A., Autogrill S.p.A., Atlantia S.p.A., Luxottica S.p.A., Fondazione Cassa di Risparmio di Venezia, Burgo Group S.p.A., Aeroporti di Roma S.p.A. and Sintonia S.A.. Mr. Mion is a Registered Auditor.

**Renato Pagliaro:** Renato Pagliaro was born in Milan in 1957. Mr. Pagliaro has been a Director of Telecom Italia since May 6, 2004. A registered auditor, with a degree in Company Economics from Bocconi University, he joined Mediobanca Banca di Credito Finanziario S.p.A. in 1981, where he has held positions of increasing responsibility. In April 2003, he was appointed Co-General Manager and Secretary to the Board of Directors of Mediobanca S.p.A.; since July 2007, he is Chairman of the Management Board. Mr. Pagliaro is a Director and member of the Executive Committee of RCS Mediagroup S.p.A., Compass S.p.A. and Burgo Group. He is also a Director of SelmaBipiemme Leasing S.p.A. and Cofactor S.p.A.. Since 1993 he has been a member of the Board of Auditors of Istituto Europeo di Oncologia S.r.l..

**Luigi Zingales:** Luigi Zingales was born in Padua in 1963. Mr. Zingales has been a Director of Telecom Italia since April 16, 2007. Luigi Zingales is the Robert C. McCormack Professor of Entrepreneurship and Finance at the Graduate School of Business of the University of Chicago, where he has been a member of the faculty since 1992. In the academic year 2005-2006 he held the Taussig Research Professorship at Harvard University. He is a faculty research fellow of the NBER, a research fellow of the Centre for Economic Policy Research (CEPR), a director of the American Finance Association, a member of the Committee on Capital Market Regulation. In 2003 he won the Bernacer Prize for the best European young financial economist. His research interests span from corporate governance to financial development, from political economy to the economic effects of culture. He has published extensively in the major economics and financial journals. He is an editorialist for *Il Sole 24 ore* (the leading Italian economic newspaper) and for *L'Espresso*.

**Table of Contents****Item 6. Directors, Senior Management and Employees****Executive Officers****6.2 EXECUTIVE OFFICERS**

As of May 7, 2008, the executive officers of Telecom Italia and their respective ages, positions and year of appointment as executive officers were as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>	<b>Appointed</b>
<b>Directors:</b>			
Gabriele Galateri di Genola	61	Chairman(1)	2007
Franco Bernabé	59	Chief Executive Officer(1)	2007
<b>Managers:</b>			
Paolo Annunziato	47	Head of Public Affairs(2)	2007
Francesco Chiappetta	47	General Counsel	
		Head of General Counsel & Corporate and Legal Affairs	2006
Oscar Cicchetti	56	Head of Business Strategies and International Development	2008
		Head of Domestic Fixed Services(3)	2008
Luca Luciani	40	General Manager	
		Head of Domestic Mobile Services	2006
Antonio Migliardi	49	Head of Human Resources and Organization(4)	2008
Enrico Parazzini	64	General Manager	
		Head of Finance, Administration and Control Manager responsible for preparing the Company's financial reports.	2007
Stefano Pileri	52	General Manager	
		Head of Technology & Operations	2006
Germanio Spreafico	55	Head of Purchasing	2006
Giovanni Stella	60	Chief Executive Officer and Executive Deputy Chairman of Telecom Italia Media S.p.A.	
		Head of the Media Business Unit(5)	2008

(1) Appointed by the Board of Directors on December 3, 2007 and confirmed in the office on April 15, 2008.

(2) From May 25, 2007.

(3) Ad interim from March 10, 2008.

(4) From May 1, 2008.

(5) From May 7, 2008.

The following are the selected biographical data of the executive officers, other than Directors:

For the biographical data of Mr. Gabriele Galateri di Genola and Mr. Franco Bernabé, please see above under 6.1 Directors .

**Paolo Annunziato:** Mr. Annunziato was born in Rome in 1961. On May 25, 2007, he became Head of Public Affairs Department. Mr. Annunziato began his career at the World Bank and International Monetary Fund in Washington. In 1989, he moved to the consulting firm A. T. Kearney in Chicago. He joined Confindustria in 1990, moving to Rome, where until 1997 he ran the Real Economy unit at the organization's research center. At Confindustria, he became Head of the Young Entrepreneurs unit, to which, in 2001, he added a role as Manager of Research, Innovation and the Net Economy.

**Francesco Chiappetta:** Mr. Chiappetta was born in Rome, in 1960. Mr. Chiappetta was appointed Telecom Italia General Counsel on August 1, 2002 and Head of Corporate and Legal Affairs on November 25, 2005. He is also the Secretary to the Telecom Italia Board of Directors. On January 22, 2007, he became Head of Group Function General Counsel & Corporate and Legal Affairs. Mr. Chiappetta began his career in 1983 at CONSOB, Italy's stock market and corporate regulatory body. Over the next ten years he held a number of positions at this organization, including Chief of the Regulation Office. Between 1998 and July 2001 he worked as Deputy General Manager for Assonime, the Association of Italian Corporations, with responsibility for company law and capital markets. In August 2001 he joined the Pirelli & C. Group as Head of Legal and Corporate Affairs, a position he filled until joining the Telecom Italia Group. From 1989 to 2008 he worked in academia, holding courses and lectures at leading Italian universities including La Sapienza in Rome, Università di Roma Tre and the Luigi Bocconi University in Milan. Mr. Chiappetta has widely published both on company and securities law specifically he published in 2007 a book titled *Diritto del governo societario: la Corporate Governance delle società*

**Table of Contents****Item 6. Directors, Senior Management and Employees****Executive Officers**

quote . At the present time he is also Chairman of the Company Law Working Group of Business Europe (the Confederation of European Business) and member of the Advisory Group on Company Law and Corporate Governance, a group of experts established by the European Commission.

**Oscar Cicchetti:** Mr. Cicchetti was born in Pizzoli, in the province of L. Aquila, Italy, in 1951. He became Manager of Telecom Italia Business Strategies & International Development on January 14, 2008 and from March 10, 2008 he was appointed Head of Domestic Fixed Services. Mr. Cicchetti began his career in 1978 as an analyst at software house Datamat. He joined SIP in 1979 to manage Network and Installations in the Ascoli Piceno area until 1984, and then he worked as a Market Manager in Ancona and Perugia. Between 1987 and 1993, he was in charge of Process Organization at the HR Management office. In 1993, Mr. Cicchetti transferred to the Azienda di Stato dei Servizi Telefonici company (later Iritel). He stayed here until 1994, as Head of Organization and Training. From 1994 to 1997, he was Head of Staff for the General Manager of Business Systems, before taking on this same role for the CEO of STET/Telecom Italia. Between 1997 and 2000, he covered a number of managerial roles at the Telecom Italia Group, including Central Deputy Manager and Head of the International Business Unit. This period culminated with appointments as Head of Strategic Planning and Head of the Network Division. After working as a freelance consultant in 2001 and 2002 for Wind and Morgan Stanley Private Equity, in 2003 he became CEO of business data services specialist Netscalibur S.p.A, a job he retained until 2006. He was appointed CEO of Infracom Network Application S.p.A. in 2007, prior to making his return to the Telecom Italia Group. Mr. Cicchetti is also a Chairman of Telecom Italia Sparkle S.p.A. and member of the Board of Directors of Olivetti S.p.A..

**Luca Luciani:** Mr. Luciani was born in Padova, in 1967. On February 16, 2007 he was appointed General Manager of Telecom Italia (Domestic Mobile Services). Mr. Luciani began his career in Procter & Gamble in 1990; in 1994, he became Consulting Manager of Bain & Company Consulting and in 1998 Group Controller of Enel Group. He joined the Telecom Italia Group in 1999 as Group Controller; in 2002 he was appointed Chief Financial Officer of TIM and, in 2003, he was appointed Executive Assistant to the Chairman of Telecom Italia. In 2004 he became Responsible for Marketing activities of TIM and from 2004 he was Responsible for IT and Network Services and coordination of International activities. In 2005, he was appointed Chief Marketing Officer of TIM. On October 5, 2005, Mr. Luciani became Responsible for the Indirect Sales channels of the Group.

**Antonio Migliardi:** Mr. Migliardi was born in Reggio Calabria in 1958. On May 1, 2008, he became Head of Human Resources, Organization and Industrial Relations of Telecom Italia; from May 7, 2008 the function changed the denomination in Human Resources and Organization. After graduating in Law, Mr. Migliardi began his career at SIP (later Telecom Italia) with responsibility for Human Resources area. At first, he was Responsible for Human Resources and Industrial Relations Regional Dept., then he assumed a central responsibility in the Industrial Relations Sector. From 1998 to 2004 he was in charge of the Development and Organization Dept. in FS Group. Reporting to the Chief Executive Officer and the Managing Director of the Group, he was appointed to project and implement the whole reorganization of the Italian railways. He was appointed internal member of Trenitalia s (the most important subsidiary of F.S. Group, constituted in 2000) board. In charge of Trenitalia s System Dept. (logistics & maintenance, Information and Communication Technology and Total Quality Management), he reported to the Chief Executive Officer mission and corporate goals: obtaining the alignment of these systems to the new competitive scenario in which the Company had to act in the coming years. As responsible for Total Quality Management, he was also member of the board of Qualital (an Italian consortium for the Engineering of Total Quality). From 2004 to 2006 he was in Alitalia. Reporting to the Chief Executive Officer, in charge of Chief Production Officer (Flight Ops, Ground Ops, Maintenance etc.) and Accountable Manager according to the international regulations (JAR Ops) until the recapitalization of the Company. From 2006 to 2008 he was in charge of Human Resources and Organization Dept. of Vitrociset. Mr. Migliardi is also member of the Board of Directors of Telecontact S.p.A..

**Enrico Parazzini:** Mr. Parazzini was born in Milan, in 1944. On February 16, 2007 he was appointed General Manager of Telecom Italia S.p.A. (Finance, Administration, Control and I.T. Governance), holding his role of Chief Financial Officer of the

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Telecom Italia Group. From February 7, 2007 up to April 10, 2008 he has been Chairman of Telecom Italia Media, maintaining also his position to which he was appointed on October 1, 2001 as Chief Financial Officer of the Telecom Italia Group. After graduating in Economy and Commerce at Milan's Luigi Bocconi University, he commenced his professional career in 1968 as Junior Auditor at Arthur Andersen and in 1969 changed to General Electric, where he worked in the Finance Department. In 1970 he passed to Honeywell Information Systems Italia, a company where in the course of the next twenty years he held positions of growing responsibility: Financial Planning Director from 1975 to 1980; Director of Administration and Control from 1981 to

**Table of Contents****Item 6. Directors, Senior Management and Employees****Executive Officers**

1986 and Chief Financial Officer from 1987 to 1990. A year later, following the disposal of Honeywell's activities to Bull, Mr. Parazzini was appointed General Manager of Administration, Control, Information Technology Systems and Logistics. In May 1992 he joined Pirelli as Director of Planning and Control (Group Controller), and participated to the turnaround of the Group and, more particularly, to the reorganization of the planning and control system. Between 1996 and 1999 he was in charge of Planning and Control, Administration, Group Purchases and Risk Management. In 2000 he was appointed Chief Financial Officer of Pirelli's Cable and Systems Sector. From 1994 to 2000 he was visiting lecturer at the Luigi Bocconi University for the course on Planning and Control in Multinational Groups; since 2002 he has been acting as Professor for the Master in Corporate Finance at the Luigi Bocconi University's Management School (Scuola di Direzione Aziendale SDA). Mr. Parazzini is also: Chairman of Telecom Italia International N.V., MTV Italia, SSC Shared Services Center; Member of the Board of Telecom Italia Media, TIMB Telecom Italia Media Broadcasting, TM News, Telecom Italia Audit, Fondazione Partnership per la Bocconi, Associazione TV Nazionali, Member of the Federal Council of FRT Federazione Radio Televisioni; he is also Member of the Board of Italtel Group and Italtel S.p.A., Member of the Compensation Committee of Italtel Group and Member of the Executive Committee of Italtel S.p.A..

**Stefano Pileri:** Mr. Pileri was born in Rome, in 1955. On February 16, 2007 he was appointed General Manager of Telecom Italia (Technology & Operations). He has been in SIP (later Telecom Italia) since 1982 where he assumed growing responsibilities, during the years, in the Network Management Systems Department. From 1993 to 1994 he was responsible for the Network Development and Operations in the Emilia-Romagna region, and in 1997 he became Responsible for Network Planning, Engineering and Marketing in the Network Division of Telecom Italia. In March 1998 he became Responsible of the Telecom Italia Wireline Network and in June 2005 he was also appointed Chief Technology Officer of the Telecom Italia Group, directly reporting the Chairman, with the responsibility to drive and coordinate the fixed-mobile integration and the overall technological network development. Mr. Pileri is Director of Italtel.

**Germanio Spreafico:** Mr. Spreafico was born in Lecco, in 1952. He was appointed Head of Telecom Italia Group Purchasing on October 1, 2001. He began his career in 1977 at the Pirelli Financial Division, where he worked for 10 years, during which time he was promoted through various positions in domestic and international finance and ultimately took charge of Italian market financial operations. Subsequent to this he moved to the Cable sector, initially as Chief Financial Officer of the Italian operations, before taking on the same role in the French subsidiary. In 1997, he became Chief Financial Officer and board member of the Group Cable Industry Holding Company, where he also took on the position of Chief Purchasing Officer. At the present time, Mr. Spreafico is Chairman of Telenergia S.r.l. and Olivetti Multiservices S.p.A..

**Giovanni Stella:** Mr. Stella was born in Orvieto (Terni) in 1948. He was appointed Chief Executive Officer, Television of Telecom Italia Media S.p.A. on May 7, 2008 holding his position of Executive Deputy Chairman (appointed on April 11, 2008). Mr. Stella is graduated in Economics in 1973 from the University of Perugia. In 1974, he joined Ente Nazionale Idrocarburi (ENI) as an internal group auditor and eventually fulfilled organizational duties in administration, purchasing, outsourcing, asset and liability accounting, accounting for public, tax and management reporting purposes. As ENI's representative participated in working groups with ASSONIME the national association of joint-stock companies and CONSOB, to study accounting and auditing standards for the preparation of consolidated financial statements. Between 1989 and 1993 cooperated with the Corporate Audit Chair at La Sapienza University of Rome. Followed the main corporate restructurings implemented by the ENI Group, especially the creation of a national chemical pole through the ENI-MONTEDISON joint venture. Between 1993 and 1996, he served as Chief Financial, Administration and Control Officer of Enichem S.p.A., the parent of ENI's chemical activities. Between 1996 and December 31, 1998, Mr. Stella served as Chief Administration, Financial and Control Officer of Agip Petroli S.p.A.. Moreover, he became Chairman and Managing Director of Agip Petroli International. In January 1999, he joined Telecom Italia S.p.A. as assistant to the Chief Executive Officer, Mr. Franco Bernabé. In March 1999 he became Chief financial and control officer, with responsibilities also for corporate transactions and divestments. In June 1999 he was appointed Chairman of Stream S.p.A., after conducting negotiations with News Corp., Cecchi Gori Group and S.D.S. for the sale of 65% of the company. In 1999 he was also appointed Head of Purchasing and Real Estate. Within the Telecom Italia Group, he served as director in the following companies: Telecom Italia Mobile S.p.A. and Sirti S.p.A.. In November 1999 he became a partner of Mr. Franco Bernabé and CEO of the Franco Bernabé Group. Between 2000 and 2004, he was a member of the Board of Directors of soccer club AS Roma S.p.A. Between

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January 1 and December 2007, he was Chief Executive Officer of Rothschild S.p.A.. Acting as a consultant for the Finmeccanica Russia project, on behalf of Rothschild, since January 2008. Director of Telit Communications Plc, to represent the Shareholders, since May 2007. Independent director of Aicon S.p.A. since January 1, 2008.



**Table of Contents****Item 6. Directors, Senior Management and Employees****Board of Auditors****6.3 BOARD OF AUDITORS**

The following table lists the members of the Telecom Italia Board of Auditors as of May 5, 2008, including the Alternate Auditors, with their respective positions and year of appointment. The current Telecom Italia Board of Auditors was appointed by the shareholders' meeting on April 13, 2006.

On April 16, 2007 the shareholders' meeting of Telecom Italia appointed Enrico Maria Bignami as Auditor (previously he was an Alternate Auditor and as such replaced Stefano Meroi, who resigned as an Auditor on October 20, 2006) and Luigi Gaspari as Alternate Auditor.

<u>Name</u>	<u>Position</u>	<u>Appointed</u>
Paolo GOLIA	Chairman	2006
Enrico Maria BIGNAMI	Auditor	2007
Salvatore SPINIELLO	Auditor	2006
Ferdinando SUPERTI FURGA	Auditor	2006
Gianfranco ZANDA	Auditor	2006
Luigi GASPARI	Alternate Auditor	2007
Enrico LAGHI	Alternate Auditor	2006

The positions held by the members of the Board of Auditors in other listed companies are shown below:

Paolo GOLIA	
Enrico Maria BIGNAMI	Chairman of the Board of Auditors of Biancamano S.p.A.
Salvatore SPINIELLO	Director of Fondiaria Sai S.p.A. and Immobiliare Lombarda S.p.A.; member of the board of auditors of Edison S.p.A. and of Telecom Italia Media S.p.A. (Telecom Italia Group)
Ferdinando SUPERTI FURGA	Independent director of Parmalat S.p.A and Molmed S.p.A.; chairman of the board of auditors of Arnoldo Mondadori Editore S.p.A.; member of the board of auditors of Edison S.p.A.
Gianfranco ZANDA	Chairman of the Board of Auditors of Molmed S.p.A.

For a detailed description of Telecom Italia's corporate governance, including activities and responsibilities of the Board of Auditors (acting as Audit Committee of the Company), see Item 10. Additional Information 10.1 Corporate Governance.

**Table of Contents**

**Item 6. Directors, Senior Management and Employees**

**External Auditors**

**6.4 EXTERNAL AUDITORS**

The audit of issuers and their groups are governed by the Legislative Decree No. 58/1998 (the Consolidated Law on Finance), as amended by the Law No. 262/2005 (the protection of savings law) as subsequently amended by the Legislative Decree No. 303/2006 (the corrective decree). In particular, the Law No. 262/2005 fixed the total duration of audit engagements at nine years and prohibited the renewal of an engagement, and the conferment of a new engagement for at least three years from the date of the end of the previous engagement. However, the transitional provision contained in Article 8.7 of Legislative Decree No. 303/2006 allowed companies to extend the appointment of their incumbent auditors (as of the date the Decree No. 303/2006 was implemented), so that the overall duration of such engagement be equal to nine fiscal years.

According to such rules, the Shareholders Meeting held on April 16, 2007 re-appointed Reconta Ernst & Young as the audit firm of the Company for the three year period 2007-2009 (after a first appointment for the years 2001, 2002 and 2003 and a second appointment for the years 2004, 2005 and 2006) to audit the separate annual financial statements of Telecom Italia S.p.A., the consolidated annual financial statements of the Telecom Italia Group and the half-yearly reports for the fiscal years 2007, 2008 and 2009.

Italian audit principles require that, in cases of corporate groups, the audit firm of Telecom Italia should carry out the audit of the group's most important entities in terms of the nature of operations, in such a way that it can act as the main group audit firm and express a professional evaluation of the financial statements in their entirety. In addition, the specific procedure set forth by Telecom Italia (the Group Procedure for the Appointment of External Auditors) provides that the auditor of Telecom Italia is the principal auditor of the entire group headed by Telecom Italia and consequently is the auditor to be preferred in the conferral of appointments by subsidiaries for mandatory auditing.

As a result, the Ernst & Young audit network presently is the principal audit firm for the Telecom Italia Group.

**Table of Contents**

Item 6. Directors, Senior Management and Employees

Employees

**6.5 EMPLOYEES****6.5.1 EMPLOYEES AND CHANGES IN THE TELECOM ITALIA GROUP**

The following table sets out the number of employees of the Telecom Italia Group at December 31, 2007 and 2006 by Business Unit:

	Number of employees as of December 31,	
	2007	2006
Domestic	64,362	66,835
European BroadBand	4,551	3,066
Brazil Mobile	10,030	9,531
Media	1,016	919
Olivetti	1,279	1,428
Other Operations	2,191	1,430
<b>Group Total</b>	<b>83,429</b>	<b>83,209</b>

The following table summarizes the changes during 2007 relating to the number of employees:

Employees at December 31, 2006(*)	Changes during the year					Total changes	Employees at December 31, 2007(*)
	Hired	Terminated employment	Decrease of personnel with temp work contracts	Change in scope of consolidation			
<b>83,209</b>	7,345	(8,310)	(682)	1,867	220	<b>83,429</b>	

(\*) Include 2,654 and 1,972 personnel with temp work contracts at December 31, 2006 and 2007, respectively.

As of December 31, 2007, the Telecom Italia Group employed 83,429 employees. Compared to December 31, 2006 total employment was higher by 220, mainly attributable to the following factors:

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- the addition of 1,875 people following the acquisition of the AOL Internet businesses in Germany (1,101), the controlling interest in Shared Service Center (670) and the Tecnosis business segment (104) and the termination of 8 people subsequent to the disposal of the company Domus Academy;
- the hiring of 7,345 people: 1,709 in Italy and 5,636 outside Italy;
- the termination of 8,310 people: 4,063 in Italy and 4,247 outside Italy;
- the reduction of 682 people with temp work contracts.

The number of employees of the Telecom Italia Group at December 31, 2007 broken down by geographical area and function is presented in Note Segment Information b) Information by geographical segment of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

### 6.5.2 INDUSTRIAL RELATIONS

In Italy, Telecom Italia Group employees are represented by two categories of national unions, one for managerial staff and another for non-managerial staff. Employment agreements in Italy are generally collectively negotiated at the national level between the national employers' associations and the workers' unions and, for medium and large companies, also at company level. Renewals of collective agreements are subject to general guidelines agreed upon between the Italian Government, the employers' associations and trade unions. These guidelines establish that salary increases negotiated at the national level should not exceed agreed upon inflation rates. Individual companies may enter into additional contracts in order to link collective bonuses to a company's productivity or profitability.

In May 2007, Telecom Italia started the negotiations of the collective agreements with the Trade Unions and with the National Coordinating Body of the Rappresentanze Sindacali Unitarie (RSU), which are the company-level worker representation bodies. The parties discussed single items through two joint technical committees before negotiating in plenary session on December 18, 2007.

**Table of Contents**

**Item 6. Directors, Senior Management and Employees**

**Employees**

At the same time, the Group agreed to negotiate with the National Coordinating Body of the RSU welfare measures for the call centre workers in four main areas: people enhancement and training, work organization, environment and safety, work-life balance. The parties formed two joint committees dedicated to the working environments in the fixed and mobile businesses. After several meetings, the parties views on significant issues moved closer together. The negotiation will now be conducted at the local level with the Rappresentanti dei Lavoratori per la Sicurezza (RLS), which are the worker representation bodies for safety.

After the merger of TIM Italia into Telecom Italia and the subsequent agreement of February 27, 2006 to harmonize the different treatments for the employees of the two companies, the Group and the Trade Unions agreed to set-up the National Coordinating Body of the Telecom Italia S.p.A. RSUs in accordance with the agreement signed by the parties on May 2, 2005. The agreement was signed on March 26, 2007 and establishes a unitary national representative body which includes 92 RSUs elected among all workers representatives.

On June 5, 2007, the parties signed an agreement on the Result-Based Bonus for 2007 for all the Telecom Italia s employees, except for those included in specific incentive plans. In compliance with the Protocol of July 23, 1993, the agreement provides for the distribution of a bonus related to the Company s economic performance and the actual presence on the job of the staff involved.

In compliance with the agreement of December 9, 2003, the Company and the Trade Unions discussed the Barra Telefonica Posto Unico Operatore (a system for the management of the technical assistance in the fixed business) used at national level in the National Customer Services, within the Field Services Division. The agreement was signed by the National Coordinating Body of the Telecom Italia S.p.A. RSUs and the Trade Unions on June 28, 2007.

In order to reorganize and strengthen the security of the Company, a meeting was held with Trade Unions on July 23, 2007, to reintroduce in Telecom Italia from November 1, 2007 the division Centri Territoriali di Sorveglianza , sold to TecnoSis S.p.A. in 2005. The operation involved 104 workers.

On July 26, 2007, two agreements were signed with the National Coordinating Body of the Telecom Italia S.p.A. RSUs in order to experiment with part-time home-based telework and the working-out (involving the possibility for technicians who work mainly outside the company to park their corporate car at their house). The projects, inspired by the Technology Division and dedicated to specific professional positions, were developed by a joint Company-Trade Unions technical committee and has organizational advantages both for workers and the Company.

On July 26, 2007, the parties also agreed to reorganize the service Directory Assistance 1254 within the Customer Operations. The Company and the Trade Unions analyzed the business prospects of this specific sector and now share a plan for the reorganization of the Information Services in order to recover significant market shares.

In the Customer Operation Business, the Company and the Trade Unions agreed to integrate the Fixed and Mobile Premium Care. The agreement provides for Fixed-Mobile integration in the services dedicated to important customers in order to improve the management of Corporate customers.

Following the agreements signed on December 20, 2005 with Trade Unions (which foresaw 3,500 employees enrolled in incentivized programs to encourage the employee to seek alternative professional developments, so called "mobility lists"), in 2007 the Group enrolled 1,634 employees in mobility lists (using as a priority identification criterion the early retirement option during mobility). Consistent with such agreements signed with Trade Unions, mobility ex lege 223/91 has been implemented on the basis of voluntary assent by the employees involved. These have been granted, upon termination of employment, in addition to TFR (end of employment settlement) to ensure appropriate income for the time until eligibility for retirement pension. More generally, mutually agreed employment termination has been implemented and, whenever possible, has been achieved through professional re-employment solutions.

On February 7, 2007, the Group also signed agreements with the manager's bargaining Group on supplementary health assistance. The Parties agreed on several amendments to the Statute of ASSIDA (Supplementary Health Assistance Fund for Group companies senior managers). In the same agreement, the Parties confirmed their intention to find solutions to enable such Fund to continue offering better options as compared to the standard ones provided by the collective contracts.

**Table of Contents**

**Item 6. Directors, Senior Management and Employees      Compensation of Directors, Officers and Members of the Board of Auditors**

**6.6 COMPENSATION OF DIRECTORS, OFFICERS AND MEMBERS OF THE BOARD OF AUDITORS**

**6.6.1 COMPENSATION OF DIRECTORS**

The General Shareholders Meeting held on April 16, 2007, established the maximum total annual remuneration of the newly appointed Board of Directors (to remain in office until the approval of 2007 financial statements), according to article 2389, first paragraph, of the Italian Civil Code, up to 2,800,000, such amount to be divided amongst the directors in accordance with the resolution adopted by the Board itself in connection therewith.

The above mentioned overall amount for 2007 was distributed as follows:

- 114,000 to be paid to each director in office;
- an additional 70,000 to be paid to each member of the Internal Control and Corporate Governance Committee;
- an additional 40,000 to be paid to each member of the Remuneration Committee;
- an additional 20,000 to be paid to each member of the Strategy Committee, other than the Chairman and the Chief Executive Officer;
- an additional 20,000 to be paid to the director appointed to the Supervision Panel set up under Legislative Decree 231/2001 (see Item 10. Additional Information 10.1 Corporate Governance 10.1.2 General Board of Directors Internal Control System ).

The total compensation paid by Telecom Italia and the Telecom Italia Group subsidiaries in 2007 to the members of the Board of Directors of Telecom Italia was 29.612.000.

The General Shareholders Meeting held on April 14, 2008, set the maximum total annual remuneration of the newly appointed Board of Directors (to remain in office for a three-year term, until the approval of 2010 financial statements), according to article 2389, first paragraph, of the Italian Civil Code, up to 2,200,000.00, such amount to be divided amongst the directors in accordance with the resolution adopted by the Board itself in connection therewith.

According to the resolution adopted by the Board on April 15, 2008, the above mentioned overall amount for 2008 will be distributed as follows:

- 110,000 to be paid to each director in office;
- an additional 35,000 to be paid to each member of the Executive Committee;
- an additional 45,000 to be paid to each member of the Internal Control and Corporate Governance Committee;
- an additional 20,000 to be paid to each member of the Appointment and Remuneration Committee;
- an additional 20,000 to be paid to the director appointed to the Supervision Panel set up under Legislative Decree 231/2001 (see Item 10. Additional Information 10.1 Corporate Governance 10.1.2 General Board of Directors Internal Control System ).

In addition, according to a further resolution adopted by the Board on April 15, 2008, the Chairman (Gabriele Galateri di Genola) and CEO (Franco Bernabè) receive a fixed amount for the position pursuant to paragraph 3 of Article 2389 of the Civil Code equal to respectively 1,300,000 and 1,400,000.

Franco Bernabè was also granted variable compensation linked to the economic results and a series of operational objectives. More specifically, he was granted a short-term incentive scheme whose value ranges from 50% to 200% of his fixed compensation, linked on a linear basis to achievement of objectives set by the Board of Directors for:

- Return on Investment (30% share of the variable compensation);
- Net Cash Flow before Dividends (30% share of the variable compensation);
- Customer Satisfaction (30% share of the variable compensation); and
- Innovative Revenues (VAS Mobile + ICT and Fixed Internet; 10% share of the variable compensation).



**Table of Contents****Item 6. Directors, Senior Management and Employees Compensation of Directors, Officers and Members of the Board of Auditors**

According to the resolutions of the Board, if the appointment of either the Chairman or the CEO is interrupted before the end of the mandate established by the shareholders' meeting (that is a three-year term of office, up to the approval of 2010 Financial statements) (i) for objective reasons (such as the merger of the Company or the termination of the entire Board of Directors pursuant to Article 9.12 of the bylaws), (ii) at the initiative of the Company (except for good cause) or (iii) at the initiative of the interested party for good cause (e.g. change in the position, especially with reference to the delegated powers, significant changes in the composition of the reference shareholders):

- the Chairman is entitled to the fixed compensation that would have been due to him from the termination of the relationship to the end of his term of office as a director, supplemented by an indemnity equal to a year's compensation;
- the CEO is entitled to the compensation that would have been due to him from the termination of the relationship to the end of his term of office as a director (including the variable component calculated as the average of the disbursements already made or, in the absence thereof, of the target value), supplemented by a penalty payment corresponding to a year's compensation calculated as above.

The following table lists the Directors who served during 2007 and their respective compensation as of December 31, 2007. The compensation relates only to the period of 2007 in which they served as set forth below:

<u>Name</u>	<u>Position held</u>	<u>Period during which position was held</u>	<u>Compensation base</u>	<u>Non cash benefits</u>	<u>Bonuses and other incentives</u>	<u>Other compensations</u>
(thousands of Euro)						
Gabriele GALATERI DI GENOLA	Chairman	12/3-12/31/2007	9			
Franco BERNABÉ	Chief Executive Officer	12/3-12/31/2007	9			
César ALIERTA IZUEL	Director	11/8-12/31/2007	19			
Paolo BARATTA	Director	1/1- 12/31/2007	203(1)			
Gilberto BENETTON	Director	1/1- 12/31/2007	114			
Stefano CAO	Director	4/17-12/31/2007	107(2)			
Renzo CAPRA	Director	4/17-12/31/2007	107(2)			
Domenico DE SOLE	Director	1/1-12/31/2007	198(3)			
Luigi FAUSTI	Director	1/1-12/31/2007	203(4)			
Jean Paul FITOUSSI	Director	1/1-12/31/2007	127(5)			
Julio LINARES LÓPEZ	Director	11/8-12/31/2007	19			
Gaetano MICCICHÈ	Director	7/24-12/31/2007	47			
Aldo MINUCCI	Director	4/17-12/31/2007	80			
Gianni MION	Director	1/1-12/31/2007	114(6)			
Renato PAGLIARO	Director	1/1-12/31/2007	127(5)(7)			
Cesare Giovanni VECCHIO	Director	4/17-12/31/2007	127(8)			
Luigi ZINGALES	Director	4/17-12/31/2007	107(2)			

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John Robert Sotheby BOAS	Director	1/1-4/16/2007	34		
Diana BRACCO	Director	1/1-12/2/2007	145(8)		
Carlo Orazio BUORA	Executive Deputy Chairman	1/1-12/2/2007	2,136	80	5,805(9)
Claudio DE CONTO	Director	4/17-10/25/2007	61(10)		
Francesco DENOZZA	Director	1/1-4/16/2007	52(8)		
Guido FERRARINI	Director	1/1-4/16/2007	58(11)		
Luciano GOBBI	Director	4/17-7/6/2007	23(10)		
Vittorio MERLONI	Director	1/1-4/16/2007	34		
Massimo MORATTI	Director	1/1-4/16/2007	34		
Marco ONADO	Director	1/1-4/16/2007	58(3)		
Pasquale PISTORIO	Director Chairman	1/1-4/16/2007 4/17-2/12/2007	1,197	6	5(13)
Carlo A. PURI NEGRI	Director	1/1-10/25/2007	95		
Guido ROSSI	Chairman	1/1-4/6/2007	616	3	2(13)
Luigi ROTH	Director	1/1-4/16/2007	34		
Riccardo RUGGIERO	Chief Executive Officer General Manager	1/1-12/2/2007	711(14)	11	3,770(15) 12,871(16)

1. The amount includes remuneration paid as a member of the Remuneration Committee, the Committee for Internal Control and Corporate Governance, the Strategy Committee and the Supervisory Panel under Legislative Decree 231/2001.

**Table of Contents**

**Item 6. Directors, Senior Management and Employees**

**Compensation of Directors, Officers and Members of the Board of Auditors**

2. The amount includes remuneration paid as a member of the Remuneration Committee.
3. The amount includes remuneration paid as a member of the Committee for Internal Control and Corporate Governance and the Strategy Committee.
4. The amount includes remuneration paid as a member of the Committee for Internal Control and Corporate Governance and the Remuneration Committee.
5. The amount includes remuneration paid as a member of the Strategy Committee.
6. Remuneration not received but paid over to Edizione Holding.
7. Remuneration not received but paid over to Mediobanca.
8. The amount includes remuneration paid as a member of the Committee for Internal Control and Corporate Governance.
9. The amount includes variable remuneration linked to 2006 targets (paid in 2007), the extraordinary remuneration paid for the individual's professional and management contribution to the Group starting from October 1, 2001 and a one-off payment for Sundry Occasional services.
10. Remuneration not received but paid over to Pirelli & C. S.p.A..
11. The amount includes remuneration paid as a member of the Committee for Internal Control and Corporate Governance and the Supervisory Panel under Legislative Decree 231/2001.
12. The amount includes remuneration paid as a member of the Remuneration Committee and as a member of the Strategy Committee.
13. One-off payment for Sundry Occasional services.
14. The amount of 105,230.77, relative to remuneration under ex art. 2389, first paragraph of the Italian Civil Code, is not received by the individual.
15. The amount includes remuneration paid in respect of a one-off Retention incentive, Management By Objectives (MBO) and Long-Term Incentives (LTI).
16. The amount includes the remuneration paid under the general settlement regarding gross compensation as an employee, traveling expenses, employment termination benefit incentives and remuneration of 20,312.32 under ex art. 2389, first paragraph of the Italian Civil Code for the position of Chairman of Telecom Italia Sparkle S.p.A. not received but paid over to Telecom Italia S.p.A..

Moreover:

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- Mr. Carlo Buora signed a non-competition agreement with Telecom Italia S.p.A. in return for which he received 4,000,000 with payment in four deferred semiannual installments during the period 2008/2009;
- Mr. Carlo Buora did not receive the variable remuneration linked to 2007 targets equal to 1,400,000, voted by the Telecom Italia S.p.A. Board of Directors on July 24, 2007;
- Mr. Pasquale Pistorio did not receive the variable remuneration linked to 2007 targets equal to 700,000, voted by the Telecom Italia S.p.A. Board of Directors on July 24, 2007.

\* \* \*

Applicable Italian law requires disclosure of individual compensation in the form of stock options for members of the Board of Directors.

The following table have been prepared according to the format required by the Regulation for the implementation of Legislative Decree No. 58 dated February 24, 1998, adopted by Consob under Resolution 11971 dated May, 14, 1999 and subsequent amendments and additions.

Name	Position held	Options held at the beginning of 2007			Options granted during 2007			Options exercised during 2007			Options expired in 2007	Options held at the end of 2007		
		Number of options(*)	Average exercise price(**)	Average expiration date	Number of options	Average exercise price	Average expiration date	Number of options	Average exercise price	Average market price during year	Number of options	Number of options(*)	Average exercise price (**)	Average expiration date
												(11)		
(A)	(B)	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(1)+(4)-(7)-(10)	(12)	(13)
Riccardo Ruggiero	CEO/	750,000	3.177343	2007							750,000			
	G.M.	200,000	2.788052	2010								200,000	2.788052	2010

(\*) Each option allows the subscription of 3.300871 Telecom Italia Ordinary Shares.

(\*\*) The average exercise price is the subscription price of Telecom Italia Ordinary Shares deriving from the exercise of options.

**Table of Contents**

**Item 6. Directors, Senior Management and Employees**

**Compensation of Directors, Officers and Members of the Board of Auditors**

The Telecom Italia Shareholders Meeting held on April 14, 2008 approved a stock option plan reserved to Gabriele Galateri di Genola and Franco Bernabè, conditional upon their positions being confirmed as Chairman and CEO following the renewal of the Board of Directors. In service of this Plan to be implemented by the Board of Directors authorization was issued to buy back and hold a maximum of 11,400,000 Ordinary Shares.

As a result, on April 15, 2008 the Board of Directors of Telecom Italia, which confirmed Gabriele Galateri di Genola and Franco Bernabè respectively as Chairman and CEO of the Company, implemented the stock option plan according to the terms set forth by the Shareholders Meeting, and therefore awarded 8,400,000 options to the CEO and 3,000,000 options to the Chairman, for the purchase of a corresponding number of Shares at a price of 1.95 per share.

**6.6.2 COMPENSATION OF EXECUTIVE OFFICERS**

The total compensation paid by the Company or by any of the Company's subsidiaries in 2007 to the Company's executive officers was 40,993,000.

The contracts with the executive officers contain the following clauses:

- if the Company terminates the work relationship (with the exception of a termination for good cause) and the executive officer waives certain rights to which he is entitled pursuant to applicable Italian law, the Company will pay to the executive officer a separation allowance in the amount of two to four years of salary plus, in certain cases, a lump sum corresponding to the average bonus compensation received in the three years (or shorter period) preceding his termination; and
- if the executive officer terminates the work relationship for good cause due to a reduction in responsibilities and tasks assigned to the executive officer, then such executive officer will be entitled to an amount corresponding to 50% of the amount described above.

The specific provisions applicable to the current Chairman of the Board of Directors and Chief Executive Officer, who have no work relationship with the Company other than their relationships as Executive Directors of Telecom Italia, are described under 6.6.1 Compensation of Directors .

Applicable Italian law requires disclosure of individual compensation in the form of stock options for General Managers and, in the aggregate and divided by plan, the stock options granted by Telecom Italia S.p.A. to Executive Officers.

**Table of Contents****Item 6. Directors, Senior Management and Employees Compensation of Directors, Officers and Members of the Board of Auditors**

The following tables have been prepared according to the format required by the Regulation for the implementation of Legislative Decree dated February 24, 1998, adopted by Consob under Resolution 11971 dated May, 14, 1999 and subsequent amendments and additions.

No options were granted or exercised during 2007.

Name	Position held	Options held at the beginning of 2007			Options expired or forfeited in 2007	Options held at the end of 2007		
		Number of options(*)	Average exercise price(**)	Average expiration date	Number of options	Number of options(*)	Average exercise price(**)	Average expiration date
		(1)	(2)	(3)	(4)	(5)=1-4	(6)	(7)
Massimo Castelli	General Manager	40,000	2,928015	2010		40,000	2,928015	2010
Luca Luciani	General Manager	75,000	3,177343	2007	75,000			
		54,000	2,928015	2008		54,000	2,928015	2008
		54,000	2,928015	2009		54,000	2,928015	2009
		72,000	2,928015	2010		72,000	2,928015	2010
Enrico Parazzini	General Manager	360,000	2,788052	2008		360,000	2,788052	2008
		360,000	2,788052	2009		360,000	2,788052	2009
		480,000	2,788052	2010		480,000	2,788052	2010
Stefano Pileri	General Manager	300,000	3,177343	2007	300,000			
		108,000	2,928015	2008		108,000	2,928015	2008
		108,000	2,928015	2009		108,000	2,928015	2009
		144,000	2,928015	2010		144,000	2,928015	2010

(\*) Each option corresponds to the subscription or purchase of 3.300871 Telecom Italia ordinary shares.

(\*\*) The average exercise price means the average subscription price of Telecom Italia ordinary shares that come from exercising the options.

Name	Position held	Options held at the beginning of 2007			Options expired or forfeited in 2007	Options held at the end of 2007		
		Number of options(*)	Average exercise price(**)	Average expiration date	Number of options	Number of options(*)	Average exercise price(**)	Average expiration date
		(1)	(2)	(3)	(4)	(5)=1-4	(6)	(7)
2002 Plan	Executive Officer	620,000	2,509504	2009		620,000	2,509504	2009
2002 TOP Plan	Executive Officer	2,000,000	2,788052	2009		2,000,000	2,788052	2009

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(\*) Each option corresponds to the subscription or purchase of 3.300871 Telecom Italia ordinary shares.

(\*\*) The average exercise price means the average subscription price of Telecom Italia ordinary shares that come from exercising the options.

### **6.6.3 COMPENSATION OF MEMBERS OF THE BOARD OF AUDITORS**

The General Shareholders Meeting of April 13, 2006 (which appointed the current Board of Auditors) authorized annual compensation of 128,000 for each Auditor and 171,000 for the Chairman of the Board. It also decided to award an additional 20,000 to the member of the Board of Auditors appointed to the Supervisory Panel set up under Legislative Decree 231/2001 (Ferdinando Superti Furga).

The total compensation paid by the Company or by any of the Telecom Italia Group subsidiaries in 2007 to the members of the Board of Auditors was 722,000.

**Table of Contents****Item 6. Directors, Senior Management and Employees Compensation of Directors, Officers and Members of the Board of Auditors**

The following table sets forth the members of the Board of Auditors in office during 2007 and the compensation received by the Board of Auditors for services rendered during the year ended December 31, 2007:

<u>Name</u>	<u>Position held</u>	<u>Period during which position was held</u>	<u>Compensation base</u>	<u>Non cash benefits</u>	<u>Bonuses and other incentives</u>	<u>Other compensations</u>
(thousand of Euro)						
Paolo GOLIA	Chairman	1/1-12/31/2007	171			
Enrico Maria BIGNAMI	Auditor	1/1-12/31/2007	128(1)			
Ferdinando SUPERTI FURGA	Auditor	1/1-12/31/2007	147(2)			
Salvatore SPINIELLO	Auditor	1/1-12/31/2007	128			32(3)
Gianfranco ZANDA	Auditor	1/1-12/31/2007	128			7(4)

(1) The amount includes remuneration not received but paid to the Bignami e Associati corporate and tax consulting firm.

(2) The amount includes remuneration paid as a member of the Supervisory Panel under Legislative Decree 231/2001.

(3) The amount includes remuneration for the position of Acting Auditor of Telecom Italia Media S.p.A..

(4) The amount includes remuneration for the position of Chairman of Board of Auditors in the subsidiary IT Telecom S.r.l..



**Table of Contents**

**Item 6. Directors, Senior Management and Employees**

**Options to Purchase Securities from Registrant**

**6.7 OPTIONS TO PURCHASE SECURITIES FROM REGISTRANT**

At the end of 2007, the existing stock options plans related to options which give the right to the subscription of new Telecom Italia Ordinary Shares (including the options at one time granted to TIM S.p.A.) and new Telecom Italia Media Ordinary Shares.

On April 15, 2008, the Board of Directors approved the implementation of the stock option plan for the Chairman, Gabriele Galateri di Genola, and the Chief Executive Officer, Franco Bernabè. The three-year plan allocated 8,400,000 options for the CEO and 3,000,000 options for the Chairman, each giving the right to purchase one Ordinary Share of the Company for each option granted at a price of 1.95 per share.

For further details, please see Note Stock option plans of the Telecom Italia Group of the Notes to the Consolidated Financial Statements.

**Table of Contents****Item 7. Major Shareholders and Related-Party Transactions****Major Shareholders****Item 7. MAJOR SHAREHOLDERS AND RELATED-PARTY TRANSACTIONS****7.1 MAJOR SHAREHOLDERS**

At December 31, 2007, according to the shareholders register and other information in the Company's possession, the parties which held shares with voting rights, directly or indirectly, in excess of 2% of the ordinary share capital of Telecom Italia were the following:

<b>Major Shareholders</b>	<b>Type of ownership</b>	<b>As of December 31, 2007</b>	
		<b>No. Ordinary Shares</b>	<b>% of ordinary share capital</b>
Telco S.p.A.	(direct)	3,157,172,623	23.59
Hopa S.p.A.	(direct and indirect)	497,901,370	3.72
Findim Group S.A.	(direct)	268,685,458	2.01

As of April 14, 2008, the above mentioned position is the following:

<b>Major Shareholders</b>	<b>Type of ownership</b>	<b>As of April 14, 2008</b>	
		<b>No. Ordinary Shares</b>	<b>% of ordinary share capital</b>
Telco S.p.A.	(direct)	3,278,702,623	24.50
Findim Group S.A.	(direct)	595,645,531	4.45

At December 31, 2007 and on May 5, 2008, Telecom Italia S.p.A. held 1,272,014 Ordinary Shares in treasury, while the subsidiary Telecom Italia Finance S.A. held another 124,544,373 Ordinary Shares, for a total of 0.94% of capital with voting rights.

On May 2, 2007, the US investment advisor Brandes Investment Partners, LP disclosed that it held, in its capacity as an asset manager, 545,945,668 Ordinary Shares, equal to 4.08% of Telecom Italia's Ordinary Share Capital.

**7.1.1 THE SHAREHOLDERS AGREEMENTS**

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The information contained herein regarding shareholders' agreements has been derived from publicly available information filed by the parties involved with regulatory authorities. So far as Telecom Italia is aware, no facts have been omitted herein which would render the information misleading. No further or other responsibility in respect of such information is accepted by Telecom Italia.

On April 28, 2007, a group of investors (the **Investors** or the **Parties** ), made up of 1) Assicurazioni Generali S.p.A., Sintonia S.A., Intesa Sanpaolo S.p.A., Mediobanca S.p.A. (the **Class A Shareholders** ) and 2) Telefónica S.A., entered into a Co-Investment Agreement establishing terms and conditions for their participation in Telco, the vehicle through which they purchased the entire share capital of Olimpia, from Pirelli and Sintonia S.p.A. and Sintonia S.A. (together **Sintonia Sellers** ).

On May 4, 2007, the Investors entered into a Share Purchase Agreement with Pirelli and Sintonia Sellers to purchase the entire share capital of Olimpia. The acquisition was subject to regulatory approval by the competent authorities.

After having received such approvals, the acquisition was closed on October 25, 2007 by Telco, to which Ordinary Shares equal to 5.6% of the Telecom Italia Ordinary Share capital were contributed on the same date by Mediobanca S.p.A. and companies of the Generali Group. The total investment held by Telco S.p.A. was therefore equal to 23.595% of Telecom Italia Ordinary Share capital, of which 17.99% were acquired from Olimpia.

Telco is held by Generali Group (28.1%), Intesa Sanpaolo S.p.A. (10.6%), Mediobanca S.p.A. (10.6%), Sintonia S.A. (8.4%) and Telefónica S.A. (42.3%).

Effective as from December 18, 2007, Olimpia was merged with and into Telco, with Telco as the surviving company and directly holding a stake of 23.595% in Telecom Italia's ordinary share capital.

On March 20, 2008, Telco acquired a further 121.5 million Ordinary Shares and increased its ownership in Telecom Italia's share capital to 24.5%.

**Table of Contents****Item 7. Major Shareholders and Related-Party Transactions****Major Shareholders**

Upon completion of the acquisition of the entire share capital of Olimpia, all the previous shareholders' agreements between Pirelli & C. S.p.A., the Sintonia Sellers, Olimpia and the relevant Investors (e.g. Assicurazioni Generali S.p.A. and Mediobanca S.p.A.) concerning Olimpia and Telecom Italia ceased to have any effect, and the only existing agreements amongst its direct and indirect shareholders Telecom Italia is aware of are the agreements among the Investors and Telco.

According to the shareholders' agreement entered into on April 28, 2007 by the Investors (the **Shareholders Agreement**), as soon as possible after the closing of the Share Purchase Agreement, the Board of Directors of Telco or Olimpia, as the case may be (and presently, as a result of the merger of Olimpia with and into Telco, the Board of Directors of Telco), shall approve the list to be submitted to the shareholders' meeting of Telecom Italia, for the appointment of the directors of Telecom Italia, pursuant to the following criteria: (i) Telefónica to the extent it holds at least 30% of Telco's share capital shall have the right vis-à-vis the other parties to designate two directors of Telecom Italia to be included as designees for appointment in the Board of Directors of Telecom Italia in the list and, to the extent feasible, pursuant to article 2386, first paragraph, of the Italian Civil Code (i.e. substitution of Directors) and (ii) the Class A Shareholders to the extent holding at least 50% plus one share of Telco's share capital shall designate the other designees for appointment in the Board of Directors of Telecom Italia in the list as follows: (a) three designees unanimously and (b) the remaining designees on the basis of a proportionality criterium.

In accordance with the Shareholders' Agreement, the Investors have agreed that Telecom Italia Group and Telefónica group will be managed autonomously and independently. In particular, the directors designated by Telefónica in Telco and Telecom Italia shall be directed by Telefónica to neither participate nor vote at the Board of Directors' meetings at which resolutions will be discussed and proposed relating to the policies, management and operations of companies directly or indirectly controlled by Telecom Italia providing services in countries where regulatory and legal restrictions or limitations for the exercise of voting rights by Telefónica are in force.

On October 25, 2007, an Amendment to the Co-investment and Shareholders' Agreement was signed in which, inter alia, the contents of the ruling by ANATEL (the Brazilian telecommunications regulator) announced on October 23, 2007 and published on November 5, 2007 (the **Anatel Ruling**), which approved the acquisition by Telco of an indirect shareholding in the Brazilian Telecom Italia subsidiaries, were acknowledged and each party undertook to implement the content thereof through appropriate legal measures and actions. In furtherance of that undertaking, respectively on November 19, 2007 and on November 20, 2007, the Shareholders Agreement and the By-laws of Telco were amended to implement the clauses contemplated in the ANATEL Ruling.

Specifically with respect to Telecom Italia's Brazilian telecommunication operations, the Parties have agreed as follows.

While applicable regulatory restrictions and limitations exist:

- (i) Telefónica shall neither directly or indirectly participate in, nor vote or veto at a shareholders' meetings held by Telco and Telecom Italia or by any other company directly or indirectly controlled by Telecom Italia, at which and when there will be discussed or proposed resolutions relating to any matters concerning the activities of any such companies directly or indirectly controlled by Telecom Italia in the rendering of their telecommunication services in the Brazilian market; Telefónica shall cause that the persons designated by Telefónica as members to the Boards of Directors, as members to Boards of Officers, as Officers or as members of other corporate bodies having equivalent duties of Telco and Telecom Italia shall neither participate in, nor vote or veto at meetings held by any such corporate bodies or at meetings of corporate bodies of any other

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company directly or indirectly controlled by Telecom Italia, at which and when there will be discussed or proposed resolutions relating to any matters concerning the activities of any such companies in the rendering of their telecommunication services in the Brazilian market;

- (ii) Telefónica shall not designate any member to the Board of Directors, Board of Officers, or any Officer or member of any other corporate bodies having equivalent duties, of companies located in Brazil directly or indirectly controlled by Telecom Italia and that provide telecommunication services in the Brazilian market, as well as to the Board of Directors, Board of Officers, or any Officer or member of any other corporate bodies having equivalent duties, of companies located in Brazil directly or indirectly controlling any such telecommunication services providers;

**Table of Contents****Item 7. Major Shareholders and Related-Party Transactions****Major Shareholders**

- (iii) Telefónica shall prohibit the companies directly or indirectly controlled by Telefónica which render telecommunication services in the Brazilian market from participating in any of the following relationships with companies directly or indirectly controlled by Telecom Italia which render telecommunication services in the Brazilian market, when the terms and conditions thereof differ from those contemplated in the Brazilian rules applicable to telecommunication services: (a) significant financing transactions of any kind whatsoever, either as lenders or borrowers; (b) the granting of guaranties or collaterals of any kind whatsoever; (c) the transfer of assets under terms or conditions or at prices different from market conditions and prices; (d) the transfer of strategic technological know-how; (e) the provision of telecommunication services or related services under more favorable or privileged conditions; (f) operational agreements stipulating more favorable or privileged conditions; (g) the common use of resources, whether material, human or technological; (h) the joint contracting of goods or services; (i) the execution of legal instruments designed to permit the transfer or the assignment of shares or stocks among such telecommunication services providers, or the assignment of rights of first refusal with regard to the reciprocal transfer of shares or stocks; (j) the adoption of a common trademark or marketing and advertising strategy;
- (iv) the Investors shall renew and/or continue to observe the restrictions and limitations here described upon expiration of the term (April 28, 2010) or termination of the Shareholders Agreement for any reason including in the event of merger between Olimpia and Telco with Telco as surviving entity.
- (v) Telefónica shall not exercise direct or indirect control of any company directly or indirectly controlled by Telecom Italia in Brazil, as per the definition of control under the Brazilian telecommunications regulations in force even if Telefónica exercises the right to acquire shares of Telco, in the case of unilateral withdrawal provoked by another shareholder of Telco;
- (vi) the Investors shall instruct the members of the Boards of Directors of Telco appointed by each of them, as well as the members of the Board of Directors of Telecom Italia appointed by Telco to take such actions and make such deliberations as shall be necessary (a) to direct the preparers of the agendas for meetings of the Boards of Directors and/or the Chairmen of the respective Boards of Directors, as the case may be, of Telco, Telecom Italia, and Telecom Italia International N.V. or any other company located outside Brazil directly or indirectly controlled by Telecom Italia with investments in the Brazilian telecommunications sector, to divide the topics into separate agendas as follows: (i) one agenda for the meeting in which Telefónica's participation, through the Board members that it designated in the respective company, is allowed, and (ii) another agenda for the meeting in which the participation of Board members designated by Telefónica in such company is not allowed and in which the topics dealt with shall necessarily pertain to matters that deal with subjects related to the activities of the companies directly or indirectly controlled by Telecom Italia in rendering telecommunication services in the Brazilian market and to directly related topics, these latter being, necessarily, connected to the main topics as regards competition strategy, such as budgets for marketing campaigns and investment plans in product development, assets (*lato sensu*), instruments, all that, in sum, is directed towards the development of activities related to the activities of the companies directly or indirectly controlled by Telecom Italia in the rendering of telecommunication services in the Brazilian market; and (b) to cause to be delivered, under appropriate terms of confidentiality, to designated officers of TIM Celular S.A. and TIM Nordeste S.A., within thirty (30) days counted from the holding of the meetings of the Boards of Directors of Telco, Telecom Italia, Telecom Italia International or any other company located outside Brazil directly or indirectly controlled by Telecom Italia with investments in the Brazilian telecommunications sector, a copy of the Agendas and of the Minutes of the meetings referred to in item (a)(ii), above (with a translation into Portuguese), for delivery by them to the Brazilian telecommunications regulator within such term of thirty (30) days and under a requirement of confidentiality;
- (vii) the restrictions and limitations imposed on Telefónica shall survive also in the event of a demerger of Telco as provided in the Shareholders Agreement, as long as applicable regulatory restrictions and limitations exist at the time of such demerger.

In compliance with the Anatel Ruling, the Brazilian Telecom Italia subsidiaries submitted to Anatel the relevant corporate instruments to implement the measures and procedures required by the Anatel Ruling to assure the segregation of Telecom Italia's activities in Brazil from any potential influence of Telefónica on November 22, 2007, and subsequently proposed a list of additional possible measures on May 2, 2008. As a result, Telecom Italia's Brazilian subsidiaries continue to operate independently and autonomously in the Brazilian market.



**Table of Contents**

**Item 7. Major Shareholders and Related-Party Transactions**

**Major Shareholders**

The current Directors designated by Telefónica undertook to neither participate nor vote at the meetings where discussions will take place relating to activities of Telecom Italia and its participated companies in Brazil as well as in any market with situations similar to those existing in Brazil. Therefore, these board members will not participate in either discussions or votes in the Board of Directors (as well as in the Executive Committee), when proposals or matters regarding the activities of Telecom Italia or its subsidiaries in the Brazilian and Argentine telecommunications markets are examined.



**Table of Contents****Item 7. Major Shareholders and Related-Party Transactions****Major Shareholders****7.1.2 SHAREHOLDERS OWNERSHIP****v BOARD OF DIRECTORS**

In accordance with the Regulation for the implementation of Legislative Decree No. 58 dated February 24, 1998, adopted by Consob under Resolution 11971 dated May 14, 1999, and subsequent amendments and additions, the following table shows the investments held in Telecom Italia S.p.A. and in the related subsidiaries by all the individuals who, during 2007, or a part of that year, have held the position of director in Telecom Italia S.p.A..

<u>Name</u>	<u>Company</u>	<u>Class of shares</u>	<u>Number of shares held at the end of 2006 (or at the date of appointment)</u>	<u>Number of shares purchased in 2007</u>	<u>Number of shares sold in 2007</u>	<u>Number of shares held at the end of 2007 (or as of the date on which individual left position, if before)</u>
Gabriele GALATERI DI GENOLA						
Franco BERNABÉ César ALIERTA IZUEL						
Paolo BARATTA Gilberto						
BENETTON	Telecom Italia S.p.A.	Ordinary	1,946,250			1,946,250
	Telecom Italia S.p.A.	Savings	990,000			990,000
Stefano CAO Renzo CAPRA	Telecom Italia S.p.A.	Ordinary	38,308			38,308
Domenico DE SOLE Luigi FAUSTI	Telecom Italia S.p.A.	Ordinary	55,985(1)			55,985(1)
Jean Paul FITOUSSI Julio LINARES LÓPEZ						
Gaetano MICCICHÈ Aldo MINUCCI	Telecom Italia S.p.A.	Ordinary	2,595			2,595
Gianni MION	Telecom Italia S.p.A.	Ordinary	27,000(2)			27,000(2)
	Telecom Italia S.p.A.	Savings	35,000(2)			35,000(2)
Renato PAGLIARO Cesare Giovanni VECCHIO	Telecom Italia S.p.A.	Savings	60,000			60,000
Luigi ZINGALES John Robert SOTHEBY BOAS						
Diana BRACCO	Telecom Italia S.p.A.	Savings	29,805			29,805
	Telecom Italia Media S.p.A.	Ordinary	594			594
Carlo Orazio BUORA						

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Claudio DE CONTO	Telecom Italia S.p.A.	Ordinary	3,630	3,630
	Telecom Italia Media S.p.A	Ordinary	16	16
Francesco DENOZZA				
Guido FERRARINI	Telecom Italia S.p.A.	Ordinary	50,000	50,000
Luciano GOBBI				
Vittorio MERLONI				
Massimo MORATTI				
Marco ONADO	Telecom Italia S.p.A.	Ordinary	47,000	47,000
	Telecom Italia S.p.A.	Savings	11,092	11,092
Pasquale PISTORIO	Telecom Italia S.p.A.	Ordinary	1,549,000(3)	1,549,000(3)
Carlo Alessandro PURI NEGRI				
Guido ROSSI	Telecom Italia S.p.A.	Ordinary	185,000(2)	185,000(2)
Luigi ROTH	Telecom Italia S.p.A.	Ordinary	36,292(2)	36,292(2)
	Telecom Italia Media S.p.A	Ordinary	726(2)	726(2)
Riccardo RUGGIERO				

(1) Of which 50,000 Shares held indirectly.

(2) Shares held indirectly.

(3) Of which 660,000 Shares held indirectly.

**Table of Contents****Item 7. Major Shareholders and Related-Party Transactions****Major Shareholders****v BOARD OF AUDITORS**

In accordance with the Regulation for the implementation of Legislative Decree No. 58 dated February 24, 1998, adopted by Consob under Resolution 11971 dated May 14, 1999 and subsequent amendments and additions, the following table shows the investments held in Telecom Italia S.p.A. and in the related subsidiaries by all the individuals who, during 2007, or a part of that year, have held the position of auditor in Telecom Italia S.p.A..

<u>Name</u>	<u>Company</u>	<u>Class of shares</u>	<u>Number of shares held at the end of 2006 (or at the date of appointment)</u>	<u>Number of shares purchased in 2007</u>	<u>Number of shares sold in 2007</u>	<u>Number of shares held at the end of 2007 (or as of the date on which individual left position, if before)</u>
Paolo GOLIA	Telecom Italia S.p.A.	Ordinary	1,437			1,437
Enrico Maria BIGNAMI						
Salvatore SPINIELLO						
Ferdinando SUPERTI						
FURGA						
Gianfranco ZANDA						

**v EXECUTIVE OFFICERS**

In accordance with the Regulation for the implementation of Legislative Decree No. 58 dated February 24, 1998, adopted by Consob under Resolution 11971 dated May 14, 1999 and subsequent amendments and additions, the following table shows the investments held in Telecom Italia S.p.A. and in the related subsidiaries by all the individuals who, during 2007, or a part of that year, have held the position of general manager in Telecom Italia S.p.A..

<u>Name</u>	<u>Company</u>	<u>Class of shares</u>	<u>Number of shares held at the end of 2006 (or at the date of appointment)</u>	<u>Number of shares purchased in 2007</u>	<u>Number of shares sold in 2007</u>	<u>Number of shares held at the end of 2007 (or as of the date on which individual left position, if before)</u>
Massimo CASTELLI						
Luca LUCIANI	Telecom Italia S.p.A.	Savings	55,484			55,484
Enrico PARAZZINI	Telecom Italia S.p.A.	Ordinary	484		484	
	Telecom Italia S.p.A.	Savings	27,700(1)			27,700
Stefano PILERI	Telecom Italia S.p.A.	Ordinary	10,892			10,892

(1) Of which 15,000 Shares held indirectly.

In accordance with the Regulation for the implementation of Legislative Decree No. 58 dated February 24, 1998, adopted by Consob under Resolution 11971 dated May 14, 1999 and subsequent amendments and additions, the following table shows the investments held in Telecom Italia S.p.A. and in the related subsidiaries by all the individuals who, during 2007, or a part of that year, have held the position of executive officers (other than the general managers) in Telecom Italia S.p.A..

<u>Company</u>	<u>Class of shares</u>	<u>Number of shares held at the end of 2006 (or at the date of appointment)</u>	<u>Number of shares purchased in 2007</u>	<u>Number of shares sold in 2007</u>	<u>Number of shares held at the end of 2007 (or as of the date on which individual left position, if before)</u>
Telecom Italia S.p.A.	Ordinary	3,292(1)	100,000	102,286(1)	1,006
Telecom Italia Media S.p.A	Ordinary	687			687

(1) Of which 2,761 Shares held indirectly.

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**Table of Contents****Item 7. Major Shareholders and Related-Party Transactions****Major Shareholders**

Effective from April 1, 2006, according to article 114, par. 7, of Legislative Decree No. 58/1998, as amended by Law No. 262/2005, and pursuant to ad hoc rules by CONSOB, persons performing administrative, supervisory and management functions in a listed issuer (including directors and auditors) and managers who have regular access to inside information (so called "privileged information", in accordance with the definition of Law No. 262/2005) and the power to make managerial decisions affecting the future development and prospects of the issuer, persons who hold shares amounting to at least 10 per cent of the share capital, and any other persons who control the issuer must inform CONSOB and the public of transactions involving the issuer's shares (or the shares issued by the issuer's listed subsidiaries, and unlisted shares issued by subsidiaries of the listed issuer when the book value of the holding in the subsidiary represents more than fifty per cent of the listed issuer's assets) or other financial instruments linked to them that they have carried out directly or through nominees, for an amount equal to or above 5,000. Such disclosures must be performed within a five-trading day time limit and have also to be made when the transactions are carried out by the spouse, unless legally separated, dependent children, including those of the spouse, cohabitant parents and relatives by blood or affinity of the persons referred to above.

The aforementioned requirement applies to Telecom Italia's Directors, Auditors and Executive Officers.

\* \* \*

As of May 5, 2008 no member of the Board of Directors, Board of Auditors or Executive Officers beneficially owned more than 1% of the Ordinary Shares or Savings Shares.

**7.1.3 CONTINUING RELATIONSHIP WITH THE ITALIAN TREASURY**

Since December 9, 2002, the Treasury has not held a direct holding in Telecom Italia. However, the Treasury continues to be in a position to exert certain powers with respect to Telecom Italia through the exercise of the special powers included in Telecom Italia's Bylaws. Such powers, the so-called "golden share", were established in 1997 according to Law No. 474/1994, when Telecom Italia formerly controlled by the Italian Treasury was privatized.

On May 22, 2003, taking into account the proposed Merger, a Decree by the Minister of Economy and Finance, in agreement with the Minister for Productive Activities, maintained the power of approving the acquisition of major shareholding in the company's voting capital (3% of Telecom Italia's voting share capital or more) and the power of veto over resolutions to dissolve the company, approve mergers, demergers or dispositions of the business, transfer the registered office abroad, change the corporate purposes or amend and modify the special powers. On the other hand, the Treasury's power to approve major shareholders' agreements and the power to appoint one Director and one Statutory Auditor were relinquished.

Law No. 350/2003, adopted in December 2003, significantly modified the rules governing the special powers, of the Italian Government with respect to privatized companies stating, in particular, that the Government no longer has the power to approve or disapprove the acquisition of material interests in the share capital of such companies, but instead may object, within a ten-day period, in case of prejudice to vital State Interests and each time there is the need to protect subsequent undeniable reasons of public interest, in accordance with specific criteria set forth in an ad-hoc decree of the Government dated June 10, 2004.

As a result, on April 1, 2005 a new Decree by the Minister for Economy and Finance, in agreement with the Minister for Productive Activities redefined accordingly the content of the special powers clause in the Telecom Italia bylaws, and stated its exact wording. Therefore, as per the power entrusted to the Board of Directors by the Company's bylaws, according to Italian Civil Code, to resolve upon revisions of the bylaws, if necessary to conform with statutory provisions, on October 5, 2005 the Telecom Board of Directors amended the relevant provision.

**Table of Contents**

**Item 7. Major Shareholders and Related-Party Transactions**

**Related-Party Transactions**

**7.2 RELATED-PARTY TRANSACTIONS**

Related party transactions, including intragroup transactions, are neither unusual nor atypical but fall under the ordinary business 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.

For further information on related party transactions please see Note Related party transactions of the Notes to the Consolidated Financial Statements included elsewhere in this Annual Report.

**Table of Contents**

**Item 8. Financial Information**

**Historical Financial Statements**

**Item 8. FINANCIAL INFORMATION**

**8.1 HISTORICAL FINANCIAL STATEMENTS**

See Items 18 and 19 for a list of financial statements and other financial information filed with this report.



**Table of Contents**

**Item 8. Financial Information**

**Legal Proceedings**

**8.2 LEGAL PROCEEDINGS**

We are continuously involved in disputes and litigation with regulators, competitors and other parties.

For details about such disputes and litigation, please see Note Contingent assets and liabilities, commitments and other guarantees of the Notes to the Consolidated Financial Statements included elsewhere herein.

In addition, in April 2008, the two disputes with H3G were the subject of a settlement agreement. The agreement settled H3G's claims submitted to the Court of Milan on the alleged anti-competitive conduct of Telecom Italia against H3G, and relating to the Antitrust proceeding A/357 and to the alleged illegal practices of retention and win-back concerning the H3G mobile customers. In addition, the agreement ended a pending legal proceeding at AGCom on the SMS termination from the network of Telecom Italia to that of H3G, and settled some outstanding disputes between the same parties on commercial issues.

**Table of Contents****Item 9. Listing****Trading of Telecom Italia Ordinary Shares and Savings Shares****Item 9. LISTING****9.1 TRADING OF TELECOM ITALIA ORDINARY SHARES AND SAVINGS SHARES**

The principal trading market for the Ordinary Shares and the Savings Shares is on Telematico, an automated screen trading system managed by Borsa Italiana. (See 9.3 Securities Trading in Italy ).

Following the Merger, which became effective on August 4, 2003, Olivetti as the surviving company changed its name to Telecom Italia S.p.A. , succeeded to the 1934 Act registration of Old Telecom Italia and became subject to the foreign private issuer reporting requirements of the Exchange Act.

Ordinary and Savings Share ADSs, each representing respectively ten Ordinary Shares and ten Savings Shares, have been quoted on the NYSE since August 4, 2003. JPMorgan Chase Bank is the Company's Depository issuing ADRs evidencing the Ordinary Share ADSs and the Savings Share ADSs.

The table below sets forth, for the periods indicated, reported high and low official prices of the Ordinary Shares on Telematico and high and low closing prices of Ordinary Share ADSs on the NYSE from August 4, 2003.

	Telematico		NYSE	
	High	Low	High	Low
	( )		(U.S.\$)	
<b>2003:</b>				
Third Quarter from August 4 to September 30(1)	2.324	2.104	26.31	23.57
Fourth Quarter	2.439	2.113	29.92	24.75
<b>2004:</b>				
First Quarter	2.617	2.387	33.24	29.38
Second Quarter	2.703	2.452	32.80	29.74
Third Quarter	2.569	2.343	31.84	28.71
Fourth Quarter	3.046	2.531	41.10	31.28
<b>2005:</b>				
First Quarter	3.168	2.790	41.16	36.93
Second Quarter	2.978	2.486	38.59	30.14
Third Quarter	2.734	2.479	33.86	29.95
Fourth Quarter	2.719	2.305	32.13	26.95
<b>2006:</b>				
First Quarter	2.614	2.257	31.87	26.89
Second Quarter	2.427	2.119	30.21	26.68
Third Quarter	2.269	2.065	29.18	25.88

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Fourth Quarter	2.405	2.205	31.06	27.99
<b>2007:</b>				
First Quarter	2.426	2.108	31.71	27.88
Second Quarter	2.430	2.031	32.53	27.01
Third Quarter	2.164	1.9	30.59	25.43
October	2.185	2.066	31.58	29.06
November	2.197	2.109	32.67	30.31
December	2.237	2.116	32.83	30.32
<b>2008:</b>				
January	2.143	1.973	31.18	29.25
February	2.026	1.679	30.08	24.92
March	1.635	1.212	25.09	18.82
April	1.485	1.310	23.54	20.41
May (through May 5, 2008)	1.376	1.372	21.32	21.12

Source: Bloomberg and Reuters data

- (1) The official prices of Shares for the periods prior to August 4, 2003 are not comparable to the official prices of these shares in the following periods due to the effect of the merger of Old Telecom Italia with and into Olivetti, which became effective on August 4, 2003. Please see 9.2 Trading of Old Telecom Italia Ordinary Shares and Savings Shares .

**Table of Contents****Item 9. Listing****Trading of Telecom Italia Ordinary Shares and Savings Shares**

At the close of business on May 5, 2008 there were 41,673,636 Ordinary Share ADSs outstanding held by 135 registered holders. One of the registered holders is the Depository Trust Company ( **DTC** ) which holds 41,657,824 Ordinary Share ADSs on behalf of beneficial holders.

The table below sets forth, for the periods indicated, reported high and low official prices of the Savings Shares on Telematico and high and low closing prices of the Savings Share ADSs on the NYSE from August 4, 2003.

	Telematico		NYSE	
	High	Low	High	Low
	( )		(U.S.\$)	
<b>2003:</b>				
Third Quarter from August 4 to September 30(1)	1.5760	1.4320	19.00	16.09
Fourth Quarter	1.6460	1.4650	20.90	17.33
<b>2004:</b>				
First Quarter	1.862	1.634	23.54	20.78
Second Quarter	1.972	1.765	23.68	21.46
Third Quarter	1.861	1.711	23.35	21.19
Fourth Quarter	2.410	1.878	34.00	23.58
<b>2005:</b>				
First Quarter	2.519	2.303	32.90	30.71
Second Quarter	2.540	2.052	32.51	24.64
Third Quarter	2.306	2.063	27.97	24.75
Fourth Quarter	2.301	1.938	26.94	22.32
<b>2006:</b>				
First Quarter	2.2402	1.9046	27.12	22.70
Second Quarter	2.2092	1.9116	27.13	24.26
Third Quarter	2.0384	1.8407	26.31	23.43
Fourth Quarter	2.0434	1.8846	26.60	23.68
<b>2007:</b>				
First Quarter	2.026	1.812	26.35	23.53
Second Quarter	1.987	1.625	26.32	21.42
Third Quarter	1.753	1.509	24.35	19.76
October	1.791	1.653	25.90	23.16
November	1.801	1.710	26.41	24.82
December	1.758	1.599	25.55	22.86
<b>2008:</b>				
January	1.609	1.464	23.57	21.55
February	1.533	1.286	22.64	19.30
March	1.251	0.942	19.02	14.75
April	1.179	1.037	18.44	16.24
May (through May 5, 2008)	1.074	1.070	16.52	16.42

Source: Bloomberg and Reuters data

(1)

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The official prices of Shares for the periods prior to August 4, 2003 are not comparable to the official prices of these shares in the following periods due to the effect of the merger of Old Telecom Italia with and into Olivetti, which became effective on August 4, 2003. Please see 9.2 Trading of Old Telecom Italia Ordinary Shares and Savings Shares .

At the close of business on May 5, 2008, there were 27,847,942 Savings Share ADSs outstanding held by 18 registered holders. One of the registered holders is the Depository Trust Company ( **DTC** ) which holds 27,841,642 Savings Share ADSs on behalf of beneficial holders.

Fluctuations between the Euro and the U.S. dollar will affect the dollar equivalent of the price of the Ordinary Share and the Savings Shares on Telematico and the price of the Ordinary Share ADSs and the Savings Share ADSs on the New York Stock Exchange. On May 5, 2008, the Noon Buying Rate for the Euro was U.S.\$ 1.5491 = 1.00.

**Table of Contents****Item 9. Listing****Trading of Old Telecom Italia Ordinary Shares and Savings Shares****9.2 TRADING OF OLD TELECOM ITALIA ORDINARY SHARES AND SAVINGS SHARES**

The table below sets forth, for the periods indicated, reported high and low official prices of the Ordinary Shares of Old Telecom Italia on Telematico and high and low closing prices of Ordinary Share ADSs of Old Telecom Italia on the NYSE until and including August 1, 2003.

	Telematico		NYSE	
	High	Low	High	Low
	( )		(U.S.\$)	
<b>2003:</b>				
First Quarter	7.53	5.31	80.19	58.65
Second Quarter	8.14	6.61	94.43	70.14
Third Quarter (until August 1, 2003)	8.05	7.47	91.10	84.30

Source: Reuters data.

The table below sets forth, for the periods indicated, reported high and low official prices of the Savings Shares of Old Telecom Italia on Telematico and high and low closing prices of the savings share ADSs of Old Telecom Italia on the NYSE until and including August 1, 2003.

	Telematico		NYSE	
	High	Low	High	Low
	( )		(U.S.\$)	
<b>2003:</b>				
First Quarter	4.90	3.35	52.00	37.50
Second Quarter	4.96	3.94	57.59	42.50
Third Quarter (until August 1, 2003)	5.08	4.64	53.75	52.92

Source: Reuters data.

**Table of Contents****Item 9. Listing****Securities Trading in Italy****9.3 SECURITIES TRADING IN ITALY**

Since July 1994, all Italian equity securities have been traded on Telematico except for equity securities of (i) certain smaller companies and cooperative banks traded on Mercato Ristretto under certain specific rules concerning trading hours and procedures and (ii) high growth companies traded on Nuovo Mercato.

Telematico operates under the control of CONSOB, the public authority charged, among other things, with regulating securities markets and all public offerings of securities in Italy, and is managed by Borsa Italiana a joint stock company previously owned by the Treasury, sold through a tender offer to authorized intermediaries.

Securities transactions on Telematico are settled on a cash basis. Cash transactions are settled on the third trading day following the trading date. Borsa Italiana issues a daily official list with certain information on transactions in each listed security, including the volume traded and the high and low prices of the day. No closing price is reported, but an official price calculated as a weighted average price of all trades effected during the trading day and a reference price calculated as a weighted average of the last 10% of tender effected during such day are reported daily. The Bank of Italy, in accordance with CONSOB, regulates the governing of the clearing system; with a provision dated September 8, 2000, the Bank of Italy specifies that the clearing system be performed by Monte Titoli (a centralized securities clearing system owned by certain major Italian banks and financial institutions).

Residents of Italy and non-residents through their authorized agents may purchase or sell shares on Telematico, subject to satisfying (i) in case of sales, either the Margin or the Deposit, and (ii) in case of purchases, the Margin. Margin means a deposit equal to 100% of the agreed price, and Deposit means a deposit of an equal number of the same shares as those sold. If in the course of a trading day the maximum price variation between two consecutive contracts is  $\pm 5\%$ , or maximum price variation of the contracts with respect to the control price(3) is  $\pm 10\%$  an automatic five-minute suspension is declared. In the event of such a suspension, effect is not given to trades agreed but not confirmed before the suspension. In addition, Borsa Italiana has the authority to suspend trading in any security in response to extreme price fluctuations or for other reasons.

Starting May 15, 2000, the most liquid shares traded on Telematico, including the Ordinary Shares and the TIM ordinary shares, have been traded on Mercato After Hours, an automated screen trading system managed by Borsa Italiana. Mercato After Hours operates, from 6.00 p.m. to 8.30 p.m. on every trading day, substantially under the same rules as Telematico except that the price of any security may not fluctuate by more than 3.5% from the reference price of said securities on Telematico on the same day.

The S&P/MIB Index currently measures the performance of 40 equities listed on the markets organized and managed by Borsa Italiana. The index is derived from the universe of stocks trading on the Italian Exchange, including Borsa Italiana (MTA) and Nuovo Mercato. In September 2004, the S&P/MIB Index substituted the MIB30 index which is calculated as an informative index. The S&P/MIB Index provides diversity over 10 economic sector by adhering to the Global Industry Classification Standard, or ( **GICS** ). The 10 GICS sectors that underlie the S&P/MIB Index are: Consumer Discretionary, Consumer Staples, Energy, Financials, Health care, Industrials, Information Technology, Materials, Telecommunication Services and Utilities. All stocks are classified using the GICS methodology, therefore S&P/MIB Index reflects the Italian Markets in its entirety. Each constituent is weighted by its free float capital, considering the effective number of shares tradable in the market. Index Constituents are reviewed twice a year (March and September), whereas the rebalancing weights are re-calculated four times a year (March, June, September and December). The weighting structure can also be changed following extraordinary events (if the capital of a stock increases or other events).

American style call and put options are traded on the derivative market managed by Borsa Italiana which currently include the Ordinary and Savings Shares.

Effective July 1, 1998, the Italian financial markets have been regulated by the Draghi Law. With the Draghi Law, the Italian Government has introduced new rules and regulations governing some aspects of the financial sector and, in particular: (i) brokers and firms managing financial instruments; (ii) the Italian regulated Stock Exchanges; (iii) the offering to the public of financial instruments; (iv) public tender offers; (v) some aspects of corporate governance of listed companies; and (vi) insider trading. The Draghi Law contains framework provisions which have been implemented by specific regulations.



**Table of Contents**

Item 9. Listing

Clearance and Settlement of Telecom Italia Shares

**9.4 CLEARANCE AND SETTLEMENT OF TELECOM ITALIA SHARES**

Legislative Decree No. 213 of June 24, 1998 ( **Dematerialization Decree** ) provided for the dematerialization of financial instruments publicly traded on regulated markets, including treasury bonds. From July 9, 1998, all companies that issue financial instruments that are publicly traded on regulated markets must inform Monte Titoli, which will open an account in the name of each company in its register.

Beneficial owners of Ordinary Shares and Savings Shares must hold their interests through specific deposit accounts with any participant having an account with Monte Titoli. The beneficial owners of Ordinary Shares and Savings Shares held with Monte Titoli may transfer their shares, collect dividends, create liens and exercise other rights with respect to those Ordinary Shares and Savings Shares through such accounts, but may no longer obtain physical delivery of share certificates in respect of their Ordinary Shares and Savings Shares. All new issues of Ordinary Shares and Savings Shares and all other transactions involving Ordinary Shares and Savings Shares must settle electronically in book-entry form.

Ordinary Shares and Savings Shares are accepted for clearance through Euroclear and Clearstream. Holders of shares may elect to hold such Ordinary Shares and Savings Shares through Euroclear or Clearstream (outside the United States).

**Table of Contents**

Item 10. Additional Information

Corporate Governance

**Item 10. ADDITIONAL INFORMATION****10.1 CORPORATE GOVERNANCE****10.1.1 DIFFERENCES IN TELECOM ITALIA S CORPORATE GOVERNANCE AND NEW YORK STOCK EXCHANGE CORPORATE GOVERNANCE PRACTICES**

Under the NYSE's corporate governance rules for listed companies, as a NYSE-listed foreign private issuer, Telecom Italia must disclose any significant ways in which its corporate governance practices differ from those followed by US companies under NYSE listing standards. We believe the following to be the significant differences between our corporate governance practices and NYSE corporate governance rules applicable to US companies.

*Independent Directors.* Under NYSE listing rules applicable to US companies, independent directors must comprise a majority of the board of directors.

Article 147-ter of the Italian Consolidated Law on Finance requires Boards, with more than seven members, to have at least two directors who meet the criteria set forth by Article 148 for the independence of the members of the Board of Statutory Auditors; in addition the Borsa Italiana Corporate Governance Code requires Boards of Directors to have an adequate number of independent members, and defines the criteria to be applied in determining independence. Telecom Italia's Self-Regulatory Code incorporates by reference the same independence criteria set forth by the Borsa Italiana Code. As of May 5, 2008, 5 out of 15 members of Telecom Italia Board qualify as independent, as they meet both the requirements set forth by Article 148, and the criteria set forth by the Borsa Italiana Corporate Governance Code.

See also below under 10.1 Corporate Governance 10.1.2 General Board of Directors Independent Directors .

*Non-management Directors Meeting.* Pursuant to NYSE listing standards, non-management directors must meet on a regular basis without management present and independent directors must meet separately at least once per year. Borsa Italiana's Corporate Governance Code requires independent directors to meet at least once a year without management present.

In 2007, pursuant to a revision of the Company's corporate governance mechanisms, Telecom Italia's Self-Regulatory Code formalized the position of Lead Independent Director, which had been introduced in 2004 in accordance with international best practice. The position is intended to provide a point of reference and coordination for the needs and inputs of the independent directors and is entrusted with the power to call special meetings of independent members (Independent Directors Executive Sessions) to discuss, separately from the management, issues related to the working of the Board and the management of the business. In 2007 a total of four such sessions were held. The Lead Independent Director may use the Company's support functions in performing his tasks. From July 24, 2007 to April 14, 2008 the position was held by Mr. Domenico De Sole, who, following election of a new Board, replaced Prof. Guido Ferrarini. As of May 5, 2008, the newly appointed Board of Directors has not yet designated the Lead Independent Director. See also below under 10.1 Corporate Governance 10.1.2 General Board of

Directors Executive Directors and Activities of the Board .

*Board of Directors Internal Committees.* According to NYSE listing standards, US companies listed on the NYSE are required to have a Nominating/Corporate Governance Committee, a Compensation Committee and an Audit Committee. According to Borsa Italiana's Corporate Governance Code, the Board of Directors shall evaluate whether to establish among its members a Nomination committee, while an Internal Control Committee and a Remuneration Committee (both made up of non-executive directors, the majority of which are independent) are required.

*Nominating/Corporate Governance Committee.* Under NYSE standards, the nominating/corporate governance committee is composed entirely of independent directors. In addition to identifying individuals qualified to become board members, this committee must develop and recommend to the board a set of corporate governance principles. Pursuant to NYSE standards, this committee should also adopt a written charter.

Article 9 of Telecom Italia's bylaws provides for the members of the Board of Directors to be elected using the slate system, which permits shareholders, who, alone or together, hold shares representing at least 0,5% of the share capital, to put forward slates of nominees for the appointment as directors: the system is intended to

**Table of Contents**

**Item 10. Additional Information**

**Corporate Governance**

ensure the presence on the Board of persons designated by minority shareholders. Thus, the Company's view is that using the slate system meets the needs otherwise served by the creation of a Nominating Committee.

On the other hand, since 2000 Telecom Italia has had an Internal Control and Corporate Governance Committee (that up to April 15, 2008 was made up of independent directors only) which, among other activities, actively participates and assists in developing and implementing the corporate governance procedures adopted by Telecom Italia. In addition, since March 2007 up to April 15, 2008, the Company's Self-Regulatory Code entrusted the Internal Control and Corporate Governance Committee with a nomination responsibility, when it was necessary to substitute an independent director. On April 15, 2008 the Company's Self-Regulatory Code was amended and the aforementioned responsibility was transferred to the Remuneration Committee, subsequently renamed the Nomination and Remuneration Committee)

See also below under 10.1 Corporate Governance 10.1.2 General Board of Directors Internal Committees .

*Remuneration Committee.* Under NYSE standards, the Remuneration Committee is composed entirely of independent directors. In addition to the review and approval of corporate goals relevant to CEO compensation and evaluation of the CEO performance in light of those given, this committee must determine and approve the CEO's compensation and make recommendations to the Board of Directors with respect to non-CEO compensation, incentive-compensation plans and equity-based plans.

Until April 15, 2008, Telecom Italia had a Remuneration Committee, made up of independent directors only. In accordance with Telecom Italia's by-laws and the Self-Regulatory Code, the remuneration of the Chairman and the Managing Director was determined by the Board, on the basis of proposals defined by the Remuneration Committee. Moreover, the Remuneration Committee provides advice regarding remuneration criteria for the Company's senior management.

On April 15, 2008, the newly appointed Board of Directors changed the relevant internal rules. In particular, the Remuneration Committee was replaced by the Appointment and Remuneration Committee, made up of a majority of independent directors (one of them chosen from a minority slate). The Appointment and Remuneration Committee was given the same rights and powers all the attributions previously reserved to the Remuneration Committee and has been entrusted with the power of proposing candidates for the Board of Directors, in the event of replacement of an independent board member.

See also below under 10.1 Corporate Governance 10.1.2 General Board of Directors Internal Committees .

*Audit Committee.* US companies listed on the NYSE are required to establish an Audit Committee that satisfies the requirements of Rule 10A-3 under the 1934 Act.

The Board of Auditors, as permitted by Rule 10A-3, is performing the corresponding functions for Telecom Italia, which therefore is exempted from the requirement to have a separate audit committee. A Rule 303A written affirmation to this end was submitted to the NYSE on July 12, 2007. See also below under 10.1 Corporate Governance 10.1.2 General Board of Directors Internal Control

System and 10.1.2 General Board of Directors Board of Auditors .

*Adoption and Disclosure of Corporate Governance Guidelines.* US companies listed on the NYSE are required to adopt and disclose corporate governance guidelines.

Such disclosures are included in this Form 20-F and English translations of the Telecom Italia Group's corporate governance policies can be found on Telecom Italia's website: [www.telecomitalia.it](http://www.telecomitalia.it) under Governance .

*Code of business conduct and ethics.* NYSE listing standards require US companies to adopt a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. The code should provide for the reporting of violations of its provisions or laws and regulations.

Telecom Italia has adopted such a Code. See also below under 10.1 Corporate Governance 10.1.2 General Code of Ethics and Conduct .

**Table of Contents**

**Item 10. Additional Information**

**Corporate Governance**

*Annual Certification by The Chief Executive Officer.* A chief executive officer of a US company listed on the NYSE must annually certify that he or she is not aware of any violation by the company of NYSE corporate governance standards.

In accordance with NYSE listing rules applicable to foreign private issuers, Telecom Italia submitted its foreign private issuer annual written affirmation on July 12, 2007.

**10.1.2 GENERAL**

The Company's corporate governance system is made up of a series of principles, rules and procedures drawn by applicable laws and regulations and from international best practices. The system, designed and constructed bearing in mind the principles formulated by the Committee for Corporate Governance of Borsa Italiana, has been implemented with the adoption of codes, regulations and policies covering the activity of all the organizational and operational components of the Company. The following documents are available in an English language version on the Internet at [www.telecomitalia.it](http://www.telecomitalia.it) under "Governance":

- the Group Code of Ethics and Conduct;
- the Company's Self-Regulatory Code (now incorporating the Criteria for identifying transactions to be submitted to the Board of Directors for approval);
- the Related Parties Procedure;
- the Procedure for Information to Directors and Auditors;
- the Charter of the Disclosure Committee;
- the Group Procedure for the Appointment of External Auditors;
- the Procedure for the management and public disclosure of inside information (the Disclosure Procedure);
- the Charter concerning the Manager responsible for preparing the Company's financial reports;
- the Organizational Model 231;
- the Meeting Regulations;

- the Risk Management Process (CRSA Control Risk Self Assessment);
- the Procedure for concerns and complaints.

The above documents are updated to reflect legislative and regulatory developments and changes in international practices. In particular, the Company's corporate Governance process have been revised to take into account the March 2006 edition of the Corporate Governance Code by Borsa Italiana.

According to new article 124-bis of the Consolidated Law on Finance, listed issuers shall annually disclose information on their adoption of and, in case, compliance with codes of conduct promoted by management companies of regulated markets (such as the aforementioned Corporate Governance Code by Borsa Italiana) or by trade associations of market participants.

#### v **CODE OF ETHICS AND CONDUCT**

The Code of Ethics and Conduct (the **Code of Ethics**) of the Telecom Italia Group is central to Telecom Italia Group's system of corporate governance as it spells out the Company's fundamental values and the principles considered necessary to ensure an ethically oriented conduct of business. The Code can be considered as the basis of the whole corporate governance system, since every instrument of corporate governance is based on the principles of transparency, fairness and loyalty specified in the Code. The Code specifies the principles to be respected in relations with all the main stakeholders of the Company: shareholders, financial markets, customers, local communities and employees.

The Code of Ethics was drawn up on the basis of generally accepted ethical principles and in accordance with the highest international standards, taking into account the principles of Section 406 of the Sarbanes Oxley Act.

In addition, the Company's Self-Regulatory Code, the Related Parties Procedure and the Disclosure Procedure also deal with specific aspects of the same principles.

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**Table of Contents**

**Item 10. Additional Information**

**Corporate Governance**

As with all of the Company's corporate governance codes and principles, the Code of Ethics is updated in order to conform it to the developments in the applicable law and market regulations, taking into account national and international best practices.

For further details, please see Item 16B. Code of Ethics and Conduct .

**v BOARD OF DIRECTORS**

The Company's system of corporate governance is centered around the Board of Directors. The Telecom Italia Self-Regulatory Code supplements the applicable rules concerning the tasks and functioning of the Board of Directors. All the directors are required to comply with the Self-Regulatory Code. The Self-Regulatory Code has been adopted by the Board of Directors as a self-regulatory measure only and can therefore be amended at any time with a resolution adopted by the Board and promptly disclosed to the market. Recently, the Code was amended in April 2008 by the newly elected Board of Directors, in order to reflect some changes concerning the Board's Internal Committees.

Since 2005, Telecom Italia's directors have carried out an annual Board performance evaluation.

In 2008, in view of the imminent end of its term of office and the calling of the Shareholders' Meeting to elect a new Board, the Board did not express an opinion on its size and left the decision to the shareholders. On the other hand, a proposal was submitted to the Shareholders' Meeting to amend the bylaws and reduce the maximum number of directors from 23 to 19. The Shareholders' Meeting both approved this proposal and established the number of directors at 15 (previously 19).

***Role and tasks***

The Board of Directors plays an active role both in the strategic guidance of the Company and in the control of operations, with the power to formulate strategy and responsibility for intervening directly in decisions having the greatest impact on the activity of the Company and the Group. In particular, as specified in the Self-Regulatory Code, the tasks entrusted to the Board of Directors include:

- examining and approving strategic, business and financial plans and the budget of the Company and the Group;
- examining and approving strategic transactions and establishing general criteria for their identification;
- verifying the adequacy of the organizational, administrative and accounting structure of the Company and the Group, with special reference to the internal control system;



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- preparing and adopting the Company's corporate governance rules and drawing up the Group's governance guidelines;
- specifying the limits to delegated powers, the manner of exercising them and the frequency with which bodies with such powers must report to the Board of Directors on the activity performed in exercising them;
- nominating the persons who are to hold the offices of Chairman and CEO in strategic subsidiaries;
- assessing the overall performance of operations and periodically comparing the results achieved with those planned.

Pursuant to these principles, in November 2007 the Board of Directors adopted and published specific criteria for identifying strategic transactions to be submitted to the Board for approval (now incorporated in the Company's Self-Regulatory Code, posted in the Governance section of the Company's website [www.telecomitalia.it](http://www.telecomitalia.it)). These transactions include:

- agreements with competitors of the Group that have an impact on the Group's strategic business choices;
- transactions that entail the entry into (or exit from) geographical and/or product markets;
- business investments and disinvestments exceeding 250 million; transactions that can result in commitments and/or purchase and/or sale transactions of this nature and scale;

**Table of Contents****Item 10. Additional Information****Corporate Governance**

- purchase and sale transactions referring to companies or business units that are of strategic significance in the overall framework of the business or exceed 250 million; transactions that can result in commitments and/or purchase and/or sale contracts of this nature and scale;
- purchase and sale transactions of controlling or affiliated shareholdings exceeding 250 million or (even if less) in companies carrying out activities included in the core business of the Group, and the conclusion of contracts for the exercise of rights attaching to such shareholdings; transactions that can result in commitments and/or purchase and/or sale contracts of this nature and scale;
- the taking out of loans and the granting of loans and guarantees in favour of nonsubsidiary companies for amounts exceeding 250 million; transactions that can result in commitments and/or transactions of this nature and scale;
- transactions referred to above to be carried out by unlisted subsidiaries of the Group, except for subsidiaries of listed subsidiaries;
- the listing on (delisting from) European and non-European regulated markets of financial instruments issued by the Company or companies belonging to the Group;
- the instructions to be given to listed subsidiaries (and their subsidiaries) in the performance of the Parent Company's direction and coordination function in relation to the carrying out of transactions which meet the aforementioned criteria.

Since 2002, the Company has adopted guidelines for carrying out transactions with related parties in order to ensure both procedural and substantial fairness and transparency: to this end Telecom Italia has adopted the notion of related party spelled out in IAS 24, as suggested by CONSOB, the Italian authority competent to supervise financial markets. In 2006, the Board of Directors approved a specific procedure (the Related Parties Procedure) to complement the aforementioned guidelines. The procedure was intended to ensure; (i) the standardized treatment of the issue; (ii) the identification of decision-making responsibilities; and (iii) the traceability of the operational processes. In particular, the procedure provided for the existence of a relationship with Telecom Italia to be checked in advance by consulting an expert system, which used a database of related parties to Telecom Italia. The expert system provided automatic indications concerning decision-making procedures and internal information flows for reporting purposes.

These rules were revised by the Board of Directors on March 6, 2008 with the introduction of a more comprehensive set of procedures. These are currently being deployed and will lead to a diversification of the decision-making roles and responsibilities according to the type of activity in question (whether or not in the ordinary course of business) and the manner of determining terms and conditions of transactions with related parties (distinguishing between standard term conditions defined by third parties, competitive procedures, and benchmarking procedures for ascertaining their market comparability).

For additional information, see Item 7. Major Shareholders and Related-Party Transactions 7.2 Related-Party Transactions .

In its function of monitoring and guiding the performance of operations, the Board of Directors assesses the adequacy of the organizational, administrative and accounting structure of the Company on the basis of information made available by the management and, with specific reference to the adequacy of the internal control system, in light of the results of the investigations

made by the Internal Control and Corporate Governance Committee.

As the body primarily responsible for the internal control system, the Board of Directors avails itself of the above-mentioned Committee and:

- the head of the internal audit function, which is entrusted to the consortium company Telecom Italia Audit & Compliance Services;
- with reference to internal controls over financial reporting, the manager responsible for preparing the Company's financial reports, which was appointed in November 2007 in the person of Enrico Parazzini, General Manager and Head of the Finance Administration and Control Function. The powers and responsibilities of this new position are specified in a special set of rules, which are posted in the Governance section of the Company's website [www.telecomitalia.it](http://www.telecomitalia.it).

**Table of Contents**

**Item 10. Additional Information**

**Corporate Governance**

As specified in the Self-Regulatory Code, in implementing the guidelines laid down by the Board of Directors, the Director in charge of internal controls (in 2007 the Executive Deputy Chairman, Carlo Buora, and, as from December 3, 2007, the Chairman, Gabriele Galateri di Genola) defines the methods and procedures for the configuration of the internal control system and ensures its adaptation to changes in the operational environment and the applicable laws and regulations. The executive directors, each with reference to the matters falling within the scope of his/her duties and in cooperation with the manager responsible for the preparation of the Company's financial reports for matters for which he/she is competent, must use the methods and procedures referred to above to ensure the overall adequacy of the system and its practical effectiveness in a risk-based perspective that is also an essential component in the definition of the agenda of the Board of Directors. In this process the Group Compliance Officer performs a role of liaison and coordination among the various plans for the improvement of the Group's internal control system and is responsible for ensuring support to the management.

The assessment of the performance of operations is based on a continuous flow of information coordinated by the Chairman of the Board of Directors and directed towards the non-executive directors and the members of the Board of Statutory Auditors. Assessments are made from time to time in the various meetings, notably, with a comparison of the results achieved with those budgeted during the examination of the financial reports.

***Meetings***

The Self-Regulatory Code requires the Board to meet periodically (and at least quarterly).

In 2007 the Board of Directors met nine times. Board meetings were always well attended, with more than 95% of the directors present on average (the independent directors recorded an attendance rate of more than 96%).

Through May 5, 2008 the Board of Directors has had three meetings.

When board meetings are to be held, documentation permitting effective participation in the proceedings is normally provided well in advance. The Company has adopted an ad-hoc procedure governing the flow of information to the members of the Board of Directors and the Board of Auditors. The procedure is intended to provide the non-executive directors and the statutory auditors with the pertinent and relevant information on a continuous basis.

***Appointment of Directors***

As noted above, Telecom Italia's bylaws (Article 9) provide for the Board of Directors to be elected by the Shareholders' Meeting through a slate system, which became mandatory under the Consolidated Law on Finance and the legislation on protection of savings.

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The slate system is designed to ensure the presence on the Board of Directors of persons drawn from slates presented by minority shareholders. Shareholders who together hold at least 0.5% of the ordinary share capital, can put forward slates of candidates. The slates and the accompanying documentation (such as the curricula vitae of the candidates) must be filed at the Company's registered office and made available to the public at least fifteen days before the date scheduled for the shareholders' meeting on first call. On April 2008, the Shareholders meeting, in its extraordinary session, amended Article 9 of the Company's bylaws to relieve shareholders of the obligation to publish slates in daily newspapers at their own expense. The manner of publicizing slates is now governed by Consob Regulation 11971/1999, which requires the Company to make the slates and the accompanying documentation available to the public without delay at its registered office, at Borsa Italiana and on its website [www.telecomitalia.it](http://www.telecomitalia.it). According to Telecom Italia's bylaws, slates of candidates can be put forward also by the outgoing Board of Directors.

The Board of Directors is elected as follows:

- four fifths of the directors to be elected are chosen from the slate that obtains the majority of the votes cast by the shareholders, in the order in which they are listed on the slate; in the event of a fractional number, it is rounded down to the nearest whole number;
- the remaining directors are chosen from the remaining slates. To that end, the votes obtained by the various slates are divided successively by whole numbers from one up to the number of directors to be chosen and the results (quotients) obtained are assigned to the candidates on each slate in the order

**Table of Contents****Item 10. Additional Information****Corporate Governance**

specified thereon. On the basis of the quotients assigned, the candidates on the various slates are arranged in a single decreasing ranking. Those who have obtained the highest quotients are elected.

The shareholders' meeting held on April 14, 2008, established the number of Telecom Italia directors at 15 and appointed the Board for a three-year period. The slate of candidates proposed by Telco S.p.A. obtained the highest number of votes and therefore 12 out of 15 of Telecom Italia's Directors were elected from that slate (César Alierta Izuel, Tarak Ben Ammar, Franco Bernabé, Elio Catania, Jean Paul Fitoussi, Gabriele Galateri, Berardino Libonati, Julio Linares López, Gaetano Micicché, Aldo Minucci, Gianni Mion, Renato Pagliaro); two directors (Paolo Baratta, Roland Berger) were elected from the slate proposed by the Findim Group S.A.; one director (Luigi Zingales) was elected from the slate proposed by a group of institutional shareholders. See: Risks associated with Telecom Italia's ownership chain under Item 3. Key Information 3.1 Risk Factors .

As for the evolution of the composition of the Board in 2007 and up to April 14, 2008, see above Item 6- Director, Senior Management and Employees .

***Composition***

As mentioned in Item 6. Director, Senior Management and Employees , during 2007 the composition of the Board of Directors underwent several changes. On April 14, 2008, the shareholders' meeting in its extraordinary session, amended Article 9 of the Company's bylaws, to provide that the maximum number of directors be reduced to 19 (instead of 23), leaving unchanged the minimum number (7). According to the bylaws, it is up to the shareholders' meeting to decide the exact number. Directors may serve for a maximum term of three years, they may be re-elected and there is no statutory age limit for their eligibility. There are no provisions in Italian law that set age or shareholding requirements for directors' qualification. There are no provisions in the Telecom Italia bylaws relating to the retirement of a director under an age limit requirement or a shareholding requirement for directors' qualification.

If during the term of the Board of Directors one or more directors cease to hold such position for any reason, the Board of Directors is allowed to appoint replacements by a resolution approved by the Board of Auditors. The directors so appointed will remain in office until the next Shareholders' Meeting. As a rule, the replacements finally appointed by the Shareholders' Meeting will remain in office for the same term as the other members already in office at the time of their appointments; the Shareholders' Meeting may establish a different term of office for them. In the event of replacement of an independent board member, the Appointment and Remuneration Committee is responsible for proposing a candidate.

Article 5 of the Company's Self-Regulatory Code establishes a cap on the maximum number of positions that Telecom Italia directors may hold in management and control bodies of other companies. The general rule is that the position of Telecom Italia director is not compatible with directorships or auditorships in more than five companies, other than Telecom Italia subsidiaries or affiliates, when such companies:

- are listed and included in the S&P/MIB index; and/or

- operate prevalently in the financial sector on a public basis; and/or
- engage in banking or insurance.

The directorship in Telecom Italia is also considered not compatible with holding more than three executive positions in companies of the types specified above. The Board of Directors may nonetheless permit exceptions to these rules, such exceptions to be made public.

***Impact of Shareholders Agreements on the Nomination of Telecom Italia Group s Companies Boards***

Telco S.p.A. ( **Telco** ) is Telecom Italia s main shareholder with an interest of 24.5% in the ordinary share capital. In turn Telco is owned by Intesa Sanpaolo S.p.A. (10.6%), Mediobanca S.p.A. (10.6%), Sintonia S.A. (8.4%), companies belonging to the Generali Group (28.1%) and Telefónica S.A. (42.3%).

On the basis of information in the public domain, the shareholders of Telco signed an agreement on April 28, 2007 that, among other things, lays down the criteria pursuant to which the board of directors of Telco will approve the

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**Table of Contents**

**Item 10. Additional Information**

**Corporate Governance**

list of candidates to be submitted to the shareholders meeting of Telecom Italia for the appointment of the directors of Telecom Italia. The criteria are set out below:

- Telefónica, to the extent holding at least 30% of Telco's share capital, will have the right vis-à-vis the other shareholders to designate two directors of Telecom Italia: (a) to be included as designees for appointment in the board of Telecom Italia in the list presented by Telco, and (b) to the extent feasible, with respect to the substitution of such directors;
- the other shareholders of Telco, to the extent holding at least 50% plus one share of Telco's share capital, will designate the other members of the list as follows: (a) three members unanimously and (b) the remaining members on a proportional basis as set out in the shareholders agreement.

The shareholders agreement provides for the Telecom Italia Group and the Telefónica Group to be run autonomously and independently and specific provisions to this end are foreseen. See Item 7. Major Shareholders and Related-Party Transactions. Item 7.1.1. The Shareholders Agreements .

***Independent Directors***

Article 5 of the Telecom Italia Self Regulatory Code provides that two members of the Board of Directors shall satisfy the independence requirements set forth by the Consolidated Law on Finance for the members of the Board of Auditors Article. Moreover, Article 5 incorporates by reference the independence criteria set out in the Borsa Italiana's Corporate Governance Code.

To qualify as independent under Borsa Italiana's Corporate Governance Code and the Company's Self-Regulatory Code, Telecom Italia directors should not maintain, nor have recently maintained, directly or indirectly any business relationships with the issuer or persons linked to the issuer (Group companies, executive directors or members of their families), of such a significance as to influence their autonomous judgment, and should not be in a position to influence the Company as a consequence of the shares they hold or their participation in shareholders agreements. Specific presumptions are listed in Borsa Italiana's Corporate Governance Code.

The Board of Directors verifies the independence requirements at the first meeting after the appointment of the Board and subsequently once a year. On the basis of the declarations made by the interested parties and verified by the Board of Directors, at present 5, out of the 15 directors, are considered independent, according to the criteria set forth by the Consolidated Law on Finance as well as the criteria set forth by Telecom Italia's Self-Regulatory Code: Paolo Baratta, Roland Berger, Elio Cosimo Catania, Jean Paul Fitoussi and Luigi Zingales. The Board of Auditors verified the correct application of the principles adopted by the Board to evaluate the independence of directors.

As to the Board of Directors appointed by the Shareholders Meeting on April 16, 2007, the Board of Directors verified the independence of 9 directors (then 8, following the resignation of Diana Bracco). It was not considered necessary to repeat the assessment in 2008 since the Board of Directors term of office was expected to end with the Shareholders Meeting held on April 14, 2008.



See above Corporate Governance 10.1.1. Differences in Telecom Italia s and New York Stock Exchange Corporate Governance .

***Executive Directors and Activities of the Board***

The authority to grant delegated powers to directors and revoke such mandates is reserved to the Board of Directors, which also establishes their objects, limits, manner of exercise and the intervals of not more than three months at which persons with delegated powers must report on their activity, the general results of operations, and the transactions of greatest economic, financial or balance sheet significance concluded by the Company or its subsidiaries.

After the Shareholders Meeting held on April 16, 2007, which appointed the Board of Directors for one fiscal year, delegated powers were assigned. In addition to the legal representation of the Company, the Chairman, Pasquale Pistorio, was entrusted with responsibility for:

- overseeing the process of establishing the strategic guidelines for the Company and the Group, with the assistance of the Executive Deputy Chairman and the CEO;

**Table of Contents**

**Item 10. Additional Information**

**Corporate Governance**

- submitting the strategic guidelines established in this way to the Board of Directors;
- supervising the preparation and implementation of business plans.

In addition to legal representation of the Company, the Executive Deputy Chairman, Carlo Orazio Buora, was entrusted with responsibility for: the overall governance of the Group, including the establishment, in agreement with the Chairman, of the strategic guidelines and the preparation, in agreement with the CEO, of the business plans implementing the Company and Group strategic guidelines approved by the Board of Directors. Lastly, in addition to legal representation of the Company, the CEO, Riccardo Ruggiero, was entrusted with responsibility for: the coordination of operations and charged with the management and development of fixed and mobile telecommunications and Internet business.

Following the resignations of Pasquale Pistorio, Carlo Buora and Riccardo Ruggiero on December 3, 2007, the Board of Directors appointed Gabriele Galateri di Genola Chairman of the Board and Franco Bernabè CEO. In the same meeting the Board entrusted them with powers, as follows:

- to the Chairman, in addition to legal representation of the Company, as provided for in the bylaws:
- the responsibilities referred to in section 6.1 of the Company's Self-Regulatory Code and to that end so that the Board of Directors can exercise, including through the Board committees, the general power of guidance and control on the activity of the Company and the Group in particular:

supervision of the preparation of the strategic, business and financial plans and their development and implementation;

supervision of the design of organizational structures;

supervision of the economic and financial performance;

responsibility for overseeing the examination of the strategic guidelines for the internal control system;

organizational responsibility for the coordination of the following Group Functions:

- General Counsel and Corporate and Legal Affairs and Public Affairs;
- Telecom Italia Audit and Compliance Services S.c.a.r.l.;

- responsibility for disclosure to the market;
- to the CEO, in addition to legal representation of the Company, responsibility for the overall governance of the Company and the Group. In particular:

responsibility for drawing up, submitting to the Board of Directors and subsequently developing and implementing the strategic, business and financial plans;

the definition of the organizational arrangements;

all the organizational responsibilities for ensuring the management and development of the business, through the coordination of the organizational aspects not entrusted to the Chairman;

responsibility for workers safety and health at the workplace and for the treatment of data in accordance with the rules on privacy.

Following the Shareholders Meeting of April 14, 2008, the newly elected Board of Directors confirmed Gabriele Galateri di Genola and Franco Bernabè as Chairman and Chief Executive Officer, respectively, with their existing powers and responsibilities.

There are no other Telecom Italia executive directors. As of April 15, 2008, Telecom Italia's non-executive directors are: Cesar Alierta Izuel, Paolo Baratta, Tarak Ben Ammar, Roland Berger, Elio Catania, Jaen Paul Fitoussi, Julio Linares Lopez, Berardino Linbonati, Gaetano Micicché, Aldo Minucci, Gianni Mion, Renato Pagliaro, Luigi Zingales.

### ***Internal Committees***

According to article 13 of the Bylaws, the Board may set up committees from among its members charged with giving advice and making proposals and shall establish their powers and duties. According to the Self Regulatory Code (March 2007 edition), the Board established three Committees: the Strategy Committee, the Remuneration Committee, the Internal Control and Corporate Governance Committee.

**Table of Contents**

**Item 10. Additional Information**

**Corporate Governance**

The Board of Directors on April 15, 2008 amended the Company's Corporate Governance Code with reference to the internal committees. The Strategy Committee has been replaced by an Executive Committee and the Remuneration Committee became the Nomination and Remuneration Committee.

With regard to the composition, while the Executive Committee consists of the Executive Directors (Chairman and CEO) and of non-executive directors, with the Chairman of the Committee being the Chairman of the Board of Directors, both the Internal Control and Corporate Governance Committee and the Nomination and Remuneration Committee are composed of non-executive directors the majority of which are required to be independent directors, including at least one drawn from a minority list.

***Strategy Committee (now replaced by the Executive Committee)***

The Strategy Committee assisted the Board of Directors in evaluating and addressing its most significant strategic decisions.

In performing its activity, the Strategy Committee held four meetings in 2007 and closely followed the developments that led to the establishment of the strategic guidelines of the 2008-2010 Plan.

The Executive Committee was established on April, 15, 2008 to replace the Strategy Committee (which was made up of the executive directors and Paolo Baratta, Domenico De Sole, Jean-Paul Fitoussi, Renato Pagliaro). It is composed of Executive Directors (who coordinate the Committee's activity with the management) and non-executive directors. The Committee's Chair is entrusted to the Chairman of the Board of Directors.

The Committee's tasks are the following:

- to monitor the Company's and Group's management;
- to approve the macro-structures of the Company's organization, taking into account the opinion of the Company's Executive Directors;
- to express an opinion on the budget and on the strategic, industrial and financial plans of the Company and the Group;
- to perform the other tasks assigned to it by the Board.

At present the Executive Committee is composed by Gabriele Galateri di Genola (Chairman of the Committee), Franco Bernabè (Chief Executive Officer of the Company), Roland Berger, Julio Linares Lopez, Gaetano Micicchè, Aldo Minucci, Gianni Mion,

Renato Pagliaro, Director Linares committed not to take part to any discussion nor to vote in matters concerning activities of Telecom Italia or Telecom Italia's subsidiaries in the Brazilian or Argentinian telecommunications markets.

***Internal Control and Corporate Governance Committee***

Set up in 2000, the Committee is charged with advisory functions and the formulation of proposals. In accordance with Borsa Italiana's Code of Corporate Governance, on which the Company's own Code is modeled, it assists the Board of Directors in the performance of its tasks in matters concerning internal control and assesses, together with the manager responsible for preparing the Company's financial reports and the external auditor, the correctness of the application of accounting standards and their uniformity for the purpose of preparing consolidated financial statements.

In Telecom Italia the Committee also:

- monitors compliance with the rules of corporate governance and their updating.
- express its opinion on the proposals for appointing, removing and assigning duties to the person responsible for internal control and the manager responsible for preparing the Company's financial reports;
- defines the procedures and time limit for conducting the board performance evaluation ; and
- performs the additional tasks that may be assigned to it by the board of directors.

The Board of Directors on April 15, 2008 assigned the responsibility for proposing candidates for the Board of Directors in the event of replacement of an independent board member (previously attributed to the Internal Control and Corporate Governance Committee) to the Nomination and Remuneration Committee.

**Table of Contents**

**Item 10. Additional Information**

**Corporate Governance**

With reference to the oversight of internal controls, in addition to systematically monitoring the activity of the person responsible for internal control and receiving his reports and those of the external auditor, in 2007 the Committee undertook to oversee the implementation by management of the recommendations contained at the end of the Report on corporate governance published together with the 2006 Annual report. These referred to:

- matters concerning the former head of the Security Function, Giuliano Tavaroli;
- network security and services provided to the judicial authorities;
- traffic data, privacy and information on employees.

The activity involved careful oversight of compliance with the rules on privacy, later extended to include observance of antitrust and sector regulations, with a thorough analysis of the administrative proceedings and disputes with competitors in which the Company is involved. In addition, the Committee closely followed the work of maintaining and updating the so-called 231 Organizational Model.

The Committee also oversaw the evolution of the so-called 404 Project, which allowed the senior management to certify as to the effectiveness of the above-mentioned controls at December 31, 2006 in the Company's Form 20-F for the year 2006, published in June 2007. The Committee also agreed with the solution of merging the activities to ensure compliance with Section 404 of the Sarbanes Oxley Act with the corresponding initiatives – as of the 2007 annual financial statements – to guarantee compliance with Article 154-bis of the Consolidated Law on Finance (declaration by the CEO and the manager responsible for preparing the Company's financial reports on the adequacy and application of the administrative and accounting procedures for the preparation of the separate and consolidated annual financial statements).

As regards the monitoring of the updating of the corporate governance rules, the Committee contributed to the implementation of the procedures and processes which are described above.

In 2007 the Committee (after the renewal of the Board on April 16, 2007 composed by Paolo Baratta – Chairman, Diana Bracco – who resigned in late 2007, Domenico De Sole, Luigi Fausti and Cesare Giovanni Vecchio) met 11 times and in eight instances meetings were held jointly with the Board of Statutory Auditors. The Committee invited and interviewed managers, representatives of the external audit company and outside consultants according to the items on the agenda.

On April 15, 2008 the Board of Directors appointed the current members of the Committee: Paolo Baratta (independent taken from a minority list), Elio Catania (independent), Jean Paul Fitoussi (independent), Aldo Minucci.

***Remuneration Committee (now Nomination and Remuneration Committee)***

Since 2000 Telecom Italia has had a Remuneration Committee charged with putting forward proposals for the remuneration of the directors who hold particular offices and criteria for the remuneration of the Company's senior management.

The Remuneration Committee in charge up until April 14, 2008, was composed of Directors Luigi Zingales (Chairman), Stefano Cao, Renzo Capra and Luigi Fausti; it met six times in 2007 and five times in 2008 (before the renewal of the Board of Directors).

On April 15, 2008, the Board of Directors established a Nomination and Remuneration Committee, to replace the former Remuneration Committee, adding to its former responsibilities the nomination of candidates for the Board of Directors in the event of replacement of an independent board member.

Currently the Committee is composed of directors Elio Catania (independent), Bernardino Libonati and Luigi Zingales (independent, chosen from a minority slate).

For more information concerning the remuneration of directors and top management see Item 6. Directors, Senior Management and Employees 6.6 Compensation of Directors, Officers and Members of the Board of Auditors .

**Table of Contents**

**Item 10. Additional Information**

**Corporate Governance**

***Internal Control System***

The internal control system is a process made up of rules, procedures and organizational structures and designed to pursue substantial and procedural correctness, transparency and accountability, values that are considered fundamental for Telecom Italia's business dealings, as laid down in the Group Code of Ethics.

The aim of the process is to ensure that the management of the business is efficient and can be verified, that accounting and operational data are reliable, that applicable laws and regulations are complied with, and that the assets of the business are safeguarded, not least with a view to preventing fraud against the Company and financial markets.

The main rules of the Company's internal control system concern:

- the separation of roles in the performance of the principal activities involved in each operating process;
- the tracking of decisions; and
- the management of decision-making processes on the basis of objective criteria.

As the body responsible for the internal control system, the Board of Directors lays down the guidelines for the system and verifies its adequacy, efficacy and proper functioning, while making sure that the main operational, compliance, economic and financial risks are appropriately identified and managed.

In addition to the Internal Control and Corporate Governance Committee, the Board uses an entity endowed with an appropriate degree of independence and adequate means to be responsible for the internal control function, that is the consortium company Telecom Italia Audit & Compliance Services. The functions assigned to this entity are to assist in verifying the adequacy and effectiveness of the internal control system and, where weaknesses are found, to propose appropriate remedies. This solution maximizes the independence of the person responsible for internal control from the Company's structures, which reports to the competent director (in 2007 the Executive Deputy Chairman, Carlo Buora, until his resignation and subsequently the Chairman, Gabriele Galateri di Genola), the Internal Control and Corporate Governance Committee and the Board of Statutory Auditors.

In 2005 the position of Group Compliance Officer was created with a view to better coordinating the development and maintenance of the internal control system. The Group Compliance Officer performs a role of liaison and coordination among the plans for the improvement of the Group's internal control system and is responsible for monitoring and facilitating the relationship between management and the internal control system.



As regards internal controls over financial reporting, the Company has drawn on the substantial work done in order to comply with US reporting requirements to fulfill the new transparency requirements introduced by Article 154-*bis* of the Consolidated Law on Finance, which to a large extent correspond to the US requirements.

The Company's internal control system is completed by the so-called 231 Organizational Model, which provides a paradigm for the conduct of all those who act in the Company's name and on its behalf and is designed to ensure the effective performance of business activity by forestalling situations and behaviour that are potentially harmful to the Company. Such Model comprises principles for dealings with governmental bodies (elaborated as a set of rules for relations with representatives of such bodies) and internal control checklists listing:

- the main stages of every process;
- the offences that may be committed in relation to individual processes; and
- the control activities to prevent the related risks from arising.

In 2007 the 231 Organizational Model was updated and upgraded. Some revisions were made necessary by changes in the law, while others ones were deemed appropriate in the light of the results of the model's application. In addition, through the 231 Steering Committee the Company monitored the adequacy of the internal control system with respect to new legislation and its interpretation. Monitoring of the functioning and compliance with the model is performed by a Supervisory Panel made up of a member of the Board of Statutory Auditors (Ferdinando Superti Furga, Chairman), an independent director on the Internal Control and Corporate Governance Committee (Paolo Baratta) and the head of the internal control system in the person of the Chairman of Telecom Italia Audit & Compliance Services. The Panel was appointed by the Board of Directors on May 8, 2007 (following the cessation of the earlier Panel with the termination of the previous Board's term of office at the

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**Table of Contents****Item 10. Additional Information****Corporate Governance**

shareholders' meeting held on April 16, 2007) and confirmed on April 15, 2008. The Panel reports to the Board of Directors, the Internal Control and Corporate Governance Committee and the Board of Statutory Auditors.

In addition, a special unit (the Compliance Support Group) has been created within Telecom Italia Audit & Compliance Services to provide operational support to the Supervisory Panels of Group companies 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 that have been put in place.

**v Board of Auditors*****Tasks and role***

The Board of Auditors verifies the observance of the law and the Bylaws and verifies the observance of the best administration principles, the adequacy and reliability of corporate structures, internal audit procedures and accounting system, and the adequacy of instructions given by the Company to its subsidiaries. The Board of Auditors must receive timely disclosures, at least on a quarterly basis, from the Board of Directors about the company's business and significant transactions performed by the company and its subsidiaries, including related parties transactions. Statutory Auditors must inform the CONSOB of any irregularity they detect in the course of their duties and are required to attend Shareholders' Meetings, Board of Directors meetings and Executive Committee meetings.

In order to make available the broad range of information needed by the Board of Auditors to perform its control function effectively, the Company adopted the Procedure for Information to Directors and Auditors.

In 2007 the Board of Auditors met 29 times, often jointly with the Internal Control and Corporate Governance Committee and with an attendance rate of 96%. In addition, its members participated in the meetings of the Board of Directors and periodically received the reports from the executive directors, as provided in the above mentioned procedure.

In addition to the tasks performed in its Audit Committee capacity, in 2007 the Board of Auditors carried out supervisory functions provided for under Italian law, verifying that the transactions of greatest significance for the Company's profitability, financial position and assets and liabilities conformed with the law, the bylaws and the principles of correct management; checking that transactions with related parties complied with the self-regulatory principles and procedures adopted by the Company and that they were in its interest; and checking compliance with the principles of correct administration and the adequacy of the organizational structure. The Board of Auditors also monitored the adequacy of the internal control system and that of the administrative and accounting system and the latter's reliability in correctly representing transactions. Lastly, the Board of Auditors monitored the independence of the external auditor, verifying both its compliance with the applicable provisions of law and the nature and amount of non-audit services provided to Telecom Italia and its subsidiaries by Reconta Ernst & Young and entities belonging to the latter's international network.

***Appointment***

The Extraordinary Shareholders Meeting on April 14 2008 adopted some amendments to Article 17 of Telecom Italia s Bylaws concerning the Board of Auditors.

Presently Telecom Italia s Board of Auditors is composed of five regular auditors, and two alternate auditors. Pursuant to new Article 17 of Telecom Italia s Bylaws the number of alternate auditors will increase from two to four (of whom two are to be chosen from the Majority Slate and two from the Minority Slates), effective as from next renewal of the Board. The Board of Auditors is appointed by the Shareholders Meeting through the slate system under the same procedure used for the election of the Board of Directors. Three regular auditors and two alternate auditor are drawn from the so called majority slate (that is a slate that obtained the majority of the votes cast by the shareholders), two regular auditors and two alternate auditors are taken from the other slates, so called minority slates .

The increase of the alternate auditors from two to four is aimed at facilitating compliance with the principle of the necessary representation in the Board of the minorities according to the mechanics described in the bylaws (i.e. with the shareholders meeting confirming the alternate chosen from the Minority Slates to replace the member of the Board of Auditors chosen from the same slates).

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**Table of Contents**

**Item 10. Additional Information**

**Corporate Governance**

Pursuant to article 148 of the Consolidated Law on Finance (as amended by the legislation on protection of savings), the Chairman of the Board of Auditors is appointed by the shareholders' meeting from among the auditors elected from a minority slate.

Auditors serve for a three-year term, may be reappointed and may be removed from their office for just cause and upon a resolution approved by the competent court.

The present Board of Auditors was elected, for a three year term, by the shareholders meeting of April 13, 2006, on the basis of two slates presented respectively by Olympia (Telecom Italia's largest shareholder at the time) and by minority shareholders. Salvatore Spiniello, Ferdinando Superti Furga and Gianfranco Zanda were elected from the majority slate, while Paolo Golia and Stefano Meroi were elected from the minority slate. Paolo Golia was also appointed as Chairman of the Board. Following the resignation of one of the two minority members, Stefano Meroi, on October 20, 2006, the alternate director elected from the minority slate, Enrico Maria Bignami, took the office until the shareholders' meeting of April 16, 2007, which formally appointed him. The same meeting appointed a new alternate auditor, in the person of Luigi Gaspari, who was designated by the same shareholders who had submitted the slate from which Stefano Meroi and Enrico Maria Bignami were elected.

***Audit Committee***

As described above, the Board of Auditors plays a key role in the Company's system of corporate governance.

More specifically, according to Rule 10A-3 under the 1934 Act and NYSE listing standards, the Board of Auditors has been identified to act as Telecom Italia's Audit Committee. The Board of Auditors meets the requirements of the general exemption contained in Rule 10A-3(c)(3):

- the Board of Auditors is established pursuant to applicable Italian law and Telecom Italia's Bylaws;
- under Italian legal requirements, the Board of Auditors is separate from the Board of Directors;